

AMENDED AGENDA

AUDIT COMMITTEE MEETING



Date: Monday 21 September 2009
Time: 6.30 p.m.
Venue: Town Hall, High Street,
Maidstone

Membership:

Councillors Horne (Chairman), Butler, Daley,
Nelson-Gracie and Warner

Page No.

1. Apologies for Absence
2. Notification of Substitute Members
3. Notification of Visiting Members
4. Disclosures by Members and Officers
5. Disclosures of Lobbying
6. To consider whether any items should be taken in private because of the possible disclosure of exempt information
7. Minutes of the meeting held on 15 June 2009

1-4

Continued Over/:

Issued on 16 September 2009

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**David Petford, Chief Executive, Maidstone Borough Council,
Maidstone House, King Street, Maidstone, Kent ME15 6JQ**

8. Audit Commission Presentation on the Council's Use of Resources Assessment 2008/09
9. Report of the Head of Finance - Audit Commission's Annual Governance Report 2008/09 5 - 36

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

21 SEPTEMBER 2009

REPORT OF THE HEAD OF FINANCE

Report prepared by Paul Holland, Senior Accountant

1. AUDIT COMMISSION'S ANNUAL GOVERNANCE REPORT 2008/09

1.1 Issue for Decision

1.1.1 This report updates Members on the audit of the Statement of Accounts for 2008/09 including the submission of the Audit Commission's Annual Governance Report. This report fulfils the requirements of the Accounts and Audit Regulations 2003.

1.2 Recommendation of the Head of Finance

1.2.1 That Members refer the Annual Governance Report from the District Auditor to Council, as set out in draft form at **APPENDIX A**.

1.2.2 That Members recommend approval to Council of the amended Statement of Accounts, a summary of the changes being set out at **APPENDIX B**.

1.3 Reasons for Recommendation

1.3.1 The Accounts and Audit Regulations 2003 were issued by Central Government under Section 23 of the Local Government Finance Act 1982 and the Audit Commission Act 1998. They provide the rules for the preparation and publication of the Statements of Accounts.

1.3.2 For 2008/09 authorities were required to produce a Statement of Accounts by the deadline of 30 June and to publish these by 30 September. Members will recall that the Statement of Accounts was presented to the Audit Committee at its meeting on 15 June 2009 and formally approved by the Council meeting on 24 June 2009.

1.3.3 Authorities are also required to advertise arrangements for the public inspection of the Accounts and the date for the commencement of the Audit. The public are also to be informed when the Audit of Accounts is concluded and to have access to copies of the Accounts and any

Auditor's certificate, opinion or report relating to them. If there are any amendments to the Accounts as a result of the Audit, authorities are also obliged to advertise and explain the fact and to make such amendments available for public inspection. The amendments are also to be reported to the Audit Committee and Council.

1.3.4 The Audit Commission have adopted International Standards of Auditing with effect from the financial year 2005/06 and this alters the reporting arrangements between the Audit Commission and the Council and, at this stage, the External Auditor is obliged to report to those charged with governance i.e. the Council with an Annual Governance Report which will allow the Council to agree any amendments to the accounts, with the benefit of comments from the External Auditor. It will also allow the External Auditor to formally give his opinion on the accounts with the benefit of any comments from Council.

1.3.5 The process now involves:

a) The submission to the Audit Committee and Council of the Annual Governance Report;

b) Taking into account any comments by the Audit Committee and Council, the issue by the External Auditor of his audit opinion.

All of the above issues must be addressed before the 30 September 2009.

1.4 Current Position

1.4.1 Following the meetings in June 2009, the Accounts were made available for public inspection with the facility for Local Government Electors to make representations to the External Auditor. This process was completed in August 2009.

1.4.2 Following the completion of the audit of the accounts, the Annual Governance Report by the External Auditor is now presented to the Audit Committee at **APPENDIX A** in draft form. There are a small number of outstanding issues and the External Auditors will update Members at the meeting.

1.4.3 Under the Accounts and Audit Regulations, and in accordance with the International Auditing Standards now adopted in the UK, the External Auditor presents a report on the audit to those charged with governance of the accounts. In accordance with new arrangements in this Authority, this report is presented initially to the Audit Committee, with a full report also to Council on 23 September 2009. The External Auditor will be present to present the report and answer questions, at

the Audit Committee and Council.

