

Agenda Item No: 4
Report To: **Audit Committee**
Date: **28 September 2011**
Report Title: **Statement of Accounts 2010/11 and the District Auditor's Annual Governance Report**
Report Author: Ben Lockwood
Finance Manager



Summary:

This report presents the 2010/11 Statement of Accounts for approval.

The District Auditor's Report is appended and he will be present at the meeting to introduce this and take questions. The audit has identified some presentational errors that have now been corrected; hence the Statement of Accounts is fully re-presented to the Committee. The adjustments are of a 'classification' nature or changes to 'disclosure notes', there are no implications for the overall financial position or standing of the Council.

The District Auditor has issued an unqualified opinion on the accounts.

There is a Post Balance Sheet Event to raise that has arisen from the Concessionary Fares Scheme. The accounts were prepared on the basis of the settlement awarded to the principal bus operator following its appeal to the Department for Transport. The relevant Kent Districts and the county council were preparing to challenge this outcome, but the bus operator then agreed a lower settlement. A note has been included to explain this and its possible impacts - there are no adjustments to the accounts that flow from this disclosure.

Once approved the accounts will be published with an accompanying simple summary of the key facts and outcomes for the year.

Key Decision: NO

Affected Wards: All

Recommendations: **The Audit Committee be asked to:-**

- 1. Agree the basis upon which the accounts have been prepared (Going Concern)**
- 2. note the Post Balance Sheet Event**
- 3. approve the audited 2010/11 Statement of**

Accounts

4. **approve that the Chairman of this Committee signs and dates the accounts as required by Section 10(3) of the Accounts and Audit Regulations 2003 as approval by the Council.**
5. **consider the District Auditor's Annual Governance Report**
6. **approve the Chief Financial Officer's Letter of Representation to the District Auditor**

Policy Overview:	The 2010/11 Statement of Accounts complies with the requirement of various Codes of Practice and the Accounts and Audit regulations.
Financial Implications:	The 2010/11 Statement of Accounts sets out the Council's financial position as at 31 st March 2011 and movement in funds during the year.
Risk Assessment	NO
Equalities Impact Assessment	NO
Other Material Implications:	None
Background Papers:	Final Accounts Working Papers
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Purpose of the Report

1. Our external auditors (the Audit Commission) have, at the time of preparing this report, were close to completing the audit of the Council's 2010/2011 financial statements. The accounts are required to be approved by this Committee and published by 30 September 2011.
2. Attached to this Report is the District Auditor's Annual Governance Report setting out his findings and conclusions in respect of the accounts. Mr Andy Mack, the District Auditor, will be present at the meeting and will wish to introduce his report and take questions.

Issue to be Decided

3. There was a 'Post Balance Sheet Event' that has occurred since the Balance Sheet Date; this is explained later in the report.
4. Apart from presentational adjustments the District Auditor has also drawn the Council's attention to three items that we have chosen not to adjust and has included four recommendations for the committee to consider.

Background

5. The 2010/11 Statement of Accounts has been completed and complies fully with International Financial Reporting Standards (IFRS). This is the culmination of a long process which has gradually seen the accounting rules change to the International Standards. This committee has received a number of presentations and reports updating them on the work necessary to convert to IFRS. This transition has resulted in a set of statements that are quite different from those presented to this committee in previous years and a presentation was given to members on 6th September outlining the content of the statements and highlighting some key areas.
6. In previous years it has been necessary for this Committee to approve the Statement of Accounts before the external audit commenced,. However following, amendments to the Accounts and Audit regulations the accounts only now need Chief Financial Officer (the deputy chief executive) must sign-off the un-audited by 30 June and that approval of the audited statements must happen post-audit and before 30 September.

Basis of Preparation

7. It is a new requirement that members approve the basis upon which the accounts have been prepared. The Statement of Accounts has been prepared on a 'Going Concern' basis, in accordance with recommended accounting practice. This means, for accounting purposes, that the organisation is expected to be in existence for the medium to long term and that the council has no intention in the foreseeable future of curtailing materially the extent of its operations.
8. This basis has been adopted as there are no plans to reorganise local government and no other factors exist that will materially affect the council's operations In the foreseeable future.

The Amended 2010/2011 Financial Statements

9. As stated above a number of classification errors or required amendments to disclosure notes have been highlighted by the audit. These are explained in **Page 6** of the District Auditor's Report, with **Appendix 2** setting out the accounting adjustments. A copy of the Financial Statements is annexed to this report.
10. All the recommendations on paragraph 9 have been adjusted in the revised financial statements enclosed with this report. None of these adjustments affect the cash position of the Council. The Committee is asked to approve the statement and agree that the Chairman sign them to show they have been adopted by the Council.

