

Central
Bedfordshire
Council
Priory House
Monks Walk
Chicksands,
Shefford SG17 5TQ



**TO EACH MEMBER OF THE
AUDIT COMMITTEE**

18 September 2009

Dear Councillor

AUDIT COMMITTEE - Monday 21 September 2009

Further to the Agenda and papers for the above meeting, previously circulated, please find attached the following additional report(s), which were presented at Chairman's Briefing:-

8. Update from the Audit Commission

Please find attached the reports from the Audit Commission in relation to the Pension Fund, Mid Bedfordshire District Council and Bedfordshire County Council.

Should you have any queries regarding the above please contact Democratic Services on Tel: 0300 300 4032.

Yours sincerely

Martha Clampitt,
Democratic Services Officer
email: martha.clampitt@centralbedfordshire.gov.uk

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Annual Governance Report

Bedfordshire County Council Pension Fund

Audit 2008/09

Date 18 September 2009

DRAFT

Contents

Key messages	4
Next steps	5
Financial statements	6
Appendix 1 – Unadjusted misstatements in the accounts	10
Appendix 2 – Draft letter of representation	11
Appendix 3 – Action Plan	14

Status of our reports

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

- any director/member or officer in their individual capacity; or
 - any third party.
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Key messages

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.

Financial Statements	Results	Page
Unqualified audit opinion	Yes	6
Financial statements presented for audit free from error	No	6
Adequate internal control environment	Yes	6

Audit opinion

- 1 Our opinion on the pension fund accounts forms part of the opinion on Bedfordshire County Council's 2008/09 accounts as a whole.

Financial statements

- 2 At this stage of our audit we anticipate being in a position to issue an unqualified audit report on the pensions fund element of the Council's accounts. I have yet to complete my final review of the audit. Should any further matters arise that require reporting to those charged with governance, I will raise them with the Chair of this committee prior to issuing the opinion on the County Council accounts.

Audit Fees

- 3 Bedfordshire County Council Audit Committee agreed an audit fee of £32,200 for the audit of the pension fund accounts for 2008/09. We do not expect to have to charge additional fee for this audit.

Next steps

This report identifies the key messages that you should consider before I issue my opinion on the pension fund's accounts, which forms part of my report on the Council's financial statements. 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.

4 I ask the Pension Panel /Audit Committee to:

- consider the matters raised in the report before publishing the financial statements;
- approve the letter of representation on behalf of the Council before I issue my opinion (Appendix 2); and
- agree your response to the proposed action plan (Appendix 3).

DRAFT

Financial statements

The Pension Fund's accounts are important means by which the Fund accounts for its stewardship of pension funds. The Council has a final responsibility for these statements. It is important that you consider my findings before you publish the financial statements.

Opinion on the financial statements

- 5 Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report on the Council's financial statements that includes an unqualified opinion on the Pension Fund's accounts. The opinion will form part of our opinion on Bedfordshire County Council's 2008/09 accounts as a whole.

Errors in the financial statements

- 6 Our testing of investment management expenses, which totaled £3,943,767 in 2008/09, has identified the following differences between the expenses accrued for in the accounts and the actual figures for expenses, which were not available until after the year end.

Manager	Accrual included in the accounts	Actual value	Difference
BGI active	£636,400	£584,610.68	£51,789.32
Lazards	£110,000	£127,110.60	£17,110.60

- 7 If this error is extrapolated for the total amount of investment management expenses included in the Fund Account the error would be £0.082m. This is not material.

Material weaknesses in internal control

- 8 In last years Annual Governance Report we recommended that measures should be put in place to ensure that the pensionable pay figures included in the monthly returns from admitted bodies and scheduled bodies are complete and accurate. During 2008/09 Internal Audit carried out specific work on this area and we have been able to rely on their work to gain assurance as to the reasonableness of the figures for employee contributions included in the Fund Account.
- 9 Although some admitted bodies do provide payroll data, not all do. This is a requirement of membership. We have therefore recommended that, all scheme employers should be reminded of the requirement to provide relevant payroll information to enable checks to be made on the contributions deducted.

Recommendation

R1 All scheme employers should be reminded of the requirement to provide relevant payroll information to enable checks to be made on the contributions deducted.

Letter of representation

10 Before I issue my opinion, auditing standards require me to obtain appropriate written representations from you and management about your financial statements and governance arrangements. Appendix 2 contains the draft letter of representation I seek to obtain from you.

Key areas of judgement and audit risk

11 In planning the audit specific risks were identified and areas of judgement were considered as part of the audit. The findings are set out in Table 1.

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
As a result of Local Government Reorganisation (LGR) the administration of the pension fund transferred to Bedford Borough Council. Possible risk of loss of key staff and increased risk in respect of the accounts.	The transfer of responsibility for the administration of the pension fund has not had an impact on the timeliness or accuracy of the pension fund accounts submitted for audit.
Completeness and accuracy of contributions receivable from the admitted and scheduled bodies. As noted above, in last years Annual Governance Report we recommended that measures should be put in place to ensure that the pensionable pay figures included in the monthly returns from admitted bodies and scheduled bodies are complete and accurate.	During 2008/09 Internal Audit carried out specific work on this area and we have been able to rely on their work to gain assurance as to the reasonableness of the figures for employee contributions included in the Fund Account.
FRAG 21/ SAS 70 reports were not all returned in 2007/08.	At the time of writing this report the only fund manager for which a report had not been received was FX Concepts who produce the report every 2 years. The next

