

Annual Governance Report

Newport Pagnell Town Council

Audit 2007/08

January 2010

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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
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Ladies and Gentlemen

2007/08 Annual Governance Report

I am pleased to present the draft version of my report on the results of my audit work for 2007/08.

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;
- take note of the adjustments to the financial statements;
- note the error in the financial statements which management has declined to amend and the explanation for not doing so;
- approve the letter of representation before I issue my opinion and conclusion (Appendix 2); and
- agree your response to the proposed action plan (Appendix 4).

Yours sincerely

Mick West
District Auditor
Date

Key messages

This report summarises the findings from the 2007/08 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.

Summary of results

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You audit opinion was unqualified	6
Your financial statements were not free from error	6
Your internal control environment was not adequate	7
Value for money	Page
You did not have adequate arrangements to secure value for money	9

Audit opinion

- 1 I propose to issue an unqualified opinion on your amended financial statements.

Value for money

- 2 I have identified weaknesses in your arrangements for securing economy, efficiency and effectiveness in the use of resources. I intend to issue a qualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources, except in the areas highlighted on page 9 of this report.

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.

3 I ask the Council to:

- consider the matters raised in the report before approving the financial statements;
- take note of the adjustments to the financial statements;
- note the error in the financial statements which management has declined to amend and the explanation for not doing so;
- approve the letter of representation before I issue my opinion and conclusion (Appendix 2); and
- agree your response to the proposed action plan (Appendix 4).

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

- 4 I propose to issue an unqualified opinion on your amended financial statements. Appendix 1 contains a copy of my draft auditor's report.

Errors in the financial statements

- 5 We identified the following material errors within your financial statements that have been adjusted.
- 6 The errors related to the treatment of fixed assets and non-compliance with the Statement of Recommended Practice and accounting standards in the following areas:
- Tickford Community Centre:
 - the land associated with the Centre was not included in the opening balance sheet. This land was classified as a community asset with no value. You obtained a valuation from a qualified valuer and amended your accounts to include an opening land valuation of £39,046;
 - the Centre was brought into use in 2006/07 and as such should have been included in the balance sheet at the lower of net current replacement cost or net realisable value in existing use. It was included in the 2007/08 accounts at cost with a value of £685,184 at 31 March 2008. You obtained a valuation from a qualified valuer. The valuer determined the basis of valuation; confirmed that the building was a specialised property; confirmed that it was appropriate to value on the basis of depreciated replacement cost; and concluded that historic cost was not a reliable basis for valuation. You have amended entries in your accounts at 31 March 2008 of £382,964.
 - Leasehold buildings:
 - the value of leasehold buildings were overstated (by £118,636 in total at 31 March 2008) and annual depreciation on the buildings was understated by £59,348 because the remaining lives of the buildings were overstated. The remaining lives were incorrectly based on freehold ownership and should have reflected the shorter remaining lease periods.
- 7 You also amended your accounts for the following error. This was not material.

Financial statements

Description of error	Value of error
Grant receipts in advance for 2008/09 in respect of the youth club were treated as 2007/08 income.	£4,000

Material weaknesses in internal control

- 8 We identified a material control weakness within the Council's key systems. There were insufficient controls over receipts for the Caravan Park with no segregation of duties between receipts from the customer and cashing up. There was insufficient assurance from controls that the amounts noted as being cashed up equated to that received from customers.

Recommendation

- R1** Implement further controls for Caravan Park receipts that provide additional assurance for the monies received.
- R2** Review other major income systems to ensure that similar weaknesses either do not exist or are addressed.

Accounting practice and financial reporting

- 9 We are required to consider the qualitative aspects of your financial reporting processes. Receipts in advance in the balance sheet included an estimate (£73,000) for the fees received in 2007/08 for 2008/09 junior swimming lessons. Complete evidence to support this estimate was not retained by the Council.
- 10 The disclosure note on tangible fixed assets provide an analysis of the classes of fixed assets. These classes include 'Other' fixed assets that would be more appropriately described as 'Assets under Construction'.

Recommendation

- R3** Ensure that proper and complete documentation is compiled and kept to support the entries in the financial statements.

Letter of representation

- 11 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 2 contains the draft letter of representation I seek to obtain from you.

Value for money

I am 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 conclusion.

Value for money conclusion

- 12** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. My conclusions on each of the areas are set out in Appendix 3.
- 13** I have identified weaknesses in your arrangements for setting, reviewing and implementing your strategic and operational objectives; and risk management. These are set out in Table 1.
- 14** I intend to issue a qualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources, except in the areas highlighted in Table 1. Appendix 1 contains the wording of my draft report.

