

**NEWBURY TOWN COUNCIL**

**AUDIT 2006/07**

**Report to those charged with governance**

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## NEWBURY TOWN COUNCIL

### AUDIT 2006/07

#### Report to those charged with governance

#### INTRODUCTION

The council is required to publish a Statement of Accounts annually. The s151 Officer is responsible for the preparation of the accounts for audit. This must be prepared in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006 (the 'SORP'). This defines proper accounting practices.

Our Audit Plan for 2006/07 explained the work we would be carrying out to meet our Code of Audit Practice responsibilities. The Audit Commission Act 1998 and the Code of Audit Practice require the appointed auditor to form an independent view of the statutory accounts and to give an audit opinion as to whether the financial statements:

- Present fairly the financial position of the council and its income and expenditure for the year;
- have been properly prepared in accordance with appropriate legislation and applicable accounting standards; and,
- to issue a certificate confirming that the audit process has been completed in respect of the year under review.

The audit opinion on the financial statements is given in respect of the statutory accounts and covers the following:

- Explanatory foreword;
- Statement of Responsibilities;
- Consolidated Revenue Account (CRA);
- Consolidated Balance Sheet;
- Cash Flow Statement;
- Statement of Total Movement on Reserves;
- Accounting Policies;
- Notes to the CRA, Balance Sheet and Cash Flow Statement.

International Standards on Auditing (UK and Ireland) require auditors to report certain matters arising from the audit of the financial statements to 'those charged with governance':

- Expected modifications to the audit report;
- Unadjusted non-trifling misstatements;
- Material weaknesses in accounting and internal control systems;
- Qualitative aspects of accounting practice and financial reporting;
- Matters required by other auditing standards to be reported to those charged with governance;
- Other matters that we wish to draw to your attention.

We have agreed with the Council that the communications required under International Standards on Auditing (UK and Ireland) would

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be with the Council. This report sets out for the Council's consideration the matters arising from the audit of the financial statements for 2006/07 that require such reporting under the relevant standards.

It is the council's responsibility to put in place arrangements to ensure the proper conduct of its financial affairs, and to monitor their adequacy and effectiveness in practice. Under the Audit Commission's Code of Audit Practice we are required annually to review the financial aspects of the council's corporate governance arrangements as they relate to:

- The legality of transactions that may have significant financial consequences;
- The financial standing of the council;
- Systems of internal financial control;
- Standards of financial conduct and the prevention and detection of fraud and corruption;

#### Scope and Objectives

As the appointed auditors, we have a responsibility to audit the statutory accounts. We must assess whether the statutory accounts meet the criteria outlined in the Audit Commission Act.

In carrying out our work we are mindful of our other responsibilities under the Code of Audit Practice, particularly the need to give an independent assessment of the general financial standing of the council. We also consider the characteristics of the council which impact on the auditor's ability to issue an opinion without qualification, or assess what additional substantive testing might be needed on the statements themselves. These include:

- A strong and reliable control environment;
- A good quality internal audit on which we can place reliance;
- Effective financial systems and related information systems;
- Efficient and effective procedures for producing the financial statements and supporting material.

In order to define the appropriate level of testing required at the final accounts audit, we carry out our reviews of those processes which we view as fundamental to the production of the financial statements. These are referred to as the 'core processes' and include:

- Main accounting system;
- Budgetary control;
- Final accounts closedown procedures.

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In respect of the financial aspects of corporate governance, we have discharged our responsibilities under the code by reviewing the arrangements the council has put in place.

Our audit opinion is therefore based on assurance gained from our reviews of these areas as well as specific testing of the year end figures.

The purpose of this report is to record the matters arising from the audit of the council's accounts for the year ended 31 March 2007 and to make recommendations to address any issues that require action on behalf of the council.

#### STATUS OF THE AUDIT

Our work on the financial statements is now complete. An amendment has been agreed and we have verified the changes made in the financial statements. We also highlighted presentational changes to the financial statements, which have also been agreed and we have verified that these changes have been processed in the financial statements.

We also require a letter of representation from 'management' (i.e. the Responsible Financial Officer) which should be as close as possible to the date the audit it to be completed (i.e. when the opinion and certificate is signed). This has now been received.

Should any further matters arise in concluding the outstanding work that require reporting under International Standards on Auditing (UK and Ireland); we will raise them with the leader of the Council.

Subject to the satisfactory conclusion of the work outstanding, we anticipate being able to issue an unqualified opinion as soon as practicable after the final draft accounts have been formally approved and signed (a draft auditor's report is attached at Appendix 3).

