

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



TO EACH MEMBER OF THE AUDIT COMMITTEE

23 October 2009

Dear Councillor

AUDIT COMMITTEE - Friday 30 October 2009

Further to the Agenda and papers for the above meeting, previously circulated, please find attached the following report(s) which were marked to follow on the agenda:-

7. Annual Governance Reports from the Audit Commission

Please find attached the Audit Commission's Annual Governance Reports to the Audit Committee in respect of South Bedfordshire District Council and Bedfordshire County Council following their validation of the Statements of Accounts 2008/09.

Should you have any queries regarding the above please contact Democratic Services on Tel: 01234 228857.

Yours sincerely

Devina Lester,
Senior Democratic Services Officer
email: devina.lester@centralbedfordshire.gov.uk

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Annual Governance Report

Bedfordshire County Council

Audit 2008/09

Date 22 October 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 non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

2008/09 Draft Annual Governance Report

I am pleased to present my report on the results of my audit work to date for 2008/09. This report updates the one presented to the Audit Committee on 21 September 2009.

A draft of the report was sent to the Central Bedfordshire Director of Resources on 22 October 2009 and reflects the position as at that date.

The report sets out the key issues that you should consider based on my findings to date (22 October) before I complete the audit.

It asks you to:

- consider the matters raised in the report before publishing the audited 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 value for money 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).

Yours faithfully

Debbie Hanson
District Auditor
22nd October 2009

Key messages

This report summarises the findings from the 2008/09 audit to date. The audit is substantially complete. It includes the messages arising from my audit of your financial statements and 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	Yes	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	No	13

Audit opinion

- 1 Our work on the 2008/09 financial statements is substantially complete. We received the final statements of account for audit on 27 July 2009, the date 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. A copy of the un-audited accounts was published on 30 September 2009.
- 2 Although the audit is substantially complete at the time of drafting this report on 22 October) our work on the following areas had still to be concluded:
 - I need to complete my final review
 - We need to complete our testing of deeds to confirm the Council's ownership of a sample of assets. There have been delays in providing the deeds we requested for audit. Following the establishment of the two new unitary authorities, deeds relevant to Bedfordshire County Council were relocated to other offices at Bedford Borough and Central Bedfordshire. In addition, some were held at the land Registry and some were with the Council's valuers, Mouchel.
- 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.

Key messages

Financial statements

- 4 Subject to the satisfactory completion of the outstanding work set out above, I propose issuing the audit opinion by 5 November 2009.
- 5 Our work on the financial statements of the pension fund is complete and I 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 was reported to both this Committee and the Pensions Committee on 21 September 2009.

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 value for money conclusion.
- 7 Our work in this area is complete. We have identified weaknesses in relation to data quality and performance management and as a result the value for money conclusion will be qualified.

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 Bedfordshire County Council 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 I will reassess this fee when the audit is concluded. However, I can confirm that I will need to charge additional fee in respect of the following:
 - additional work above that originally planned was required to assess your arrangements to secure value for money;
 - additional work to verify the impairment figures in the accounts (see table 1 below); and
 - additional time required to audit the accounts in October which was in excess of the time included in our original budget.
- 11 We have informed officers that the additional cost of the first two items is some £8,000. Once we have completed the audit we will confirm the further additional fee and discuss with officers. We will update Members on the final position at the next 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) before publishing the audited 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 value for money 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** In my report on 21 September I noted that we had identified a material error in the accounts submitted for audit. This related 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. In the accounts presented for audit it had been apportioned over the service headings.
- 16** In addition, further audit work identified that the income in relation to the ABG had been apportioned across service headings twice as well as being charged to service expenditure. As a result, both income and expenditure for a number of services headings were overstated. Whilst the overall impact on the net cost of services was trivial (£6k), for Children's Services the overstatement of the income was material. This is detailed further in Appendix 2.
- 17** .We also identified a number of errors in the cash flow statement, which resulted in the statement having to be re-drafted. The errors resulted in two material amendments.
- The first relates to PWLB debt of £27.243m which the County Council had held on behalf of Luton Borough Council since the previous local government reorganisation when Luton was made a unitary authority (Luton BC would repay the principal on a predetermined basis and, in addition, repay the County the corresponding interest associated with this). The cash flow statement included repayment of PWLB debt of £27.243m. However, this was not a cash transaction as the PWLB had only transferred the appropriate amount of debt from being in the County Council's name to Luton Borough Council.
 - The second error related to the purchase of fixed assets, which had to be decreased by £10,245k to take account of capital creditors.