Table 1 Value for money conclusion : criteria assessed as inadequate

Criterion	Finding
The Council has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.	Although the Council had set out its overall mission and objectives these had not been translated into operational objectives demonstrating what it aimed to achieve and against which performance could be measured.
The Council has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.	As standards and targets had not been set across the Council's activities, its ability to scrutinise performance was limited.
The Council has put in place arrangements to manage its significant business risks.	Member responsibility for risk management was not clearly set out within terms of reference.

Value for money

Recommendations	
R4	Set operational objectives, standards and targets to demonstrate how the Council will achieve its strategic objectives.
R5	Clarify the roles and responsibilities in relation to risk management.

Appendix 1 – Independent auditor’s report to Members of Newport Pagnell Town Council

Opinion on the financial statements

I have audited the accounting statements and related notes of Newport Pagnell Town Council for the year ended 31 March 2008 under the Audit Commission Act 1998. The Council's accounting statements comprise the Income and Expenditure Account, the Statement of the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, 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 Newport Pagnell Town Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Responsible Financial Officer and auditor

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

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the Council's accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007: the financial position of the Council 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 Council's corporate governance procedures or its risk and control procedures.

Appendix 1 – Independent auditor’s report to Members of Newport Pagnell Town Council

I read other information published with the Council accounting statements, and consider whether it is consistent with the audited Council 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 Council 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 Council in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Council’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. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

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

Delay in certification of completion of the audit

The audit cannot be formally concluded and an audit certificate issued until I have completed my consideration of the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources and issued my value for money conclusion.

M West

xx January 2010

District Auditor
Audit Commission
Unit 5, ISIS business Centre
Horspath Road
Cowley
Oxford, OX4 2RD

Appendix 2 – Draft letter of representation

To:

Mick West
District Auditor

Audit Commission
Unit 5
Isis Business Centre
Horspath Road
Cowley
Oxford OX4 2RD

15 December 2009

Newport Pagnell Town Council - Audit for the year ended 31 March 2008

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

Compliance with the statutory authorities

I acknowledge 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: A Statement of Recommended Practice which presents fairly the financial position and financial performance of the Council and for making accurate representations to you.

Uncorrected misstatements

I confirm that I believe that the effects of the uncorrected financial statements misstatements listed in the attached schedule are not material to the financial statements, either individually or in aggregate. These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are as follows:

£8250 Audit Fee does not reflect the proposed fee. This has not been changed because the amount is not material.

Appendix 2 – Draft letter of representation

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 and Committee meetings, have been made available to you.

Irregularities

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

I also confirm that I have disclosed:

- my knowledge of 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; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

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 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. 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, where 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.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

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.

Related party transactions

I confirm the completeness of the information disclosed 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.

Post balance sheet events

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

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.

Specific representations:

The Council is satisfied that the £73,000 junior swimming fees received in advance reflected in the accounts is a reasonable estimate of fees received in respect on 2008/09 lessons.

There are no transactions at the Council that require the creation of a Revaluation Reserve.

Signed on behalf of Newport Pagnell Town Council

I confirm that the this letter has been discussed and agreed by the Council on 14 December 2009.

Signed

Cllr Roger Hornblow
Town Mayor
Date

Lesley Welch
Town Clerk
Date

Appendix 3 – Value for money criteria

Value for money criterion	Met
The Council has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives	No
The Council has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.	Yes
The Council has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.	No
The Council has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.	Yes
The Council has put in place arrangements to maintain a sound system of internal control.	Yes
The Council has put in place arrangements to manage its significant business risks.	No
The Council has put in place arrangements to manage and improve value for money.	Yes
The Council has put in place arrangements to ensure that its spending matches its available resources.	Yes
The Council has put in place arrangements for managing performance against budgets.	Yes
The Council has put in place arrangements for the management of its asset base.	Yes
The Council has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.	Yes

Appendix 4 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Governance Report 2007/08 - Recommendations						
7	R1 Implement further controls for Caravan Park receipts that provide additional assurance for the monies received.	3				
7	R2 Review other major income systems to ensure that similar weaknesses either do not exist or are addressed.	3				
7	R3 Ensure that proper and complete documentation is compiled to support the entries in the financial statements	2				
10	R4 Set operational objectives, standards and targets to demonstrate how the Council will achieve its strategic objectives.	3				
10	R5 Clarify the roles and responsibilities in relation to risk management.	3				

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.

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