Issue or risk	Finding
	report due from this fund manager is for the period ending 31 December 2009.
<p>The Local Government Pension Scheme (Administration) Regulations 2008 (SI 2008/ 239) require the pension fund annual report to contain the Fund Account and Net Asset Statement with supporting notes and disclosures, prepared in accordance with proper practices.</p> <p>As the statutory deadline for publication of the statement of accounts is 30 September and that for publication of the pension fund annual report is 1 December there is the potential that the statements are published at different times.</p>	<p>The Audit Commission has determined that auditors should:</p> <ul style="list-style-type: none"> • include a separate opinion on the pension fund accounts within their report on the statement of accounts; and • issue a separate opinion on the financial statements included in the pension fund annual report
<p>The investments valuations included in the Net Asset Statement are based on the figures provided by the Custodian, Northern Trust. As part of our audit we compare the value of investments as at 31 March 2009 as disclosed in the accounts with the Fund Manager reports and market prices.</p>	<p>This year, based on our testing, the variance between the Custodian Report and the Fund Manager reports and market prices was £0.418m. If this difference is extrapolated across the whole balance the difference is £0.523m. This difference represents 0.0611% of the total investments value of £852,057m. The difference this year relates largely to the adjustment from mid market price per the investment manager reports to the bid price per the custodian reports. This level of discrepancy on such a large balance is acceptable.</p>

Accounting practice and financial reporting

12 I consider the qualitative aspects of your financial reporting. Table 2 contains the issues I want to raise with you.

Issue or risk	Finding
<p>The most up to date risk register was approved by the pension fund panel in May 2008.,</p>	<p>The arrangements in place provide for the risk register to be reviewed annually, unless a particular issue arises that needs to be considered. The risk register was not reviewed in May 2009 due to LGR and in particular the elections for Members of the new authorities not taking place until June 2009.</p>

Recommendation
<p>R2 Continue to ensure that the pensions risk register is reviewed and approved on a regular basis.</p>

Appendix 1 – Unadjusted misstatements in the accounts

The following misstatements were identified during the course of my audit and the financial statements have not been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities. If you decide not to do so, please tell us why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

Table 2

Description of error	Accounts effected	Value of error £Million
<p>An element of Investment Managers' fees for the year has to be estimated as the information is not available at the time the accounts are prepared.</p> <p>Our audit found that:</p> <ul style="list-style-type: none"> - BGI active fees had been over estimated by £51,789.32. - Lazard managers expenses had been underestimated by £17,110.60. If these errors were extrapolated for the total amount of investment management expenses the error would be £0.082m. 	<p>Fund Account</p> <p>Investment management expenses: £3.944m.</p>	<p>£0.082m (extrapolated)</p>

Appendix 2 – Draft letter of representation

Ms D Hanson
District Auditor
Regus House
1010 Cambourne Business Park
Cambourne
Cambridge, CB23 6DP

Bedfordshire Pension Fund - Audit for the year ended 31st March 2009

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Bedfordshire Pension Fund, the following representations given to you in connection with your audit of the Pension Fund's financial statements for the year ended 31st March 2009. All representations cover the Pension Fund accounts included within the Bedfordshire County Council financial statements.

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 present fairly the financial position and financial performance of the Bedfordshire Pension Fund and for making accurate representations to you.

Uncorrected misstatements

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

- An element of Investment Managers' fees for the year has to be estimated as the information is not available at the time the accounts are prepared. The accounts were closed based on the information available at the time and the adjustment is not material.

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 Bedfordshire Pension Fund have been properly reflected and recorded in the accounting records. All other records and related

information, including minutes of all Bedfordshire County Council committee meetings have been made available to you.

Irregularities

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

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

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

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements. For actuarial assumptions in the pension fund I confirm:

- the appropriateness of the measurement method;
- the completeness and appropriateness under the financial reporting framework; and
- subsequent events do not require adjustment to the fair value measurement.

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties.

Appendix 2 – Draft letter of representation

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

Post balance sheet events

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

The Bedfordshire Pension Fund 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.

Signed on behalf of Central Bedfordshire Council

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

Clive Heaphy
Director of Resources
Central Bedfordshire Council

Signed on behalf of Bedford Borough Council

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

Trevor Roff
Director of Finance
Bedford Borough Council

Appendix 3 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Governance Report 2008/09 - Recommendations						
7	All scheme employers should be reminded of the requirement to provide relevant payroll information to enable checks to be made on the contributions deducted.	2	Head of Pension Fund Management	Agreed	Procedures will be tightened to ensure reminder is sent.	On-going
9	Continue to ensure that the pensions risk register is reviewed and approved on a regular basis.	2	Head of Pension Fund Management	Agreed	Report next going 21 September Report 2009.	On-going

Annual Governance Report

Mid Bedfordshire District Council

Audit 2008/09

September 2009

Contents

Key messages	4
Next steps	6
Financial statements	7
Use of resources	10
Appendix 1 – Independent auditor’s report to Members of Central Bedfordshire Council as successor body for Mid Bedfordshire District Council	11
Appendix 2 – Adjusted amendments to the accounts	14
Appendix 3 – Unadjusted misstatements in the accounts	15
Appendix 4 – Draft letter of representation	16
Appendix 5 – Value for money conclusion	19
Appendix 6 – Action plan	21

Status of our reports

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

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

Members

2008/09 Annual Governance Report

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

A draft of the report was discussed and agreed with the Assistant Director of Finance, Finance on 17 September 2009 and has been updated since as issues have been resolved.

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 publishing the financial statements;
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified, which management has declined to amend or set out the reasons for not amending the errors; (Appendix 3);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4);
- note the Value for Money Conclusion (Appendix 5); and
- agree your response to the proposed action plan (Appendix 6).

Yours faithfully

Debbie Hanson
District Auditor
17 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.