1.4.4 In the period between the submission of the Accounts to Members and the External Auditors Report, a number of changes were made to the Accounts, and these are summarised at **APPENDIX B**. As there are adjustments of a material nature it is necessary for Members to recommend approval of the amended Statement to Council at their meeting on 23 September 2009.

1.4.5 Prior to the District Auditor issuing his audit opinion, he requires a letter of representation from the Council which confirms that there have been no material events post balance sheet which subsequently need to be reflected in the Statement of Accounts for 2008/09. The letter of representation for 2008/09 will be signed by the Director of Resources & Partnerships, after consultation with Management Team and will be in the format of Appendix 3 to the Annual Governance Report. Audit Committee may make any comments on this Letter of Representation for the benefit of the District Auditor.

1.5 Alternative Action and why not Recommended

1.5.1 None

1.6 Impact on Corporate Objectives

1.6.1 None

1.7 Risk Management

1.1.1 The process of External Audit is fundamental to the risks associated with financial management issues.

1.8 Other Implications

1.8.1

1. Financial	<input checked="" type="checkbox"/>
2. Staffing	<input type="checkbox"/>
3. Legal	<input type="checkbox"/>
4. Equality Impact Needs Assessment	<input type="checkbox"/>
5. Environmental/Sustainable Development	<input type="checkbox"/>
6. Community Safety	<input type="checkbox"/>
7. Human Rights Act	<input type="checkbox"/>

- 8. Procurement
- 9. Asset Management

1.1.2 The Annual Governance Report gives an opinion on the Statements of Accounts which gives a sound historic base upon which current and future financial decisions may be taken.

1.9 Background Documents

1.9.1 None

<u>NO REPORT WILL BE ACCEPTED WITHOUT THIS BOX BEING COMPLETED</u>			
Is this a Key Decision?	Yes	<input type="checkbox"/>	No <input checked="" type="checkbox"/>
If yes, when did it appear in the Forward Plan? _____			
Is this an Urgent Key Decision?	Yes	<input type="checkbox"/>	No <input checked="" type="checkbox"/>
<u>Reason for Urgency</u>			
Not applicable			

Annual Governance Report

Maidstone Borough Council

Audit 2008/09

21 September 2009

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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 members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member or officer in their individual capacity; or
 - any third party.
-

Ladies and Gentlemen

2008/09 Annual Governance Report

I am pleased to present the final version of my report on the results of my audit work for 2008/09.

A draft of the report was discussed and agreed with the Head of Finance on 14 September 2009.

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 revised financial statements;
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3); and
- agree your response to the proposed action plan (Appendix 4).

Yours faithfully

Emily Hill
Appointed Auditor
21 September 2009

Key messages

This report summarises the findings from the 2008/09 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 how well you use and manage your resources to deliver value for money and better and sustainable outcomes for local people.

Audit opinion

- 1 The 2008/09 audit is substantially complete. Outstanding items at the time of writing are detailed in paragraph 8. Subject to satisfactory clearance of these matters, I plan to issue an unqualified opinion on the financial statements on 30 September 2009. Should any further matters arise in concluding the outstanding work that need to be reported, we will raise them with the Chairman of the Audit Committee.

Financial statements

- 2 The financial statements submitted for audit were complete and submitted in advance of the deadline of 30 June. The accounts contained two material accounting errors, one material adjustment and five non-trivial errors. With the exception of one material error which is discussed below, these have subsequently been corrected in the accounts, together with a number of minor textual changes. As a result, senior finance officers have agreed that the revised accounts be submitted to the Audit Committee at its meeting on 21 September 2009 for re-approval.
- 3 Senior officers are currently reviewing roles and responsibilities within the finance section to ensure that the team is able to respond to the more challenging reporting requirements of IFRS that will need to be implemented in 2009/10.

Use of resources

- 4 We propose issuing an unqualified value for money conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

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.

- 5** This report has been prepared for presentation to the Audit Committee on 21 September 2009. Members are invited to:
- consider the matters raised in the report before approving the revised financial statements;
 - take note of the adjustments to the financial statements which are set out in Appendix 2;
 - take note of the value for money conclusion;
 - approve the draft letter of representation set out in Appendix 3 on behalf of the Council before I issue my opinion and conclusion; and
 - agree your response to the proposed action plan (see 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

- 6** Subject to satisfactory clearance of outstanding matters, 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.
- 7** The key outstanding matters at the time of writing this report are:
- detailed review and agreement of amendments to the financial statements;
 - confirmation of the accounting treatment regarding the disposal of land to Croudace as part of an agreement to offset penalty and dilapidation charges;
 - receipt of a signed letter of representation; and
 - closing audit procedures, including a final review of any events after the balance sheet date.

