



GOVERNMENT

**ISA 260 - Report to
those charged with
governance**

Newbury Town Council
DRAFT: 3 August 2009

AUDIT

Content

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This report is addressed to the Council and has been prepared for the sole use of the Council. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Greg McIntosh who is the engagement lead to the Council, telephone 0207 311 6430 email greg.mcintosh@kpmg.co.uk who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4063, email trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Team, Nicholson House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SU or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.



Executive summary

Purpose of this report

The Audit Commission's Code of Audit Practice (the Code) requires us to summarise the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. We report to those charged with governance (in this case the Council at the time you are considering the financial statements). We are also required to comply with an International Standard on Auditing (ISA260) which sets out our responsibilities for communicating with those charged with governance.

This report meets both these requirements. It summarises the key issues identified during our audit of the financial statements for the year ended 31 March 2008. It has been prepared for presentation to the Council on 3 August 2009.

This report does not repeat matters we have previously communicated to you. Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter jointly to close our audit.

Our opinions and conclusions

Use of Resources

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and regularly reviewing their adequacy and effectiveness.

Our responsibility is to satisfy ourselves that you have in place proper arrangements by reviewing and, where appropriate, examining evidence that is relevant to your corporate performance and financial management arrangements and reporting on them.

We are not satisfied that, in all significant respects, Newbury Town Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2008, in that it did not put in place:

- arrangements to monitor the quality of its published performance information, and to report the results to Members;
- arrangements to manage significant business risks; and
- arrangements to manage and improve value for money.

Our findings are detailed in section two of this report and our proposed conclusion is set out in Appendix 1.

Accounts and Annual Statement of Governance

The Council is responsible for putting in place systems of internal control to ensure the regularity and lawfulness of transactions, to maintain proper accounting records and to prepare financial statements that present fairly its financial position and its expenditure and income. It is also responsible for preparing and publishing an Annual Statement of Governance with its financial statements.

We have now completed the audit. We identified a number of issues in the course of our audit –

- the fixed assets balance on the balance sheet include assets of significant value which are not classified correctly in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 (the 2007 SORP). Assets, currently on the balance sheet at a carrying value of £5,745,103, are incorrectly classified as Community Assets and, as such, have not been subject to depreciation; and
- there has also been no valuation exercise conducted on fixed assets since 31 March 2003. Assets must be revalued every five years to comply with the requirements of the 2007 SORP.

We therefore propose to issue a qualified audit opinion.

Our findings are detailed in section three and our proposed opinion on the accounts is presented in Appendix 2.

Exercise of other powers

We have a duty under section 8 of the Audit Commission Act 1998 to consider whether, in the public interest, to report on any matter that comes to our attention in order for it brought to the attention of the public. In addition we have a range of other powers under the 1988 Act. We did not exercise these powers or issue a report in the public interest in 2007/08.

Executive summary (cont'd)

Certificate

We are required to certify that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice. If there are any circumstances under which we cannot issue a certificate, then we are required to report them to you and to issue a draft opinion on the financial statements.

There are no issues that would cause us to delay the issue of our certificate of completion of the audit.

Status of the audit

At the date of this report our audit work is complete.

We now require a signed management representation letter, and have provided a draft of this in Appendix 6.

Declaration of independence and objectivity

In relation to the audit of the financial statements of Newbury Town Council for the financial year ending 31 March 2008, we confirm that there were no relationships between KPMG LLP and the Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 5 in accordance with ISA 260.

Fees

Our planned fee for the audit was £8,000. The fee for our audit work has not been contained within the total agreed with you in our audit plan due to issues arising from the audit of the first draft of the accounts as detailed below. We agreed a fee of £3,675 for the completion of additional work in October 2008. We will finalise the fee arrangements with management following the completion of the audit.

We have not performed any non-audit work.

Use of resources

We are required to satisfy ourselves that you have proper arrangements in place to secure economy, efficiency and effectiveness in your use of resources. We reach this conclusion by assessing the Council's arrangements against the criteria issued by the Audit Commission to assist auditors in forming their VfM conclusion.