Financial Statements	Results	Page
Unqualified audit opinion	Yes	4
Financial statements presented for audit free from error	No	7
Adequate internal control environment	Yes	8
Use of resources	Results	Page
Adequate arrangements to secure value for money	Yes	19

Audit opinion

- 1 Our work on the financial statements is substantially complete, although there are still outstanding issues to be resolved. In particular, our work on the following areas is yet to be concluded:
 - financial instruments disclosures;
 - funds, balances and reserves;
 - transitional costs;
 - income substantive testing;
 - annual governance statement review;
 - cash flow statement; and
 - analytical review of housing benefits subsidy.
- 2 Officers are also investigating a £80k difference identified between the Statement of Total Recognised Gains or Losses and the movement in net worth on the Balance Sheet.
- 3 We have to date identified no issues that would prevent us from issuing an unqualified opinion on the financial statements.
- 4 The work is also still subject to final review. Should any further matters arise in concluding the outstanding work that need to be reported, we will raise them with the Chair of the Audit Committee.

Key messages

Financial statements

- 5 Our audit work has identified no material errors in the main financial statements, but officers have agreed amendments for some of the non-trivial issues identified to date. Appendix 2 details agreed adjustments and Appendix 3 includes details of amendments which have not been agreed.
- 6 For the purposes of our audit, we define non-trivial errors as those in excess of 1% of our materiality figure, which for the 2008/09 financial statements is £11k. 'Material' errors would be any in excess of £1,091k (either individually or in aggregate).

Use of resources

- 7 Due to Local Government Reorganisation, we have not undertaken a Use of Resources Assessment in 2008/09. A full, scored, assessment will be undertaken for the 2009/10 financial year for Central Bedfordshire and will inform the 2009/10 Value for Money (VFM) Conclusion which we will issue in September 2010.

Audit Fees

- 8 At the time of drafting this report, we do not anticipate charging any additional audit fee. However, should any significant issues emerge between the date of drafting this report and the completion of our work that change this position we will raise them with the Financial Services manager, Finance.

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.

9 I ask the Audit Committee to:

- consider the matters raised in the report before publishing the financial statements;
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified which management has declined to amend or set out the reasons for not amending the errors (Appendix 3);
- take note of the VFM Conclusion;
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 6).

Financial statements

The Mid Bedfordshire District Council financial statements and annual governance statement are important means by which Mid Bedfordshire District Council accounts for its stewardship of public funds. As members of Central Bedfordshire Council, successor body for Mid Bedfordshire District Council you have final responsibility for these statements.

Opinion on the financial statements

10 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.

Errors in the financial statements

11 We set out below the non-trivial audit issues that have come to our attention during the course of the audit. Members should note that the definition of trivial error has changed since 2007/08, reducing from 10% to 1% (£100k to £10k). As a result, there are more issues included in this report than in previous years.

12 Income and expenditure account - transitional costs:

- Total transitional costs include a creditor of £119k relating to employee redundancy costs. As at 17 September the member of staff concerned was still employed and the related payment had not been made. As the timing of this payment is still unknown this amount would be more appropriately treated as a provision. However as transitional costs are apportioned between the three demised bodies, the impact on Mid Bedfordshire's Financial statement is clearly trifling (£6k) and therefore no amendment is needed.

13 Income and expenditure account - net cost of services:

- The draft statements did not separately disclose in the income and expenditure account non distributed costs of £418k as required by the Best Value Accounting Code of Practice (BVACOP). Officers have agreed to amend the financial statements for this error. There is no impact on the net cost of services.

14 Balance sheet - tangible fixed assets - capital additions:

- Audit testing identified the capitalisation of bags/sacks in relation to the Council's refuse, recycling and food waste schemes. These bags/sacks do not meet the criteria for treating expenditure as capital. Officers have not agreed to amend the financial statements for this error. The remainder of our capital additions sample testing identified no further errors.

15 Balance sheet - creditors Note 12:

- The classification of creditors in Note 12 did not agree to supporting working papers. As a result, government department creditors are overstated by £129k and sundry creditors are understated by the corresponding amount. Officers have agreed to amend the financial statements note. There is no impact on the balance sheet.

16 Balance sheet - debtors Note 10:

- The classification of debtors in Note 10 did not agree to supporting working papers. As a result, local authority debtors are overstated by £135k and sundry debtors are understated by the corresponding amount. Officers have agreed to amend the financial statements note. There is no impact on the balance sheet.

17 Balance sheet - debtors prepayments:

- Our testing of a prepayment in relation to an invoice for rental of internet facilities found it was overstated by £15k. Officers have not agreed to amend the financial statements for this error. The remainder of our prepayments sample testing did not identify any further errors.

18 Statement of recognised gains and losses:

- The prior year comparator figures for gains on pension fund assets and liabilities did not agree to the FRS 17 Actuary report. The difference is £19k and officers have agreed to amend the financial statements for this error.

19 Our audit also found that the total value of the pension fund managed by Bedfordshire County Council at 31 March 2009 exceeded the actuary's estimate by £2.8 million, as a result of improved fund performance. This was identified during the audit of the pension fund accounts, after production of the actuary's report and the deadline for completion of the statement of accounts. Consequently, the Council's fund assets are greater than the FRS17 figures provided by the actuary (which are necessarily provided on an estimated basis). The value of the understatement has been calculated as £0.114m (based on the Authority's percentage of the overall fund). We are not asking officers to amend the financial statements for this.

Recommendation

R1 Central Bedfordshire should review closedown procedures to reduce the risk of similar issues occurring during the 2009/10 closedown

Material weaknesses in internal control

20 We have not identified any weaknesses 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.

Letter of representation

21 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 5 contains the draft letter of representation I seek to obtain from you.