Unadjusted Misstatements

11. The Auditor's report highlights three items that have not been amended in the Accounts. These are explained below:

Housing Revenue Account (HRA) bad debt provision

12. The Auditor noted that the HRA Bad Debt provision was overstated and suggested that this be reduced by £198,000. Officers agree that the provision is overstated however there were some difficulties in extracting an aged debt analysis from the housing system which would allow an accurate calculation to be completed. Officers are working with IT to rectify the problem; however it was decided that it was better to wait for this work to be completed rather than make an estimate on the level of provision.

Assets for sale

13. The auditor identified a small number of HRA properties that had been subject to an application from the tenant to commence the right to buy process. Under the accounting code any asset must meet four conditions:

- It must be ready for sale in its current condition
- It must be highly probable that the asset will be sold (this is interpreted as a **significantly higher than 50% probability** that the asset will be sold)
- The asset **must be actively marketed** at a price that is reasonable in relation to its current value.
- The sale will be completed within one year

14. Our justification for not amending the statement is based on the position that that the Council does not actively market properties under the Right to Buy (although details of tenants' rights are available on the website) and that in the last year of 24 applications received, only four converted to sales, therefore evidence of far less than 50% probability of sale.

Minor understatement of housing creditors

15. The computer interface between the Housing and Creditors systems is run weekly. Due to the day of the week the 2010/2011 year end fell there were two days' worth of invoices not included in the list of HRA Creditors

(amounting to £50,000). This is not a material figure in the accounts and therefore officers have elected not to amend the accounts. Procedures have been implemented to remove this issue in the future. These payments will be included in the 2011/2012 accounts.

16. All three items have been discussed with the District Auditor and he is content with the explanations and the action that has been taken.

Post Balance Sheet Event

17. For 2010/11 a post balance sheet event has occurred in relation to concessionary fares. The accounts were prepared on the assumption that the council would make a payment to contribute to the principal bus operator's claim for substantial additional costs following an appeal ruling by the Department for Transport. An accrual for this item was included within the Consolidated Income and Expenditure Statement to the value of £293,520.
18. The relevant Kent district councils and KCC were considering challenging the ruling. However, this led to the bus operator agreeing to a lower settlement. This is now finalised and our accrual can be reduced by £160,000. This will be amended within the 2011/12 accounts. .

Letter of Representation

19. As last year the Deputy Chief Executive is required by the Auditor to compile a Letter of Representation, to provide further assurance to the auditors. This is appended and the Committee is asked to approve the letter.

Conclusion

20. The Audit of the 2010/11 Statements of Accounts is complete and that whilst there have been some changes these are mainly of a classification nature and have not effected the financial position of the Council.
21. The auditor is issuing an unqualified opinion to the statement of accounts and an unqualified 'Value for Money' conclusion.

Portfolio Holder's Views

22.

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Annual governance report

Ashford Borough Council



Audit 2010/11



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Traffic light explanation

Red  Amber  Green 

Key messages

This report summarises the findings from the 2010/11 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 your arrangements to secure value for money in your use of resources.

	Our findings
Unqualified audit opinion	●
Proper arrangements to secure value for money	●

Audit opinion and financial statements

Subject to satisfactory completion of a small number of audit tests, I plan to issue an unqualified opinion on the financial statements before the statutory deadline of 30 September 2011.

The Council has worked hard during the year to respond to the requirements of the new International Financial Reporting Standards (IFRS). Officers prepared a restated balance sheet and income and expenditure figures well in advance of year end and this enabled me to review this work at an early stage. During the course of the audit, I identified several amendments to the year-end financial statements,

and I have highlighted the most important of these in appendix 2 and 3. None of these amendments altered the reported financial performance.

Value for money

I intend to issue an unqualified value for money conclusion stating the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Council has good financial governance and sound arrangements for financial control. It is strengthening its financial planning to ensure it is well-placed to address the financial pressures it faces over the medium term

The Council takes a strategic approach to setting priorities and achieving cost cuts through improved efficiency and productivity.

Before I complete my audit

I confirm to you

My report 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.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2010/11.