- 18 Officers have agreed to amend the accounts for these errors as set out in Appendix 2, Appendix 3 details all non-material, non trivial errors that management have declined to amend. However there were a number of other non-material, non-trivial errors that management have agreed to amend and therefore have not been listed in this report.
- 19 We have also identified other non material and non trifling errors that management have decided not to amend. These are set out in Appendix 3.
- 20 This Appendix includes all errors identified as part of the audit, including those previously reported to you in September. Members should note that the definition of trivial error has changed since 2007/08, reducing from 10% to 1% of materiality. As a result, there are more issues included in this report than in previous years.
- 21 In September we reported 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 (32.75%). This difference was quantified as £66m against a materiality level of £10.3m.
- 22 We have since obtained additional advice from the Audit Commission's valuer and further evidence from your officers and Mouchel to support their valuation. As a result we are satisfied that we have sufficient assurance that the valuation has been undertaken on an appropriate basis in accordance with the SORP and RICS guidance and that therefore the accounts are not materially misstated.

Recommendation	
R1	Amend the accounts to disclose Area Based Grant in line with SORP requirements.
R2	Amend the accounts to correct the further error in respect of the disclosure of the Area Based Grant in the Income and Expenditure Account as detailed above.
R3	Amend the Cash Flow statement to correctly account for the transfer of PWLB debt to Luton Borough Council.

Material weaknesses in internal control

- 23 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. As outlined in our report in September, 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)
- 24 We have not provided a comprehensive statement of all weaknesses which may exist in internal control, or 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.

Financial statements

Recommendation

R4 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

- 25** 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.
- 26** In addition to the standard wording I have asked you for specific representations to confirm that the Council has not given any Financial Guarantees during the year. Our review of the Council's minutes has not identified any such guarantees, however we do not have any other positive assurance that this is the case.

Key areas of judgement and audit risk

27 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 loss of staff, low morale resulting in a substantive approach being required; and • key supporting records may not be able to be located (for example due 	<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 capital accountant (covered by a temporary post). • See below in respect of payroll system control issues.

Issue or risk	Finding
<p>to relocation or departure of officers).</p>	<ul style="list-style-type: none"> We did not experience any examples of key supporting documents not being available. However, there have been delays in receiving responses to our audit queries. In particular explanations to audit queries raised as a result of our analytical review of the statements of account and the provision of deeds as noted earlier in this report.
<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 complete. There are no issues that we need to raise with you.</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>Our work on the audit of fixed assets and capital accounting is substantially complete.</p> <p>Issues relating to the agreement of the accounts to the fixed asset register and fixed asset disclosures are included in the following section on the qualitative aspects of financial reporting.</p>

Issue or risk	Finding
<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>As noted in paragraphs 21 and 22 above, we are now satisfied that the accounts are not materially misstated in respect of impairment.</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. 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. These costs are expected to be material to the Bedfordshire CC accounts and are politically sensitive.</p>	<p>Specific testing has been 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>The testing found that total transitional costs included a creditor of £119k relating to employee redundancy costs. As at 1st October 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. The testing of transitional costs also identified an overall uncertainty of £169k. As the transitional costs are apportioned between the three demised bodies, the impact on Bedfordshire County Council's Financial statement is not material but is non trivial (£152k) and is therefore included in this report.</p> <p>Our work on officers remuneration found that the redundancy payments made to officers who left the Council in March 2009 had been accounted for in Bedfordshire County Council expenditure and had not been charged to transitional costs. Similar payments at Mid Bedfordshire and South Bedfordshire had been charged to transitional costs and then apportioned amongst the three demising authorities. Given that 89.5% of the transitional costs</p>