Key areas of judgement and audit risk

22 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
<p>The audit of the financial statements of a body undergoing significant reorganisation contains a significant amount of inherent risk.</p> <p>While we have not identified any specific risk issues in addition to those identified during our initial audit planning in 2008. The following risks remain significant:</p> <ul style="list-style-type: none"> • closedown working papers will not be of a sufficient standard to fully support all the entries in the draft financial statements; and • key personnel will be under considerable pressure due to taking on additional services during the audit period (July-September); 	<p>While local government reorganisation (LGR) has resulted in additional pressure on officers over the summer period, it has not delayed our audit opinion.</p>
<p>There are, as last year, some changes to the (Statement of Recommended Practice) SoRP, which will need to be taken account of in preparing the accounts</p>	<p>Our opinion work has not identified areas of non-compliance with the changed SoRP requirements.</p>

Accounting practice and financial reporting

23 I consider the qualitative aspects of your financial reporting. Table 2 contains the issues I want to raise with you.

Table 2 Qualitative aspects of financial reporting

Area of accounts	Issue
<p>Balance sheet - note 2: assets under construction</p>	<p>Assets under construction have been included in the Statement of Accounts as a separate note. As they form part of the tangible fixed asset balance officers have agreed to revise note 1 to incorporate this.</p>
<p>Explanatory foreword</p>	<p>The explanatory foreword did not include reference to impairments as a significant issue in 2008/09. Officers have agreed to amend the wording to include this.</p>
<p>Minor inconsistencies</p>	<p>Our initial review of the financial statements identified a number of casting and cross - referencing errors. Officers have agreed to amend these in the financial statements.</p>

Use of resources

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

Value for money conclusion

- 24** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. For 2008/09, the Audit Commission specified criteria for bodies affected by LGR. My conclusions on each of the areas are set out in Appendix 5.
- 25** At the time of drafting this report, I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources.
- 26** My work in this area, however, is not yet fully complete. Should any matters arise while concluding this work, I will raise them with the Assistant Director, Finance, and the Chair of the Audit Committee.
- 27** Appendix 1 contains the wording of my draft report.

Appendix 1 – Independent auditor’s report to Members of Central Bedfordshire Council as successor body for Mid Bedfordshire District Council

Opinion on the financial statements

- 28** I have audited the accounting statements of Mid Bedfordshire District 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, Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Collection Fund and the related notes. These financial statements have been prepared under the accounting policies set out within them.
- 29** This report is made solely to the members of Central Bedfordshire District council as successor body for Mid Bedfordshire District 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 Responsible financial officer and auditor

- 30** The financial officer's responsibilities for preparing the financial statements, in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities.
- 31** My responsibility is to audit the accounting statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).
- 32** I report to you my opinion as to whether the accounting statements and related notes present fairly, in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom 2008:
- the financial position of the Council and its income and expenditure for the year.
- 33** 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

Appendix 1 – Independent auditor’s report to Members of Central Bedfordshire Council as successor body for Mid Bedfordshire District Council

on the effectiveness of the Council’s corporate governance procedures or its risk and control procedures.

- 34** I read other information published with the accounting statements and related notes and consider whether it is consistent with the audited accounting statements and related notes. 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, the police pension fund accounting statements and related notes. My responsibilities do not extend to any other information.

Basis of audit opinion

- 35** 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, the police pension fund accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Council in the preparation of the accounting statements, the police pension fund accounting statements and related notes, and of whether the accounting policies are appropriate to the Council’s circumstances, consistently applied and adequately disclosed.
- 36** 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, the police pension fund accounting statements and related notes.

Opinion

- 37** In my opinion:
- The accounting statements and related notes present fairly, in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Council 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

Council’s Responsibilities

- 38** The Council 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

- 39** I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Council 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

Appendix 1 – Independent auditor’s report to Members of Central Bedfordshire Council as successor body for Mid Bedfordshire District Council

specified by the Audit Commission for police authorities. I report if significant matters have come to my attention which prevent me from concluding that the Council has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

40 I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the relevant criteria specified by the Audit Commission for principal local authorities, published in December 2006, and the supporting guidance, I am satisfied that, in all significant respects, Mid Bedfordshire District Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

Certificate

41 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.

Debbie Hanson

Officer of the Audit Commission

[Address]

[Date]

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

Adjusted misstatements	Income and Expenditure Account		Balance Sheet	
	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Nature of adjustment				
Separate identification of non distributed costs (paragraph 12)	417	417		
Creditors re-classification of Note 12 (paragraph 14)			129	129
Debtors re-classification of Note 10 (paragraph 15)			135	135
Statement of recognised gains and losses correction of 2007/08 comparator figure (£19k amendment) (paragraph 17)	N/a	N/a	N/a	N/a

Appendix 3 – Unadjusted misstatements in the accounts

The following misstatements were identified during the course of my audit and the financial statements have not been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities. If you decide not to do so, please tell us why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

Table 4

Description of error	Accounts affected	Value of error £000
Incorrect capitalisation of expenditure (paragraph 13)	Tangible fixed assets: capital additions overstated. Revenue Expenditure understated	229
Overstated prepayment (paragraph 16)	Debtors prepayments overstated	15

Appendix 4 – Draft letter of representation

Debbie Hanson
District Auditor
Audit Commission
Regus House
1010 Cambourne Business Park
Cambourne
CAMBRIDGE
CB23 6DP

Mid Bedfordshire District 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 directors and officers of Mid Bedfordshire District 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. All representations cover the Authority's accounts included within the financial statements.