We are not satisfied that, in all significant respects, Newbury Town Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2008, in that it did not put in place:

- **arrangements to monitor the quality of its published performance information, and to report the results to Members;**
- **arrangements to manage significant business risks; and**
- **arrangements to manage and improve value for money.**

Introduction

The Audit Commission issues auditors with a set of criteria against which Councils should be assessed to inform the auditor's conclusion on whether proper arrangements are in place for securing economy, efficiency and effectiveness in its use of resources. We also consider the management arrangements the Council has in place for ensuring data quality.

We set out below the scores for our assessment relating to 2007/08.

Code Criteria	Description	2007/08 Assessment
1	The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.	Adequate
2	The body 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.	Adequate
3	The body 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.	Adequate
4	The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.	Inadequate
5	The body has put in place arrangements to maintain a sound system of internal control.	Adequate
6	The body has put in place arrangements to manage its significant business risks.	Inadequate
7	The body has put in place arrangements to manage and improve value for money.	Inadequate
8	Not applicable to town councils	N/a
9	The body has put in place arrangements to ensure that its spending matches available resources.	Adequate
10	The body has put in place arrangements for managing performance against budgets.	Adequate
11	The body has put in place arrangements for managing its asset base	N/a
12	The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.	Adequate

The Council has no formal arrangements in place to ensure that data used for performance management purposes is of sufficient quality.

The Council has no formal arrangements to manage its significant business risks as it has not adopted a risk management strategy or risk register which considers corporate and strategic business risks.

The Council also has not put in place arrangements to manage and improve value for money, with no information on the benchmarking of service costs to other similar bodies being available and used to understand the value for money of service provision. In addition no evidence has been provided that processes are in place to review and focus on improving the value for money of service delivery.

We have raised a recommendation in relation to these issues. However the Council should also ensure that it understands and implements the requirements of the revised Use of Resources criteria for 2008-09.

Accounts and Annual Statement of Governance

We have now completed the audit. We identified a number of issues in the course of our audit –

- The fixed assets balance on the balance sheet include assets of significant value which are not classified correctly in accordance with the 2007 SORP. Assets, currently on the balance sheet at a carrying value of £5,745,103, are incorrectly classified as Community Assets and also have not been subject to depreciation; and
- There has also been no valuation exercise conducted on fixed assets since 31 March 2003. Assets must be revalued every five years to comply with the requirements of the 2007 SORP.

We therefore propose to issue a qualified audit opinion.

Introduction

The tasks we perform in our review of your financial statements are summarised below. They are split between those which are undertaken during and after production of the accounts.

Work Performed	Accounts production stage	
	During	After
1. Business Understanding: review your operations.	✓	-
2. Accounting standards: agree the impact of any new accounting standards.	✓	-
3. Accounts Production: review the accounts production process.	✓	✓
4. Testing: test and confirm material or significant balances and disclosures.	✓	-
5. Representations & opinions : seek and provide representations before issuing our opinions.	✓	✓

Accounts Production

Your accounts production process is assessed as part of our UoR assessment. As part of this process we have considered the production process against three criteria:

Element	Commentary
Completeness of draft accounts	The draft accounts were complete, however a number of issues were identified upon our initial review of the statements. We were unable to reconcile the accounts to your ledger or fixed asset register and the presentation requirements of SORP 2007 were not adopted. The accounts were re-presented for audit following work by an external accountant.
Quality of supporting working papers	Working papers provided during the onsite audit visit in July 2008 did not meet our requirements. In part this was due to the early retirement through illness of the RFO following the completion of the draft accounts. Working papers provided to support the restated accounts were of an adequate standard to complete the audit work.
Response to audit queries	The response to audit queries was impacted by the change of RFO between the completion of the draft accounts and the audit visit. Information was made available quickly, where possible, during our onsite visit. However delays were experienced in receiving information requested from the Council following the completion of our onsite audit visit. In addition a number of audit queries were not addressed when the accounts were restated.

As a result of the above we have raised eight recommendations which are included within Appendix 4.