I ask you to confirm to me

I ask the Audit Committee to:

- take note of the adjustments to the financial statements set out in this report (Appendix 2);
 - ask the Council to amend the financial statements for the unamended misstatements or agree with officers reasons for not amending these items (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 6).
-

Financial statements

Subject to satisfactory completion of the rest of my audit work, I plan to issue an unqualified opinion on the financial statements.

Opinion on the financial statements

My work on the financial statements is now substantially complete. The areas where work remains outstanding are;

- completion of early grant testing on housing and council tax benefit payments to inform my opinion; and
- review of the final version of the financial statements to ensure all agreed amendments have been processed.

I expect to complete any remaining work in September. I will then issue my audit opinion by the 30 September 2011 statutory deadline after the Committee has approved the financial statements and the letter of representation.

Subject to satisfactory completion of the outstanding work 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.

Implementation of International Financial Reporting Standards (IFRS)

This is the first year the Council has had to prepare financial statements under IFRS. Preparing IFRS accounts has involved a significant amount of work for the Council's finance team, including

- review of transactions to identify the proper accounting treatment under the new framework;
- restatement and reformatting of all the prime statements;
- restatement of the comparatives for both 1 April 2009 and 31 March 2010; and
- work to produce several new disclosure notes.

Throughout 2010/11 the Council has had an effective framework in place to complete this work. I reviewed the Council's draft restated figures and gave some early feedback on the proposed revisions. This early work confirmed the Council had an effective framework in place to for IFRS. I highlighted two areas for extra consideration (treatment of capital grants and classification of cash equivalents). The Council subsequently made some changes to its draft restated comparatives after considering my feedback.

Errors in the financial statements

During my audit I identified several differences in the classification of figures within the accounts and recommended a few presentational changes. The areas most affected were the HRA and the Statement of Movement in Reserves. Management agreed to adjust the financial statements for most of the amendments I recommended. All non-trivial amendments (over £18,000) are in appendix 2 for information. Officers chose not to amend three items and these are outlined in appendix 3. I am satisfied that the impact of these is not material and that the differences did not have a significant impact on the reported financial position. I have asked management to confirm their reasons for not amending the financial statements in their letter of representation.

The Council's accounts were supported by a comprehensive electronic file of working papers, which provided a good audit trail for testing. The accounts were produced and signed by the S151 officer and presented for audit before the 30 June 2011 deadline. This was a good achievement given implementation of IFRS in 2010/11.

Recommendation

R1 Carry out a full internal consistency check of the draft accounts for 2011/12 to ensure:

- the entries in the movement in reserves statement are fully consistent with balance sheet reserve movements and other disclosures in the accounts; and
 - the figures in the statement of movement on the housing revenue account are consistent with the HRA entries in the movement in reserves statement.
-

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.

In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Key audit risk and our findings

Key audit risk	Finding
<p>Implementation of IFRS</p> <p>The Council produced its 2010/11 financial statements under International Financial Reporting Standards (IFRS). The new standards required restatement of both opening and closing balances from the previous year as well as additional disclosures. There was a risk that council's which were not well prepared for the new requirements would not succeed in preparing the necessary information in time.</p>	<p>I monitored the Council's progress with IFRS implementation throughout 2010/11. The Council had a strong framework for the introduction of the new standards, with timely consideration of the amendments required.</p> <p>I carried out early work on the restatement and highlighted two areas for extra consideration (treatment of capital grants and classification of cash equivalents). The Council subsequently made some changes to its comparatives after considering my feedback.</p> <p>The Council produced IFRS compliant accounts by the 30 June deadline. I identified some errors in these accounts during my audit and have noted these in this report.</p>

Financial statements

Significant weaknesses in internal control

I have not identified any significant weaknesses in the design or operation of an internal control that might result in a material error in your financial statements

A material weakness in internal control is a deficiency in design or operation which could adversely affect the Council's ability to record, process summarise and report financial and other relevant data. I have not identified any weaknesses in the design or operation of internal controls that might result in a material error in your financial statements. However I identified some cut-off errors in housing revenue account expenditure during my audit (see appendix 3). These errors arose because of timing differences in year-end interfaces and lack of clarity over year-end bad debt adjustments.

These weaknesses are only those I identified during the audit that are relevant to preparing the financial statements. I am not expressing an opinion on the overall effectiveness of internal control.

Quality of your financial statements

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures. I wish to bring one matter to your attention.