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 present fairly the financial position and financial performance of the Authority and for making accurate representations to you.

Uncorrected misstatements

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

reason 1 etc;

reason 2

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.

Appendix 4 – Draft letter of representation

Irregularities

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

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.
- I also confirm that I have disclosed:
 - my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
 - my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Authority.

The Authority 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.

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements. For all relevant assumptions, I confirm:

- 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
- adjustments to the fair value measurement have been made in relation to subsequent events if required.

Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

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

Compensating arrangements

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

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

Post balance sheet events

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

The Authority 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.

Signed on behalf of Central Bedfordshire District Council as successor body for Mid Bedfordshire District Council

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

Signed

Name: Clive Heaphy

Position: Director of Finance

Date

Appendix 5 – Value for money conclusion

The following tables summarise the key findings and conclusions for each of the VFM Conclusion criteria.

VFM Conclusion Criteria (Bodies Affected By Local Government Reorganisation)

1. The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives	Yes
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.	Yes
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.	Yes
4. The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.	Yes
5. The body has put in place arrangements to maintain a sound system of internal control. - Continuing or shadow authorities have a responsibility to secure, through the joint implementation arrangements, the economic, effective, efficient and timely transfer of functions, property, rights and liabilities from the demising authorities. This includes the transfer of services, assets, contracts, finance and staff.	Yes

Appendix 5 – Value for money conclusion

6. The body has put in place arrangements to manage its significant business risks.	Yes
7. The body has put in place arrangements to manage and improve value for money.	Yes
8. The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.	Yes
9. The body has put in place arrangements to ensure that its spending matches its available resources.	Yes
10. The body has put in place arrangements for managing performance against budgets.	Yes
11. The body has put in place arrangements for the management of its asset base.	Yes
12. The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.	Yes

Appendix 6 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Governance Report 2008/09 - Recommendations						
8	Central Bedfordshire should review closedown procedures to reduce the risk of similar issues occurring during the 2009/10 closedown					

The Audit Commission

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

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

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Annual Governance Report

Bedfordshire County Council

Audit 2008/09

Date 18 September 2009

Contents

Key messages	4
Next steps	6
Financial statements	7
Value for money conclusion	14
Appendix 1 – Independent auditor’s report to Members	15
Appendix 2 – Adjusted amendments to the accounts	19
Appendix 3 – Unadjusted misstatements in the accounts	20
Appendix 4 – Draft letter of representation	23
Appendix 5 – Action Plan	26
The Audit Commission	28

Status of our reports

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

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

Members

2008/09 Draft Annual Governance Report

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

A draft of the report was sent to the Central Bedfordshire Director of Resources on 18 September 2009.

The Draft report sets out the key issues that you should consider based on my findings to date before I complete the audit.

It asks you to:

- consider the matters raised in the report
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified, which management has declined to amend or set out the reasons for not amending the errors; (Appendix 3);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 6).

Yours faithfully

Debbie Hanson
District Auditor
18th September 2009

Key messages

This report summarises the findings from the 2008/09 audit to date. There are still a number of outstanding issues to be resolved. It includes the messages arising from my audit of your financial statements and a progress report on the work I have undertaken to assess how well you use and manage your resources to deliver value for money.

Financial Statements	Results	Page
Unqualified audit opinion (in progress)	To be confirmed (TBC)	7
Financial statements presented for audit free from error	No	7
Adequate internal control environment	Yes	7
Use of Resources		
Adequate arrangements to secure value for money	TBC	13

Audit opinion

- 1 Our work on the 2008/09 financial statements is still in progress. We received the final statements of account for audit on 27 July 2009, the date that they were approved by Central Bedfordshire Audit Committee. Central Bedfordshire Council, as a single tier council responsible for the preparation of final accounts for more than one predecessor council, was required to approve the accounts of the predecessor councils by 31 July 2009 rather than 30 June. The deadline for the publication of the accounts is unchanged at 30 September.
- 2 There are still a number of outstanding issues to be resolved before we can issue an opinion. At the time of writing this report work is still outstanding on all areas of the accounts with the exception of the Pension Fund.
- 3 In concluding the outstanding work should any further matters arise, that need to be reported to you, we will raise them with Chair of this Committee.

Financial statements

- 4 Subject to the satisfactory completion of the outstanding work set out above, the District Auditor proposes issuing the audit opinion by 30 September 2009. If we are unable to conclude our work by that date we will bring an updated Annual Governance Report (AGR) to the October meeting of this Committee.

Key messages

- 5 Our work on the financial statements of the pension fund is substantially complete and we have concluded that the statements present fairly the financial transactions of the pension fund. A separate Annual Governance Report setting out the findings of the Pension Fund audit is also being reported to this Committee.

Use of resources

- 6 I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. Due to Local Government Reorganisation in Bedfordshire, I am not required to give a scored Use of Resources assessment at Bedfordshire County Council for 2008/09. I am however still required to give a VFM conclusion.
- 7 Our work in this area is still in progress. In particular we have identified a risk in respect of performance information and as a result are testing some performance indicators published in 2008/09.

Audit Fees

- 8 In my original audit plan, the estimated fee for the opinion audit (excluding the Pension Fund audit) was based on my best estimate at the time and agreed at £255,876 (out of a total 2008/09 audit and inspection fee of £304,500).
- 9 In my supplementary audit opinion plan issued to the BCC Director of Human and Financial Resources, having considered the risks at that time, I remained satisfied that the original fee estimate would remain appropriate if the risks identified at that time were addressed and no additional risks arose that might impact on the level of audit fee.
- 10 We will reassess this fee when the audit is concluded. However, at the current time we believe that we may need to charge additional fee in respect of the following:
 - additional work above that originally planned, is required to assess your arrangements to secure value for money;
 - we may need to carry out additional work to verify the impairment figures in the accounts (see table 1below).
- 11 We will keep officers informed of any additional fee required and update Members at the October meeting of the Audit Committee.