Errors in the financial statements

- 8** The audit of the accounts seeks to ensure that the accounts are materially correct and present fairly a view of the financial transactions of the Council in 2008/09. Materiality is defined in auditing standards as 'information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement.'
- 9** Our materiality for the audit was set at £911,360 for the Council's accounts. We also set, in accordance with International Standards on Auditing (UK and Ireland), a threshold below which we judge any errors to be 'trivial' and do not seek any amendments to the accounts. The trivial threshold was set at £9,114 for the Council's accounts.

Adjustments to the financial statements

- 10** We are required to bring to your attention misstatements that have already been corrected by management where we consider them relevant to your wider governance responsibilities. Three material adjustments and five non-trivial misstatements have been identified during the course of our audit, details of which are recorded in Appendix 2.

Income in advance

Financial statements

- 11** The first material error relates to National Non-Domestic Rates income received in respect of 2009/10 (£1,106,361) which was incorrectly classified in the accounts as creditors rather than income in advance. This is an issue in relation to disclosure and analysis and officers have agreed to amend the accounts for this error.

Asset disposals

- 12** The second material error was in respect of the capital accounting entries regarding the surrender of the lease on London House. The Council incurred penalty and dilapidation charges due to the early redemption of the lease when the Council left the building. An agreement was reached by the Council with Croudace whereby the charges were waived in exchange for the transfer of car park land to Croudace.
- 13** Our audit work identified that the Council did not account for the transactions in line with the Code of Practice on Local Authority Accounting in the United Kingdom 2009 : A Statement of Recommended Practice (the SoRP) and identified other issues of concern:
- at the point at which the land was re-categorised as land for resale, this should have been valued at a market value (rather than existing use value). This effects the profit on loss on disposal;
 - the Council has sought to capitalise the penalty charges by showing the difference between the operational use of the land (in the asset register as £281k) and the penalty & dilapidation charges (estimated between £900k & £1.1m in total) as £700k capital expenditure on the car park, although this does not relate to capital expenditure. As a result, £981k was written out of fixed assets, and a “notional capital receipt” of £700k was recorded;
 - our understanding is that the penalty & dilapidation charges should have been charged to the Income & Expenditure account as a revenue item, separating the accounting for these charges from the disposal of the car park. This is likely to increase the Council’s year end deficit; and
 - there appears to be no formal contract between the Council and Croudace recording that the transfer of land was the “consideration” for the lease termination and dilapidation charges. Whilst the Legal Section has copies of the revised leases and the transfer of land there is no signed contract linking the two events.
- 14** Whilst officers accept that the current accounting treatment is incorrect, we have sought advice from the Audit Commission technical team to ensure that these capital transactions are adjusted properly. It is hoped that will be able to agree correcting entries in advance of the Audit Committee meeting.
- 15** A second capital transaction was identified during the audit where the SORP was not complied with in a similar fashion. After the decision to dispose of the Brooks Road car park, this should have been transferred from Operational Land and Buildings to Surplus for Resale properties prior to sale. At this point it should have been valued at market value in accordance with SORP. This has led to the overstatement of the gain on disposal, although in this instance the effect was trivial and this has not been amended in revised financial statements.

Recommendations

- R1** The Council should seek technical advice when accounting for complex capital transactions. These transactions should be discussed with the external auditor at an early stage so that the accounting treatment can be agreed prior to production of the draft financial statements.
- R2** Once the Council has taken a decision to dispose of an asset this should be re-categorised from operational assets to non-operational assets, surplus for resale, and revalued to market valuation obtained prior to sale, in accordance with the SORP.