Accounts and Annual Statement of Governance (cont'd)

Testing

We identified a number of issues that have not been adjusted by management. Of these two issues have a material effect on the financial statements. In accordance with ISA 260 we are required to communicate these uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

We have provided a summary of both the corrected and uncorrected audit differences in Appendix 3.

Opinions and Representations

As part of the finalisation process we are required to provide you with representations concerning our independence and ability to act as your auditors. We have provided this at Appendix 5.

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the Responsible Finance Officer on 28 July 2009. We have also included a copy of this as Appendix 7. Once we have received this we will issue our audit opinion.

We will be seeking specific management representation in relation to:

- the adequacy of the system of internal control underlying the opinions detailed within the Annual Governance Statement;
- accounting for capital grants is correct and changes applied to prior year comparators in relation to the incorrect approach to capitalising grant funded assets which had previously been applied;
- changes to the classification of income and expenditure balances applied to the prior year comparators have been prepared in accordance with the preparation of the 2007/08 updated accounts; and
- given there is no provision for doubtful debtors, the carrying value of debtors is accurate and all debtors included at the balance sheet are collectable.

Other matters

ISA260 requires us to communicate "audit matters of governance interest that arise from the audit of the financial statements" to you which includes;

- material weaknesses in internal control identified during the audit;
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. issues relating to fraud, compliance with laws and regulations, subsequent events etc) and
- other audit matters of governance interest.

There are no others matters which we wish to draw to your attention, other than those already raised in relation to our work on the Use of Resources.

Appendix 1: Proposed use of resources conclusion

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.

Auditors' Responsibilities

We are required by the Audit Commission Act 1998 to satisfy ourselves 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 us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for other local government bodies. We report if significant matters have come to our attention which prevent us from concluding that the Authority has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

We have undertaken our 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 December 2006, we are not satisfied that, in all significant respects, Newbury Town Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2008, in that it did not put in place:

- arrangements to monitor the quality of its published performance information, and to report the results to Members;
- arrangements to manage significant business risks; and
- arrangements to manage and improve value for money.

Certificate

We certify that we have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Greg McIntosh, for and on behalf of KPMG LLP
Chartered Accountants
London

Appendix 2: Proposed audit report

Independent auditors' report to the Members of Newbury Town Council

Opinion on the statement of accounts

We have audited the financial statements of Newbury Town Council, for the year ended 31 March 2008 under the Audit Commission Act 1998. The financial statements comprise the Explanatory Foreword, 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 related notes. The financial statements have been prepared under the accounting policies set out therein.

This report is made solely to Newbury Town Council, as a body, in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to Newbury Town Council, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Newbury Town Council, as a body, for our audit work, for this report, or for the opinions we have formed.

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.

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

We report to you our opinion as to whether the financial statements present fairly the financial position of Newbury Town Council and its income and expenditure for the year in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007.

We review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. We report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information we are aware of from our audit of the statement of accounts. We are not required to consider, nor have we considered, whether the governance statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our 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 financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Qualified opinion arising from disagreement about accounting treatment

The fixed assets balance on the balance sheet includes assets with a carrying value of £5,745,103 which are incorrectly classified as Community Assets and have not been subject to depreciation. There has also been no valuation exercise conducted on fixed assets since 31 March 2003. Assets must be revalued every five years to comply with the requirements of the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007.

in our opinion, except for the classification and valuation of operational assets referred to in the preceding paragraph, the 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.

Greg McIntosh, for and on behalf of KPMG LLP

Chartered Accountants

London

Appendix 3: Audit differences

We are required by ISA (UK and Ireland) 260 Communication of Audit Matters to Those Charged with Governance to communicate all uncorrected misstatements, other than those that we believe are clearly trivial, to the Council. We are also required to report all material misstatements that management has corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

This appendix sets out the audit differences identified by our audit of Newbury Town Council for the year ended 31 March 2008.

Uncorrected audit differences

Detailed below are the audit differences identified by our audit of the financial statements that have an effect on your reported financial position.

Impact		Basis of audit difference
Income and expenditure	Balance sheet	
£1,156	(£1,156)	Provision for aged debtor which is from 2007, is not collected as at July 2009 and appears unlikely to be collected. The Council has not applied this adjustment as they are committed to collecting this debtor.