Next steps

This report identifies the key messages, based on my audit work completed to date, 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.

12 I ask the Audit Committee to:

- consider the matters raised in the report (pages 4 to 13);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified which management has declined to amend or set out the reasons for not amending the errors (Appendix 3);
- take note of the VFM Conclusion;
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 5).

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 publish the financial statements and the annual governance statement.

Opinion on the financial statements

- 13 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.

Errors in the financial statements

- 14 Our work to date has identified one material error in the accounts submitted for audit. This relates to the presentation of the Area Based Grant (ABG) in the Income and Expenditure (I&E) Account. The grant totalled £17.517m in 2008/09.
- 15 The SORP guidance states that the ABG should be consolidated with Revenue Support Grant (RSG) on the face of the I&E account under "non specific" grants. It has currently been apportioned over the service headings in the top half of the account.
- 16 Officers have agreed to amend the accounts for this error as set out in Appendix 2. We have also identified other non material and non trifling errors these are set out in Appendix 3..
- 17 There is a material difference in the amount of impairment that the Council has put through their accounts for schools land (-50% as per index advised by their valuer, Mouchel) and the impairment that would have been charged based on the index suggested in the report by Audit Commission's valuer Gerald Eve (-32.75%). This difference is quantified as £66m against a materiality level of £10.3m.
- 18 We have asked officers to provide further evidence from Mouchel to support their estimate of 50%.

Recommendation

R1 Amend the accounts to disclose ABG in line with SORP requirements.

R2 Provide further evidence to support Mouchel's estimate for 50% impairment of schools land.

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. You have been made aware, through the work of Internal Audit, of the continued concerns around the operation of controls in the payroll system. We have taken this into account in planning our work on the statement of accounts (see table 1 below)

Recommendation

R3 Ensure the recommendations made by Internal Audit in respect of the Payroll system, which is now being used by Central Bedfordshire Council, are implemented.

Letter of representation

20 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

21 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
<p>The audit of the financial statements of a demised body contains a significant amount of inherent risk. In particular:</p> <ul style="list-style-type: none"> • closedown working papers will not be of a sufficient standard to fully support all the entries in the draft financial statements; • there may be unexpected loss of key personnel during the audit period (July-September 2009). • controls may not be operating correctly during the period due to 	<p>We have worked closely with the finance team in order to minimise these risks.</p> <ul style="list-style-type: none"> • A set of 9 month accounts was prepared and made available in March 2009 and we were able to carry out some early work on areas including disposals of fixed assets. However, the majority of our work could not start until we received the final statements of account on 27 July 2009. • Key personnel have remained in post with the exception of the

Issue or risk	Finding
<p>loss of staff, low morale resulting in a substantive approach being required; and</p> <ul style="list-style-type: none"> key supporting records may not be able to be located (for example due to relocation or departure of officers). 	<p>capital accountant (covered by a temporary post).</p> <ul style="list-style-type: none"> See below in respect of payroll system control issues. Although to date we have not experienced any examples of key supporting documents not being available, there have been delays in receiving responses to our audit queries. In particular we are still waiting for explanations to audit queries raised as a result of our analytical review of the statements of account.
<p>In 2007//08 Internal Audit (IA) assessed the payroll system as adequate with reservations and highlighted this as a significant risk in the Annual Governance Statement (AGS).</p>	<p>In 2008/09 IA found weaknesses in the new SAP payroll system and issued a limited assurance opinion. This has been included in the 2008/09 AGS.</p> <p>As in previous years we have carried out additional substantive testing on the payroll figure in the statement of accounts. Our work on the payroll analytical review is substantially complete. There are no issues that we need to raise with you at this time.</p>
<p>There may be delays in obtaining management responses to IA recommendations in their managed audit reports, therefore resulting in delays in finalising reports.</p>	<p>There were delays in IA being able to obtain management responses to their managed audit reports in 2008/09. However, draft reports were made available to us and this did not have a significant impact on our audit work.</p>
<p>There are, as last year, some changes to the SORP, which will need to be taken account of in preparing the accounts. In particular from 2008/09 onwards the SORP 2008 has removed the term deferred charge and replaced it with the term "revenue expenditure funded from capital under statute ".</p>	<p>See table 2 for issues relating to compliance with the SORP that we need to bring to your attention.</p>
<p>The 2007/08 audit identified a number of issues relating to capital accounting.</p>	<p>We have yet to complete our audit of fixed assets and capital accounting. The only material issue that we need to raise with you at this time is in respect of</p>