Asset valuation

- 16** A third material amendment was identified. The Council's Valuer did not undertake a full impairment review in 2008/09, although this had been intended as part of the accounts closedown process. Given the current economic climate, we discussed with officers the requirement to undertake an impairment review, and agreed that this would focus on the higher value property assets in the Council's portfolio to ensure that there was no material misstatement in the financial statements. A second review was then carried out on an extended sample of assets.
- 17** These exercises provided assurance that there was no significant reduction in asset values, due primarily to the five year rolling valuation programme which meant that the majority of these assets were last valued formally in 2005/06 and there had been a large rise in property values for most of this period. The review did however identify assets that needed to be re-valued upwards at the balance sheet date by over £10 million to reflect the current value of these assets. As the SORP requires financial statements to be prepared on the basis of the best information available and the difference is highly material, the accounts have been amended to reflect the revised asset values.

Recommendation

- R3** The Council should review asset values at each year-end considering both impairment and other material changes in asset values.

Unadjusted misstatement

- 18** We are required to report to you all unadjusted misstatements that we have identified during the course of our audit, other than those that are clearly trivial. There are no unadjusted misstatements for us to bring to the attention of members.

Material weaknesses in internal control

- 19** We have not identified any weakness in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware. We have however identified some areas where improvement can be made and, as with previous years, these will be reported to management in our forthcoming Accounts Memorandum.

Financial statements

- 20** One area of concern this year was that Council Tax Valuation Office (VO) schedules, working papers supporting VO adjustments and weekly council tax reconciliations were inadvertently destroyed prior to our audit. This caused significant problems in carrying out our audit of the council tax system and required Council officers to contact the VO to obtain further documentation to provide the necessary audit assurance. The audit was concluded satisfactorily, although at an increased cost.

Recommendation

- R4** Prime council tax records should be retained until completion of the annual audit, and otherwise in accordance with the Council's document retention policy.

- 21** We have not provided a comprehensive statement of all weaknesses which may exist in internal control, nor of all improvements which may be made. We have reported only those matters which have come to our attention because of the audit procedures we have performed.

Letter of representation

- 22** 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 3 contains the draft letter of representation I seek to obtain from you.

Key areas of judgement and audit risk

- 23** In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit. My findings are set out in Table 1.

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
Issues or risks identified in our Audit and Inspection Plan dated April 2008	
Any new partnership arrangements may not be fully considered for both financial and accounting implications.	No new material partnership arrangements were identified, with the financial implications of MKIP proposals due to start to take effect from 2009/10 onwards. Governance arrangements for existing partnerships are kept under review, and no areas of concern were identified.
Accounting treatment adopted in respect of any material asset disposals may not comply with recently revised accounting requirements.	We found that revised accounting requirements had not been met in respect of some asset revaluations and disposal transactions.

Issue or risk	Finding
Issues or risks identified subsequent to our Audit and Inspection Plan	
General – changes in finance team personnel and responsibilities	As noted in paragraph 3, changes in the finance team had an adverse impact on closedown arrangements.
Impairments – likely material impairments in light of the economic climate in 2008/09	A full impairment review was proposed as part of the closedown process but not undertaken. Some issues noted (see para 17).
Bad debt provisions – likely increase in bad debts in light of external economic climate.	Reviewed at audit and found to be appropriate.

Accounting practice and financial reporting

- 24 I consider the qualitative aspects of your financial reporting. The Council’s accounts are comparatively clear, easy to understand and our Use of Resources audit work confirmed that they are well publicised and available to a wide range of stakeholders. However, whilst last year there were no material errors or adjustments to the accounts the draft accounts in 2008/09 have required a number of significant amendments.
- 25 Senior officers are currently reviewing roles and responsibilities within the finance section to ensure that the team is able to respond to the more challenging reporting requirements of IFRS that will need to be implemented in 2009/10.

Recommendation
R5 Ensure that the finance section has the appropriate skill mix to meet the more challenging reporting requirements of IFRS.

Use of resources

I am required to consider how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and give a scored use of resources judgement.

I am also 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 (VFM) conclusion.

Use of resources judgements

- 26** In arriving at our use of resources judgement we have used the methodology set out in the Audit Commission's Use of Resources Framework. Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. I have taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 27** We shared initial feedback from our work on use of resources with senior officers on 2 September 2009. We will advise you of final scores once the Audit Commission's national quality assurance process has been completed on 14 September, and our overall findings will be reported to the Audit Committee on 21 September. We can confirm however that the Council continues to have sound arrangements in place in all the areas we assessed.
-

Value for money conclusion

- 28** We assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission, taking into account the results of our work in assessing your use of resources.
- 29** We intend to issue an unqualified conclusion stating that in 2008/09 the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains the wording of our draft report.
-

Independence

- 30** The Code of Audit Practice and the APB's Ethical Standards with which auditors must comply require that auditors act, and are seen to act, with integrity, objectivity and independence.
- 31** We confirm that we comply with the APB's Ethical Standards, that we are independent and that our objectivity is not compromised.
- 32** We communicate to you:
- any relationships between us and the Council, and its senior management that might affect our objectivity and independence and any safeguards put in place;
 - total fees charged to you for audit and non-audit services; and
 - that we have arrangements in place to ensure independence and objectivity.
- 33** We have not identified any relationships that might affect our objectivity and independence.