Table 1: **Accounting practices, policies, estimates and financial closures**

Issue	Findings and recommendations
Related party disclosures The Council has to disclose any member related party transactions in its accounts. The Council needs to set up processes to identify any relevant disclosures.	Officers send out annual declarations to all members seeking confirmation of all related parties. Members need to complete the declarations so officers can identify any related party transactions for disclosure in the accounts. Some Members were slow in responding and officers had to carry out added procedures to ensure there were no missing disclosures in the accounts.

Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. A copy of the draft letter of representation prepared by management is included in appendix 4 for your approval.

Recommendations

R2 Ensure reliable year end data is obtained from all departments for inclusion in the financial statements.

R3 The Audit Committee should review the process for annual Members declarations and ensure Members respond promptly to requests made.

Value for money

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

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My conclusion on each of these areas is set out below.

I intend to issue an unqualified conclusion stating that in 2010/11 the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Value for money criteria and our findings

Criterion	Findings
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>The Council has good financial governance and sound arrangements for financial control. It is strengthening its financial planning to ensure it is well-placed to address the financial pressures it faces over the medium term.</p> <p>The Council has a good understanding of its financial position. Members scrutinise and challenge performance and hold officers to account. The Council is introducing new performance management framework and risk management arrangements in 2011/12 to strengthen existing arrangements.</p> <p>The Council has refreshed its corporate priorities in 2010/11, in its new Five-Year Business Plan. It has reviewed and updated its medium term financial plan because of these priorities and the current economic climate.</p> <p>The Council has a good track record of managing within its budget. It achieved a £248,000 budget underspend in 2010/11 despite significant budget pressures. At 31 March 2011 it had general fund balances and reserves of £7,152,000, which is in line with its requirements.</p>

Criterion

2. Securing economy efficiency and effectiveness

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Findings

The Council takes a strategic approach to setting priorities and achieving cost cuts through improved efficiency and productivity.

The Council has reviewed its corporate priorities and identified new strategies to help it manage its financial position in the medium term. It carried out a comprehensive consultation with residents and staff in 2010/11 to ensure it based its 2011/12 budget decisions on local needs and expected delivery costs.

The Council's spending is low when compared with similar authorities. Further reductions of 15 per cent are required over the next 12 months. The updated medium term financial plan clearly considers the implications of this reduced spending. Officers have shown a strong commitment to explore the most effective way of delivering services to achieve this savings target. The Council continues to explore all opportunities for service efficiencies, for example through outsourcing, bringing services back in-house and shared services arrangements.

Business planning, including arrangements for performance and risk management, is in the process of being updated and strengthened. It is important that new arrangements are finalised as a priority to ensure the full benefit is secured from the changes in 2011/12 and beyond.

Recommendation

R4 Continue efforts to strengthen business planning and ensure new arrangements are finalised in time to secure full benefits for 2011/12 and the future.

Appendix 1 – Draft audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ASHFORD BOROUGH COUNCIL

Opinion on the Authority accounting statements

I have audited the accounting statements of Ashford Borough Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account, the Movement on the Housing Revenue Account Statement, the 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 Ashford Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Deputy Chief Executive and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Deputy Chief Executive is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of Ashford Borough Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

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

Authority's responsibilities

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

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements 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 relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. 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.

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, Ashford Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

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

Andy Mack

Officer of the Audit Commission

Audit Commission,
1st Floor,
Millbank Tower,
Millbank,
London,
SW1P 4HQ

Date:

Appendix 2 – Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

The financial statements presented for audit were complete, but I identified some casting errors in the accounts and several inconsistencies in the classification of items. These issues affected the 2010/11 figures and the comparatives. Management agreed to amend the statements to resolve all the issues I highlighted. The amendments led to several changes in the financial statements. Areas affected included:

- the explanatory foreword;
- the movement in reserves statement;
- reconciliation of income and expenditure in note 5 (amounts reported for resource allocation decisions);
- movements in capital grants in note 11;
- adjustments between accounting basis and funding basis under regulations (note 16);
- analysis of movements in property plant and equipment (note 17);
- capital expenditure and financing (note 20);
- revaluation reserve and capital adjustment account movements (notes 27a and 27b); and
- the housing revenue account and its supporting notes.

The Council amended the balance sheet comparatives for both 1 April 2009 and 31 March 2010 to exclude Growth Area Funding, which the Council receive as agents for the Partnership Board. The funding balances, removed from cash equivalent and creditor balances, are £10.8 million at 1 April 2009 and £10 million at 31 March 2010. (£11.2 million was already correctly excluded from the 31 March 2011 cash and creditor balances).