Issue or risk	Finding
	<p>impairment, as outlined below.</p> <p>There is also an issue still to be resolved regarding the part disposal of two land assets in year and the timing of the Mouchel revaluation for the opening balances for these assets. There is a possibility that the revaluation included in the accounts as at 1/4/08 is understated as Mouchel only revalued the un-disposed elements of the land still owned in December 2008, the date the revaluation was undertaken. This will also impact on the gain and loss on disposal and the revaluation reserve.</p> <p>This is not expected to be material but as yet it is not quantifiable as we are awaiting further clarification from officers.</p>
<p>Fixed Asset Impairment: This is a material accounting estimate for which the accounting treatment is complex. Errors were noted in the previous year's statements in relation to impairments.</p>	<p>We are in the process of testing impairments for compliance with FRS11. As noted in paragraphs 17 and 18 above, we have asked officers to provide further evidence from Mouchel to support their estimate of 50%.</p>
<p>Transitional Costs: These are the costs incurred during the period of transition to the new unitary authorities in Bedfordshire, which came into existence on 1/4/09.</p> <p>In respect of the new Central Bedfordshire Council, these costs have been recorded at Mid Bedfordshire DC and are to be apportioned out amongst the three demising authorities, including Bedfordshire CC.</p> <p>These costs are expected to be material to the Bedfordshire CC accounts and are politically sensitive.</p>	<p>Specific testing is being undertaken as part of the audit of the Mid-Bedfordshire accounts on behalf of the three demising authorities (including Bedfordshire CC). This has included substantive testing of the expenditure to ensure it is a valid transitional cost and confirmation of the apportionment basis.</p> <p>Our work on this has still to be concluded.</p>
<p>Delays in submitting WGA returns and additional work required to audit the WGA consolidation packs due to further information having to be provided to enable IFRS WGA reporting.</p>	<p>Your officers are currently giving priority to clearing our audit queries on the statements of account. They will therefore be submitting the WGA return (consolidation pack) for audit on 30</p>

Issue or risk	Finding
	<p>September 2009. .</p> <p>We will complete our audit of the pack as soon as we receive the WGA return and supporting working papers, following completion of the accounts audit.</p>
<p>Risks around the process for compilation and approval of the Annual Governance Statement given LGR.</p>	<p>The last Bedfordshire CC Audit Committee which met in March 2009 received a 9 month set of accounts and a draft AGS. The AGS was then updated and approved by the Central Bedfordshire Audit Committee in June 2009, and the final version included in the statements of account approved at the July 2009 Audit Committee.</p> <p>Our work on the AGS is not yet complete, but there are no issues that we need to raise with you at this time.</p>
<p>Officers' remuneration and Members allowances. These disclosures are considered to be politically sensitive.</p>	<p>Our work on these payments and their disclosure is still in progress. We are recommending additional disclosures in line with the SORP which states that;</p> <p>"If in any one year the numbers of employees falling within the various bands are significantly affected by termination payments made during the year, it would be helpful to explain this so that a reader may see the normal situation for continuing employees."</p> <p>This is considered to be a useful addition to the note given the significant increase in expenditure in the top band and the increase in staff falling in the lower bands.</p>

Recommendation
<p>R4 Ensure that outstanding audit queries are responded to in a timely manner to enable the opinion to be issued as soon as possible.</p>
<p>R5 Consider expanding note 13 in respect of officers' remuneration to note the impact of LGR.</p>

Accounting practice and financial reporting

22 I consider the qualitative aspects of your financial reporting. Table 2 contains the issues I want to raise with you.

Table 2 Qualitative aspects of financial reporting

Issue or risk	Finding
Agreement to the ledger	The accounts submitted for audit could not be agreed back to the trial balance in a number of areas including fixed assets. Work on this is still in progress.
Agreement to the fixed asset register (FAR).	The fixed asset note did not agree to the fixed asset register for a number of items. See Appendix 3 for details.
Fixed asset disclosure notes	There is no valuation information note included in the accounts as required by the SORP. The analysis of fixed asset at note does not include comparators.
Note 16(b) capital expenditure and financing.	The SORP requires this note to include comparators for the previous accounting period. These have not been included.

Recommendation
R6 Provide a reconciliation between the statements of account to the trial balance produced by the general ledger.
R7 Include valuation information note in the accounts as required by the SORP.
R8 Include comparators for 2007/08 in note 18 tangible fixed assets.
R9 Include comparators for 2007/08 in note 16(b).

Value for money conclusion

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

Value for money conclusion

- 23** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. For 2008/09 auditors are not required to give a scored Use of Resources (UOR) assessment at demising authorities but auditors must still give a VFM conclusion.
- 24** Our work in this area is still in progress. In particular we have identified a risk in respect of performance information. As a result of this we are undertaking testing of a sample of performance indicators published in 2008/09.
- 25** Initial discussions with officers have indicated that the information to support these indicators is no longer available, largely as a result of disaggregating of data to the two new successor authorities. If we are unable to complete this work we will need to consider the implications for the value for money conclusion.
- 26** Appendix 1 contains the wording of my draft report, this is based on an unqualified opinion. This may however be amended depending on the outcome of my work noted above.

Appendix 1 – Independent auditor’s report to Members

Independent auditor’s report to the Members of Central Bedfordshire Council as successor body for Bedfordshire County Council

Opinion on the Authority accounting statements

I have audited the accounting statements and related notes of Bedfordshire County 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 the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, and the related notes. The 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 Central Bedfordshire 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 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 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 accounting statements and related notes 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 related notes 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 and related notes. 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 Statement of Recommended 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.

Opinion on the pension fund accounts

I have audited the pension fund accounts for the year ended 31 March 2009 under the Audit Commission Act 1998. The pension fund accounts comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounts have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Central Bedfordshire 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 Responsible Financial Officer and auditor

The Responsible Financial Officer’s responsibilities for preparing the pension fund accounts, 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 pension fund accounts and related notes 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 pension fund accounts 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 transactions of the pension fund during the year and the amount and disposition of the fund’s assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

I read other information published with the pension fund accounts and related notes and consider whether it is consistent with the audited pension fund accounts. This other information comprises the Explanatory Foreword published in the financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the pension fund accounts and related notes. My responsibilities do not extend to any other information.

Appendix 1 – Independent auditor’s report to Members

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 pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounts 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 pension fund accounts 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 pension fund accounts and related notes.