Audit fees

- 34** We reported our fee proposals as part of the Audit and Inspection Plan for 2008/09 dated May 2008. The table below reports the outturn fee against that plan.

Table 2 Audit fees

	Plan 2008/09 £ (before VAT)	Actual 2008/09 £ (before VAT)
Financial statements and Annual Governance Statement	72,423	75,023
Use of resources	23,150	23,150
Data quality	10,205	10,205
Whole of government accounts	1,039	1,039
Total audit fees	106,817	109,417
Advice and assistance	-	-
Total	106,817	109,417

- 35** The actual audit fee for the year is £2,600 higher than our original planned fee. This relates to the additional audit time required to resolve queries arising from the audit, particularly in respect of issues requiring adjustment to the accounts and missing council tax records.

Appendix 1 – Draft auditor’s report

Independent auditor’s report to the Members of Maidstone Borough Council

Opinion on the financial statements

I have audited the Authority accounting statements and related notes of Maidstone Borough Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow 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 Maidstone Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Director of Resources & Partnerships and auditor

The Director of Resources & Partnerships’ responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 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 accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 the financial position of the Authority 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 Authority’s corporate governance procedures or its risk and control procedures

I read other information published with the accounting statements, and consider whether it is consistent with the audited 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 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 Authority in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority’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.

Opinion

In my opinion the Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended.

Conclusion on 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 regularly to review the adequacy and effectiveness of these arrangements.

Auditor’s Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied 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 me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. 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.

Appendix 1 – Draft auditor’s report

Conclusion

I have undertaken my 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 May 2008 and updated in February 2009, and the supporting guidance, I am satisfied that, in all significant respects, Maidstone Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2009.

Certificate

I certify that I 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.

To be signed by....

Emily Hill

Appointed Auditor

Audit Commission, 16 South Park, Sevenoaks, Kent TN13 1AN

30 September 2009

Appendix 2 – Adjusted amendments to the accounts

The following misstatements were identified during the course of my audit and the financial statements have been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities.

Table 3

		Income and Expenditure Account		Balance Sheet	
Adjusted misstatements	Nature of Adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Material					
NNDR income in advance (ie prepayments for 2009/10) incorrectly shown as creditors)	Analysis – re-classification as income in advance	-	-	1,106 (creditors)	1,106 (income in advance)
Revaluation of fixed assets (to reflect latest valuation information)	Adjusting post balance sheet event relating to information on fixed asset valuations	-	-	10,797 (fixed assets)	10,797 (revaluation reserve)

Appendix 2 – Adjusted amendments to the accounts

		Income and Expenditure Account		Balance Sheet	
Adjusted misstatements	Nature of Adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Accounting for the penalty charges in respect of London House and the related disposal of the car park	Adjustments to be confirmed.	TBC	TBC	TBC	TBC
Non-trivial					
KCC debtor overstated due to dispute over amount payable in respect of the Gateway	Correct debtors to reflect amount collectable	83 (income)	-	-	83 (debtors)
Sundry debtors overstated because incorrectly classed as VATable	Correct debtors to reflect amount collectable	13 (income)	-	-	13 (debtors)
Understatement of liabilities due work on the new depot to 31 March not accrued for	Work undertaken but accrual not made	521 (expenditure)	-	-	521 (creditors)

Appendix 2 – Adjusted amendments to the accounts

		Income and Expenditure Account		Balance Sheet	
Adjusted misstatements	Nature of Adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Error in classification between general government grants & NNDR distribution	Reverse incorrect classification	153 (general government grants)	153 (NNDR distribution)		
Impairment of council owned shops not previously identified	Account for impairment – additional adjustments required to neutralise impact on taxation Dr Capital Adjustment Account Cr Statement of Movement on the General Fund Balance.	290 (expenditure)	-	-	290 (fixed assets)
Fixed assets understated in cash flow statement	Fixed asset expenditure incorrectly understated by £840,000	-	-	-	-

Appendix 3 – Draft letter of representation

Emily Hill
Appointed Auditor
Audit Commission
16 South Park
Sevenoaks
Kent TN13 1AN

Dear Emily,

Maidstone Borough Council - Audit for the year ended 31 March 2009

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other senior officers of Maidstone 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 2009.