In addition the Council did not obtain a valuation of its asset base for 2007/08 as required by the SORP. The last valuation was obtained as at 31 March 2003 and the SORP requires that assets are revalued every five years. We are therefore unable to conclude on the appropriateness of the carrying value of these assets and have issued a qualified audit opinion in this respect.

The Council also holds £5,745,103 of assets which are incorrectly classified as community assets. These assets do not meet the requirements of community assets as defined by the SORP as:

'assets that an authority intends to hold in perpetuity, that have no determinable useful life and which may, in addition, have restrictions on their disposal. There is little prospect of sale and change of use. If the asset is used for a specific operational purpose, it does not qualify as a community asset and should be valued accordingly.'

These assets are not being depreciated by the Council which means that they are understating their I&E expenditure balances in relation to depreciation. These assets should be reclassified as operational assets, valued correctly and depreciated over their remaining useful economic lives.

Corrected audit differences

Detailed below are the audit differences that have been corrected.

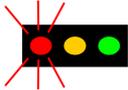
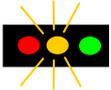
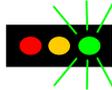
Impact		Basis of audit difference
I & E	Balance sheet	
£98,037	£98,037	Capital grants were accounted for as income in the I&E. They should have been accounted for as income in advance on receipt and deferred grants following acquisition of the asset.
-	£24,908	Assets were initially capitalised net of government grants provided to fund these assets. This is incorrect and these assets should be accounted for as deferred grants.
£48,768	-	The profit on disposal of assets was not accounted for in the I&E account.
£5,000	-	Income from Thames Water was recognised in the STRGL instead of the I&E account.
-	£11,880	The Council had capitalised a photocopier and franking machine that it had leased. However the leases were deemed operating leases and therefore capitalisation was not appropriate.

Significant presentational issues that were identified in the first draft of the accounts have been addressed. The Council employed an external accountant to address these issues. The changes made include:

- Updating the I&E to be presented in BVACOP required format
- Ensuring that the accounts agreed to the underlying accounting records
- Ensuring that the accounts cast correctly
- Addressing SORP presentation changes in 2006 and 2007
- Ensuring that the fixed asset balances agreed to the fixed asset register
- Presenting an Annual Governance Statement, rather than a Statement of Internal Control.

Appendix 4: Accounts recommendations

This appendix summarises our recommendations relating to the accounts production process. We have given each one a risk rating (as explained below) and agreed with management what action they will take.

Priority rating for performance improvement observations raised				
<p>Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.</p> 		<p>Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p> 		<p>Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p> 
Number	Risk	Issue and recommendation	Management response	Officer and due date
Valuation of Fixed Assets				
1	● (one)	<p>The Council has not complied with the SORP in relation to asset revaluation. The Council's assets should have been revalued during the financial year ending 31 March 2008 but have not been. Therefore the carrying value for the Council's assets cannot be deemed appropriate.</p> <p>The Council should ensure that all operational assets are valued in line with their accounting policies. The Council should ensure that they accounting policies in relation to revaluation are appropriate and in line with the SORP.</p>	Operational assets have now been valued as at 31 March 2009 by the DVA.	RFO Completed
Classification of Fixed Assets				
2	● (one)	<p>The Council holds assets as Community Assets which do not meet the definition of this asset classification because either the assets are not held in perpetuity or they are used for a specific operational purpose.</p> <p>The Council needs to review the classification of assets held as Community Assets, reclassify assets which do not meet the definition and ensure that those assets are valued correctly. These assets will also need to be depreciated.</p>	Assets will be re-classified following the completion of the valuation exercise and depreciated with effect from 1 April 2008.	RFO 31 July 2009
Accounts Presentation				
3	● (two)	<p>The Council must address issues identified with the format of the Executive Foreword, Annual Governance Statement and the I&E account. This will ensure that these statements are in line with best practice.</p> <p>These issues have been raised during the course of the 2007/08 audit but have not been addressed during the restatement of the accounts.</p>	The format of the 2008/2009 accounts will comply with SORP requirements. The 2007/2008 accounts were prepared by the previous RFO and represented by external consultants.	RFO Completed