Opinion

In my opinion the pension fund accounts and related notes present fairly, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the Pension Fund during the year ended 31 March 2009, and the amount and disposition of the fund’s assets and liabilities as at 31 March 2009, other than liabilities to pay pensions and other benefits after the end of the scheme year.

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.

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, I am satisfied that, in all significant respects, Bedfordshire County Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 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.

Debbie Hanson

District Auditor
Regus House
1010 Cambourne Business Park
Cambourne
Cambridge, CB23 6DP

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 Adjusted misstatements

		Income and Expenditure Account		Balance Sheet	
Adjusted misstatements	Nature of Adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Area Based Grant	Presentation in Income and Expenditure Account	17,517	17,517		

Appendix 3 – Unadjusted misstatements in the accounts

The following misstatements were identified during the course of my audit and the financial statements have not been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities. If you decide not to do so, please tell us why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

Table 4 Unadjusted misstatements

Description of error	Accounts effected	Value of error £Million
The fixed asset note did not agree to the fixed asset register for a number of items	Balance Sheet: Note 16 (a) and balance sheet	<p><u>Land and buildings:</u> Disposals were understated by £5.187m. Revaluations were overstated by .£0.589m Depreciation: was understated by £0.179m Impairments have been overstated by £5.967m</p> <p><u>AUC:</u> Impairments incorrectly include £0.124m, when the balance should be 0 (zero) as per the FAR.</p> <p><u>Investment properties:</u> Disposals were understated by £0.189m. Revaluations were understated by £0.589m Depreciation was overstated by £0.179m. Impairments have been understated by £0.497m.</p>

Appendix 3 – Unadjusted misstatements in the accounts

Description of error	Accounts effected	Value of error £Million
<p>Note 16(b) Capital Expenditure and Financing.</p> <p>The figures in note 16(b) for borrowing and financing from previous year have been misstated.</p>	<p>Fixed Assets: Disclosures</p>	<p>Borrowing as per note 16(b) is £36.284m and should be £35.770m as per the working paper. Difference = £0.514m overstated.</p> <p>Financing from previous year per note 16(b) is £1.351m and should be £1.865m. Difference = £0.514m understated.</p>
<p>Liability related to Defined Pension Scheme.</p> <p>The FRS17 assurance from the pension fund auditors has identified an undervaluation of the pension fund assets due to estimated valuation by the actuary.</p>	<p>Balance sheet: Note 36</p>	<p>Pension fund assets understated by £1.032m</p>
<p>The balance per the general ledger trial balance for Government Grants Deferred (£105.355m) does not agree to that disclosed in the accounts (£105.604m)</p>	<p>Balance Sheet: Government Grants Deferred</p>	<p>£0.249m uncertainty</p>
<p>The Council reviewed all assets that had capital expenditure greater than £0.500m in year and commissioned their valuer (Mouchel) to revalue these assets. Mouchel has determined that no revaluation is required on County Hall as expenditure of £0.695m incurred in the year has not added value. This is an</p>	<p>Balance Sheet: Fixed Assets</p>	<p>Possible overstatement of fixed assets and understatement of revenue expenditure by £0.695m</p>

Appendix 3 – Unadjusted misstatements in the accounts

Description of error	Accounts effected	Value of error £Million
<p>indication that this expenditure was revenue and should not have been capitalised. Consequently, fixed asset additions may have been overstated by £0.695m in respect of County Hall.</p>		
<p>Error in classification between Grants Unapplied and Contributions Unapplied on the Balance Sheet.</p>	<p>Balance Sheet Long term liabilities</p>	<p>Grants Unapplied should be £16.099m Contributions Unapplied should be £12.487m This is a movement between these balances of £6.162m.</p>

Appendix 4 – Draft letter of representation

Ms D Hanson
District Auditor
Regus House
1010 Cambourne Business Park
Cambourne
Cambridge, CB23 6DP

Bedfordshire County 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 officers, of Bedfordshire County 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. All representations cover the Council's accounts and Pension Fund accounts included within the financial statements.

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 which present fairly the financial position and financial performance of the Council and for making accurate representations to you.

Uncorrected misstatements

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

- reason 1 etc;
- reason 2

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 Bedfordshire County Council meetings, have been made available to you.

Irregularities

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

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.
- I also confirm that I have disclosed:
 - my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
 - my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements. For fair value investment and borrowing assumptions I confirm:

- 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, these adjustments have been made.

Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale and purchase commitments;

Appendix 4 – Draft letter of representation

- agreements and options to buy back assets previously sold; and
- assets pledged as collateral.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. Except as disclosed in Note X to the financial statements we have no other lines of credit arrangements.

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements; 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 disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

Post balance sheet events

Since the date of approval of the financial statements by Central Bedfordshire Audit Committee , 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:

Signed on behalf of Bedfordshire County Council

Signed

Name

Position

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	Amend the accounts to disclose Area Based Grant in line with SORP requirements.	3				
7	Provide further evidence to support Mouchel's estimate for 50% impairment of schools land.	3				
8	Ensure the recommendations made by Internal Audit in respect of the Payroll system, which is now being used by Central Bedfordshire Council, are implemented.	3				
11	Ensure that outstanding audit queries are responded to in a timely manner to enable the opinion to be issued as soon as possible.	2				
11	Consider expanding note 13 in respect of officers remuneration to note the impact of LGR.	2				
12	Provide a reconciliation between the statements	2				

Appendix 5 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	of account to the trial balance produced by the general ledger.					
12	Include valuation information note in the accounts as required by the SORP.	2				
12	Include comparators for 2007/08 in note 18 tangible fixed assets.	2				
12	Include comparators for 2007/08 in note 16(b).	2				

The Audit Commission

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

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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