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.

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 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 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

Where applicable, the following have been properly recorded and when appropriate adequately disclosed in the financial statements:

- losses arising from sale and purchase commitments;
- agreements and options to buy back assets previously sold; and
- assets pledged as collateral.

Fair values

I confirm the reasonableness of the significant assumptions within the financial statements, including:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework; and
- if subsequent events require adjustment to the fair value measurement

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:

Appendix 3 – Draft letter of representation

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements; and,
- 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 provided 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 members of 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

There are no other material amounts relating to unfunded liabilities, curtailments or settlements of past service costs relating to pension provision other than those which have been properly recorded and disclosed in the financial statements.

The Council does not intend to realise its long term investments within 12 months of the balance sheet date.

Signed on behalf of Maidstone Borough Council

I confirm that this letter has been discussed and agreed by the Audit Committee on 21 September 2009.

.....

Name Zena Cooke

Position Director of Resources & Partnerships

Date

Appendix 5 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Governance Report 2008/09 - Recommendations						
7	The Council should seek technical advice when accounting for complex capital transactions. These transactions should be discussed with the external auditor at an early stage so that the accounting treatment can be agreed prior to production of the draft financial statements.	3				
7	Once the Council has taken a decision to dispose of an asset this should be re-categorised from operational assets to non-operational assets, surplus for resale, and revalued to market valuation obtained prior to sale, in accordance with the SORP.	3				

Appendix 5 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
8	The Council should review asset values at each year-end considering both impairment and other material changes in asset values.	3				
8	Prime council tax records should be retained until completion of the annual audit, and otherwise in accordance with the Council's document retention policy.	3				
10	Ensure that the finance section has the appropriate skill mix to meet the more challenging reporting requirements of IFRS.	3				

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The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

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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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AMENDMENTS TO THE 2008/09 STATEMENT OF ACCOUNTS

Balance Sheet			
	Original £000	Amended £000	Movement £000
Fixed Assets	63,875	76,105	12,230
Debtors & Payments in Advance	12,921	12,824	(97)
Sundry Creditors	(8,322)	(8,843)	(521)
Government Grants Deferred	(3,622)	(3,538)	84
			11,696
Revaluation Reserve	(3,925)	(16,041)	(12,116)
Capital Adjustment Account	(57,326)	(57,464)	(138)
Useable Capital Receipts Reserve	(8,216)	(7,612)	604
General Fund	(7,271)	(7,317)	(46)
			(11,696)

Income & Expenditure Account			
	Original £000	Amended £000	Movement £000
Net Cost of Services	28,595	29,075	480
General Government Grants	(1,462)	(1,309)	153
Distribution from Non-Domestic Rate Pool	(8,112)	(8,265)	(153)

Cashflow Statement			
	Original £000	Amended £000	Movement £000
Expenditure - Other Operating Costs	20,757	19,916	(841)
Expenditure - Fixed Assets	6,110	6,951	841

Statement of Total Recognised Gains & Losses			
	Original £000	Amended £000	Movement £000
(Surplus)/Deficit in the Income & Expenditure Account	6,065	6,545	480
(Gains) & Losses on revaluation of fixed assets	(2,041)	(14,158)	(12,117)
Other Recognised (Gains) & Losses	118	59	(59)
			(11,696)

Statement of Movement on the General Fund Balance			
	Original £000	Amended £000	Movement £000
(Surplus)/Deficit in the Income & Expenditure Account	6,065	6,545	480
Net additional amounts required by statute & non-statutory proper practices to be debited or credited to the General Fund Balance for the year	(5,008)	(5,534)	(526)
			(46)

The above changes have also been reflected in the Notes to the Accounts where applicable.

A full version of the Statement will be available for inspection at the meeting, and can also be seen on the Council Documents page at http://www.digitalmaidstone.co.uk/your_council/council_documents.aspx

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