Appendix 4: Accounts recommendations

Number	Risk	Issue and recommendation	Management response	Officer and due date
Governance Arrangements				
4	● (two)	<p>The Council should review its governance arrangements to ensure that they are in line with best practice for a Town Council. The key areas of focus should include:</p> <ul style="list-style-type: none"> ensuring that the new Responsible Finance Officer received appropriate financial training to conduct the role effectively; ensuring that adequate arrangements are in place to manage and monitor risk management and data quality at the Council; ensuring the arrangements are in place ensuring that sufficient work is undertaken and document to support the conclusions of the Annual Governance Statement; and implementing a process for following up audit recommendations and presenting progress to a committee of those charged with governance on a quarterly basis. <p>The Council should ensure that it is meeting all the requirements which are covered by the Annual Governance Statement and that this compliance is formally evidenced.</p>	<p>Any review of the effectiveness of governance arrangements is addressed as it arises. These recommendations will be our focus for the new financial year. The RFO and Accounts Assistant will undergo dedicated accounts training on the effective use of current accounting software to ensure better detailed production of quarterly accounts, which will be presented, as usual, to the Policy and Resources committee.</p>	<p>CEO and RFO 31 March 2010</p>
Fixed Asset useful economic lives				
5	● (two)	<p>The Council has previously depreciated all assets over a 4 year useful economic life. The useful economic life should be determined for each asset of group of assets and should reflect the actual period over which the Council plans to utilise the asset.</p> <p>The Council will also need to evaluate the useful economic life of all assets which are transferred from Community Assets to operational asset classes as a result of the review proposed above.</p>	<p>The Council has revised its depreciation policy with effect from 1 April 2008. This also applies to assets transferred from Community to Operational asset classes. Depreciation is charged on a straight line basis over the estimated economic useful life.</p>	<p>RFO Completed</p>
Bad Debt provision				
6	● (two)	<p>The Council should be applying a provision for doubtful debts in the accounts. This should be included to ensure that the valuation of debtors is prudent. This provision should be made up of both:</p> <ul style="list-style-type: none"> specific provisions for any debtors which are significantly overdue as defined by a set threshold; and a general provision against the remaining debtors balance based on prudent assumptions about the likely collection of outstanding debtors. This assumption should be based on historical collection rates. 	<p>The RFO will define an annual bad debt provision for the new financial year as agreed at a meeting of the Policy and Resources Committee on 13 July 2009.</p>	<p>RFO 31 March 2010</p>
Journal Documentation				
7	● (two)	<p>A number of the year end journals which we have reviewed as part of our audit did not include clear descriptions to explain the purpose of the Journals.</p> <p>You should ensure that the clarity of journal descriptions is improved to provide a clearer documentary trail.</p>	<p>This issue will be addressed during the current financial year.</p>	<p>RFO 31 July 2009</p>

Appendix 4: Accounts recommendations

Number	Risk	Issue and recommendation	Management response	Officer and due date
8	<p> (two)</p>	<p>Related Parties</p> <p>The Council has not included a related parties disclosure within the accounts.</p> <p>The Council should ensure that the Related Parties reporting requirements are met by disclosing all bodies with which they trade which meet the related party disclosure requirements. To do this they should:</p> <ul style="list-style-type: none"> • ensure that the Council’s register of interests is up to date and includes all the pertinent relationships of those charged with governance and other covered individuals with other bodies; • identify all related public sector bodies which meet disclosure requirements; and • review their purchase and sales ledger to confirm that all transactions with identified bodies are considered for disclosure. 	<p>The register of interests is kept up to date by our Committees Officer. There are no known public sector bodies to be disclosed. Further training needs to be implemented to ensure that officers are informed of disclosure requirements.</p>	<p>CEO and RFO 31 March 2010</p>

Appendix 5: Declaration of independence and objectivity

Declaration of Independence and Objectivity 2007/08

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* (the Code) which states that:

“Auditors and their staff should exercise their professional judgement and act independently of both the Audit Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body, which does not relate directly to the discharge of auditors’ functions, if it would impair the auditors’ independence or might give rise to a reasonable perception that their independence could be impaired”

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission’s *Annual Letter of Guidance and Standing Guidance* (Audit Commission Guidance) and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* (‘Ethical Standards’).