#### Matters to be reported to those charged with governance

We have the following matters to draw to the Council's attention:

- **Expected modifications to the audit report.**  
On the basis of our audit work we currently propose to issue an audit report with standard wording and without modification.
- **Unadjusted non-trifling misstatements.**  
There were no unadjusted misstatements which need to be brought to your attention.

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- **Material weaknesses in accounting and internal control systems.**  
We confirm that we did not find any material weaknesses in the accounting and internal control systems.
- **Matters required by other auditing standards to be reported to those charged with governance.**  
There are no matters that require reporting to those charged with governance by other auditing standards.
- **Other matters that we wish to draw to your attention.**  
We would like to take this opportunity to thank the Chief Executive and Responsible Financial Officer and their staff for their assistance and cooperation during the course of our audit.

### Main findings and Conclusions

The statutory accounts were presented for audit in September 2007 and the main part of our audit was concluded in September 2007 on a revised set of accounts. Further work was undertaken to ensure all relevant amendments had been made to the final approved set of accounts.

Our review and assessment of the council's core processes found that they are to be commended and fulfil the council's obligations on a timely and efficient basis. The detailed findings from our review of the arrangements for producing the council's statement of accounts (appendix one) and from our review of the council's corporate governance arrangements (appendix two) are set out in the following pages. There are minor issues which the council should seek to address in order to strengthen further the control environment and ensure accurate compilation of the financial statements.

### Status of our reports to the Council

Our reports are prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Reports are prepared by appointed auditors and addressed to members or officers. They are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

UHY Hacker Young LLP

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Appendix one – audit findings

Action Plan

Finding	Implication	Recommendation	Agreed / not agreed	Officer comments
Fixed assets restatements and Capital Financing Account	The reserves could be incorrect.	The accounts should be reconciled, as a minimum, at each year end date.	Agreed (in theory)	The Restatement Reserve has never reconciled with the Fixed Asset Register. The difference is now too great to do anything other than to devalue assets
These accounts had not been reconciled to the restated assets and the book values of the assets being financed out of loans at the year end date.	Presentation of the accounts	The accounts should be amended to reflect this change in accounting treatment.	Agreed	Accounts amended
The change in accounting treatment of depreciation and capital charges needs to be reflected in the accounts				

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Appendix two

Core process review action plan

Finding	Implication	Recommendation	Agreed / not agreed	Officer comments
<p><b>Main accounting system</b></p> <p>A well organised accounting system with clearly designated roles and responsibilities for personnel involved.</p>	<p>Sound basis for regular reporting of financial performance.</p>	<p>None</p>	<p>Agreed</p>	<p></p>
<p><b>Budgetary controls</b></p> <p>Good systems and procedures in place to set budgets and to monitor progress throughout the year.</p>	<p>Consistent allocations of expenditure and the regular reporting enables effective monitoring of the financial results.</p>	<p>None</p>	<p>Agreed</p>	<p></p>
<p><b>Closedown procedures</b></p> <p>An established process exists and good quality working papers are produced.</p>	<p>Reliable and informative financial statements are produced with appropriate analyses and explanations.</p>	<p>None</p>	<p>Agreed</p>	<p></p>

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**Financial aspects of corporate governance action plan**

Finding	Implication	Recommendation	Agreed / not agreed	Officer comments
Standards of financial conduct and the prevention and detection of fraud and corruption	Good standards of conduct adopted.	None	Agreed	
Appropriate and suitable procedures are in place to prevent and detect any instance of fraud and corruption. Individuals demonstrate sound behaviour in terms of their financial conduct.				
Systems of internal financial control	A sound basis exists for the internal financial control of the council's transactions.	None	Agreed	
The system of internal financial control is well documented and adhered to with consistency and regularity.				



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### **Appendix three**

#### **Draft Independent Auditor's Report to Newbury Town Council**

We have audited the financial statement of Newbury Town Council for the year ended 31 March 2007 under the Audit Commission Act 1998, which comprise the Revenue Account, the Balance Sheet, the Cash Flow Statement and related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to Newbury 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 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 applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006 are set out in the Statements 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 the Council in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006.

We review whether the statement of internal control reflects compliance with CIPFA's guidance 'The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003' published on 2 April 2004. We report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered whether the statement of internal control covers all risks and controls. We are also not required to form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures.

We read the other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises the Explanatory Foreword. We consider the implications for our report if we become aware of any apparent misstatements or material

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### AUDIT PLAN 2006/07

#### Appendix three

inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

#### 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 judgements made by the council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the council'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 statement of accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we evaluated the overall adequacy of the presentation of the information in the financial statements.

#### Opinion

In our opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial position of Newbury Town Council as at 31 March 2007 and its income and expenditure for the year then ended.

#### 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.



UHY Hacker Young LLP

London