I identified a few other misstatements during my audit, which management also agreed to adjust in the financial statements. Details are as follows:

Adjusted misstatement	Nature of adjustment	Value £ 000's
<p>Comprehensive income and expenditure account (CIES) and note 15 taxation and non-specific grant income: under IFRS capital grants received with no conditions are included in the comprehensive income and expenditure account. The Council considered the nature of all its grants and included apt entries in the CIES, but the grants were not correctly classified.</p>	<p>The grants entries in the 2010/11 CIES and the restated comparatives have been amended to reclassify grants under the correct headings. In particular, capital grants received are included in taxation and non-specific grant income. The reconciliation of service income and expenditure in note 5 has also been amended for this reclassification.</p>	<p>5031</p>
<p>Balance sheet : both debtors and creditors were overstated as they included NNDR balances the Council hold as an agent in error.</p>	<p>Ratepayer debtor balances in note 25 and government department creditor balances in note 26 were both reduced.</p>	<p>758</p>
<p>Note 25 debtors: the analysis of debtor balances in note 25 was wrongly classified.</p>	<p>Government department balances were reduced and sundry debtor balances increased to correct the classification error.</p>	<p>758</p>
<p>Note 28 leases: income due from the Ashford Indoors Bowls Centre lease was incorrectly grouped over the life of the lease.</p>	<p>Finance lease disclosures in note 28 have been amended to correct the analysis errors in the principal and interest allocations.</p>	<p>2-5 years - 42 >5 years +42</p>

I recommended some presentational changes to the financial statements to disclose one exceptional item separately on the face of the comprehensive income and expenditure statement. This related to the gain from the mandated recalculation of the pension past service cost using the CPI instead of the RPI. I also recommended several presentational changes to the financial statements, to amend or expand the disclosures in some areas. The Council amended the cash equivalent accounting policy, pensions disclosures and the capital commitments note. It added more financial instrument disclosures and a post balance sheet event note.

Appendix 3 – Unadjusted misstatements to the financial statements

I identified the following misstatements during my audit, but management has decided not to adjust the financial statements for these items. Their reason for this is set out in the draft management representation letter in appendix 4. I bring them to your attention to help you in fulfilling your governance responsibilities and ask you to correct these misstatements or to tell me why they have not been amended in the signed representation letter. If you believe the affect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter.

Unadjusted misstatement	Nature of required adjustment	Comprehensive income and expenditure statement		Balance sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
<p>Comprehensive income and expenditure account (CIES): some invoices processed in the last few days of the financial year on the housing Archouse system were excluded from accruals in error.</p>	<p>Creditors and housing expenditure (in both the housing revenue account and CIES) should both be increased to include all missing accruals,</p>	<p>local authority housing 50</p>			<p>creditors 50</p>

Comprehensive income and expenditure statement

Balance sheet

Balance sheet: right to buy council dwelling with a higher than 50 percent probability of sale were not reclassified as held for sale (HFS) assets.

Council dwellings with a higher than 50 per cent probability of sale should be reclassified from property plant and equipment (PPE) to HFS assets on the balance sheet.

HFS assets 80 PPE 80

Note 25 debtors: the housing bad debt provision is overstated because it has not been revised in 201/11.

The provision should be reduced by £198,000 to agree to the calculated provision at 31 March 2011.

debtors 198

housing services 198

Appendix 4 – Draft Letter of Representation

To: Andy Mack
Appointed Auditor
Audit Commission
1st Floor Millbank Tower
Millbank
London
SW1P 4HQ

Ashford Borough Council - Audit for the year ended 31 March 2011

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors and officers of Ashford Borough Council the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2011.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements

The effects of uncorrected financial statements misstatements summarised in the attached schedule are not material to the financial statements, either individually or in aggregate.

The reasons for not correcting these items are as follows:

- reason 1;
- reason 2
- reason 3

Supporting records

All relevant information and access to persons within the entity has 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 financial statements.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I am not aware of any instances of:

- any fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- any risks that the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I am not aware of any instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Specific representations

I confirm the following specific representations:

- we have excluded all material balances held by the Council as an agent for other parties from the accounts.

Related party transactions

I confirm that I have disclosed the identity of Ashford Borough Council related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

Subsequent events

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Comparative financial statements

We made a £3,288,000 restatement to correct a material misstatement in the 2009/10 trade creditors figure in the financial instruments note (note 22), The note has been restated from £11,055,000 to £7,767,000. Written representations previously made for the prior period remain appropriate.