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK &I) 260 *Communication of Audit Matters with Those Charged with Governance* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor’s objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor’s network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor’s professional judgement, the auditor is independent and the auditor’s objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor’s objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Council.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Audit Partner and the audit team.

General procedures to safeguard independence and objectivity

KPMG’s reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm’s required independence. KPMG’s policies and procedures regarding independence matters are detailed in the Ethics and Independence Manual (‘the Manual’). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

Appendix 5: Declaration of independence and objectivity (cont'd)

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual Ethics and Independence Confirmation. Failure to follow these policies can result in disciplinary action.

Auditor Declaration

In relation to the audit of the financial statements of Newbury Town Council for the financial year ending 31 March 2008, we confirm that there were no relationships between KPMG LLP and the Newbury Town Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

Appendix 6: Draft management representation letter

Dear KPMG LLP,

We understand that auditing standards require you to obtain representations from management on certain matters material to your opinion. Accordingly we confirm to the best of our knowledge and belief, having made appropriate enquiries of Directors, Officers and Members of the Council, the following representations given to you in connection with your audit of the financial statements for Newbury Town Council for the year ended 31 March 2008.

All the accounting records have been made available to you for the purpose of your audit and the full effect of all the transactions undertaken by Newbury Town Council has been properly reflected and recorded in the accounting records in accordance with agreements, including side agreements, amendments and oral agreements. All other records and related information, including minutes of all management and Board meetings, have been made available to you.

We confirm that we have disclosed all material related party transactions relevant to the Council and that we are not aware of any other such matters required to be disclosed in the financial statements, whether under FRS 8 or other requirements.

We confirm that we are not aware of any actual or potential non-compliance with laws and regulations that would have had a material effect on the ability of the Council to conduct its business and therefore on the results and financial position to be disclosed in the financial statements for the year ended 31 March 2008.

We acknowledge that we are responsible for the fair presentation of the financial statements in accordance with the Local Government Statement of Recommended Practice ("SORP") and wider UK accounting standards. We have considered and approved the financial statements.

We confirm that we:

- understand that the term "fraud" includes misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Misstatements resulting from fraudulent financial reporting involve intentional misstatements or omissions of amount or disclosures in financial statements to deceive financial statement users. Misstatements resulting from misappropriation of assets involve the theft of an entity's assets, often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation;
- are responsible for the design and implementation of internal control to prevent and detect fraud and error;
- have disclosed to you our knowledge of fraud or suspected fraud affecting the Council involving:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements.
- have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others;
- have disclosed to you our assessment as to whether the financial statements could be materially misstated as a result of fraud.

With the exception of fixed assets, we confirm that the presentation and disclosure of the fair value measurements of material assets and liabilities are in accordance with applicable reporting standards. The amounts disclosed represent our best estimate of fair value of assets and liabilities required to be disclosed by these standards. The measurement methods and significant assumptions used in determining fair value have been applied on a consistent basis, are reasonable and they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Council where relevant to the fair value measurements or disclosures.

We confirm that 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 that already disclosed in the financial statements; and
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements.

Appendix 6: Draft management representation letter (cont'd)

With reference to the specific issues on which you have requested assurances, we confirm that:

- the Council's system of internal control is adequate and supports the statements made in the Annual Governance Statement;
- changes made to prior period comparators resulting from the adoption of the correct approach to accounting for grant-funded assets are fairly stated;
- changes made to prior period comparators resulting from changes to the classification of income and expenditure balances have been fairly stated; and
- the carrying value of debtors is fairly stated and all debtors included in the balance sheet are collectable.

Finally, no additional significant post balance sheet events have occurred that would require additional adjustment or disclosure in the financial statements, over and above those events already disclosed.

This letter was tabled at the meeting of the Council meeting on 3 August 2009.

Yours faithfully

[Name of Executive Director signing letter on behalf of Newbury Town Council]

On behalf of the Council