Signed on behalf of Ashford Borough Council

.....

Paul Naylor, Deputy Chief Executive

Date

I confirm that this letter has been discussed and agreed by the Audit Committee on 28 September 2011.

Signed

.....

Councillor Clokie (Chairman)

Date

Appendix 5 – Glossary

Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my 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; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

‘Significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

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 resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;

- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

Appendix 6 Action Plan

Recommendations

Recommendation 1

Carry out a full internal consistency check of the draft accounts for 2011/12 to ensure:

- the entries in the movement in reserves statement are fully consistent with balance sheet reserve movements and other disclosures in the accounts; and
- the figures in the statement of movement on the housing revenue account are consistent with the HRA entries in the movement in reserves statement.

Responsibility	Finance Manager
-----------------------	-----------------

Priority	Medium
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Date	June 2012
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Comments	The introduction of IFRS resulted in a great number of changes to the format of the accounts and the introduction of new statements. Mostly, the statements have fully complied with the new standards, though the audit has been very useful in identifying areas to focus on for consistency checks. It is expected that as the new standards become more familiar to my staff there will be further improvements made to the overall quality of the statements. Officers are working with Lynn Clayton, the Audit Manager, to develop a checklist to assist this process.
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Recommendation 2

- Ensure reliable year end data is obtained from all departments for inclusion in the financial statements

Responsibility	Finance Manager and Service Heads
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Priority	Medium
Date	April 2012
Comments	The closedown timetable will be reviewed and an additional task will be included to interface the Housing System with the Creditors system at 31/03/2012. Year-end guidance will be reviewed and if necessary more training sessions will be held.

Recommendation 3

- The Audit Committee should review the process for annual Members declarations and ensure Members respond promptly to requests made.

Responsibility	Chair of the Audit Committee and Deputy Chief Executive
Priority	Medium
Date	May 2012
Comments	The turnover of Members in the election made it particularly difficult to get returns from all members for 2010/11. Further there were exceptional circumstances (health reasons) in two cases that prevented declarations from being made.

Recommendation 4

- Continue efforts to strengthen business planning and ensure new arrangements are finalised in time to secure full benefits for 2011/12 and the future.

Responsibility	Chief Executive and Deputy Chief Executive
Priority	High
Date	November 2012
Comments	Work is ongoing to ensure that the savings identified in the Business Plan are being delivered with regular reports to Management Team and the Cabinet. Work on updating the Medium Term Financial Plan is currently being undertaken to refresh the financial plan and to ensure that resources are allocated to priority areas.

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0844 798 7070

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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.



Deputy Chief Executive, Paul Naylor CPFA MBA

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Andy Mack - Appointed Auditor
Audit Commission
1st Floor Millbank Tower
Millbank
LONDON
SW1P 4HQ

Date: 28 September 2011

Dear Andy

Ashford Borough Council - Audit for the year ended 31 March 2011

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors and officers of Ashford Borough Council the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2011.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements

The effects of uncorrected financial statements misstatements summarised in the attached schedule are not material to the financial statements, either individually or in aggregate.

The reasons for not correcting these items are as follows:

- The Housing Creditors misstatement was not adjusted because this was not material to the accounts. Processes will be reviewed and amended where necessary

- Regarding 'assets for sale' and the status of various prospective Right to Buy sales I have a different view on whether the Right to Buy sales identified in the audit should be classified as assets Held for Sale (as proposed by the auditor) rather than council housing assets, as currently presented in the accounts. It is my view these assets are not actively marketed (unlike, for example non-housing land that is agreed by the council as surplus to requirements and then marketed for sale), and further the evidence available suggests it is unclear that there is a greater than 50% prospect that council houses that are the subject of a RTB application will eventually be sold. For these reasons it was decided not to amend the statement.
- It is accepted that the Bad Debt Provision for Housing is overstated, but further work to identify the correct provision from the housing management information system is needed before an amendment may be made. As any adjustment was not likely to be material the statement was not revised, but Officers are to review the information within the Housing System to enable a new calculation of the provision to be made in 2011/2012.

Supporting records

All relevant information and access to persons within the entity has 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 financial statements.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I am not aware of any instances of:

- any fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- any risks that the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I am not aware of any instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

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-3-

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Signed on behalf of Ashford Borough Council

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Paul Naylor, Deputy Chief Executive

Date

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Signed

.....
Councillor Clokie (Chairman)

Date