Issue or risk	Finding
	<p>were apportioned to the County, the overall impact on the County's Income and Expenditure account was not material but has been noted in Appendix 3 as a non trifling error.</p>
<p>Delays in submitting Whole of government Accounts (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>Officers have been giving priority to clearing our audit queries on the statements of account. The WGA return (consolidation pack) will therefore be submitted for audit on 2 November 2009. 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 County Council Audit Committee which met in March 2009 received a 9 month set of accounts and a draft AGS.</p> <p>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 complete and 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 complete.</p> <p>In respect of Officers' Remuneration (Note 13) we have recommended an additional disclosures in line with the SORP Guidance Notes, which state 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</p>

Issue or risk	Finding
	<p>to the note given the significant increase in expenditure in the top band and the increase in staff falling in the lower bands.</p> <p>In respect of Members Allowances, Note 12 does not include a disclosure in respect of allowances paid to the Bedfordshire County Council members who also had responsibilities in the shadow authority. This is inconsistent with the Mid Bedfordshire and South Bedfordshire Accounts.</p> <p>Management have agreed to include such a disclosure.</p>

Recommendation
<p>R5 Consider expanding note 13 in respect of officers' remuneration to note the impact of Local Government Reorganisation.</p>

Accounting practice and financial reporting

28 I consider the qualitative aspects of your financial reporting. Table 2 contains the issues I want to raise with you. The Table includes the issues I raised in my report to you on the 21st September 2009. Some of the issues have now been resolved. Where this is the case, this is detailed below and previous recommendations amended.

Table 2 Qualitative aspects of financial reporting

Issue or risk	Finding
<p>Agreement to the ledger</p>	<p>The accounts submitted for audit could not be agreed back to the trial balance in a number of areas including fixed assets. We are satisfied that this has no material impact on the accounts.</p>

Issue or risk	Finding
Agreement to the fixed asset register (FAR).	The fixed asset note did not agree to the fixed asset register for a number of items. The statements of account have been amended to agree with the fixed asset register.
Fixed asset disclosure notes	The accounts do not include a valuation information note or comparative information as required by the SORP. The accounts have been amended to include comparators and a valuation note.
Note 16(b) capital expenditure and financing.	The SORP requires this note to include comparators for the previous accounting period. The accounts have been amended to include comparators.

The following additional issues have been identified since I reported to you on 21st September 2009.

Issue or risk	Finding
<p>Fixed Asset Additions: One item selected for testing was found to have been misclassified as a land and buildings addition in the accounts.</p>	<p>Fixed asset Additions, Land and buildings is overstated and Vehicles plant and Equipment understated.</p> <p>Actual Error: £0.043m</p> <p>Extrapolated error: £1.094m.</p>
<p>Fixed Asset Physical Verification: Due to the complex nature of identifying individual assets and uncertainty over the location of some of the assets in the asset register a number of assets could not be physically verified.</p>	<p>Balance sheet, NBV of fixed assets.</p> <p>Actual uncertainty: £0.056.</p> <p>Extrapolated uncertainty: £0.116.</p>

Recommendation
R6 Ensure in the future that the statements of account provided for audit reconcile to the trial balance produced by the general ledger.

Financial statements

R7 Ensure in the future that the statements of account provided for audit reconcile to the underlying asset register records.

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

- 29** 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.
- 30** Our work in this area is complete. As noted in our September report we identified a risk in respect of performance information and performance in relation to a number of key service areas. As a result we have carried out spot checks on a sample of performance indicators published in 2008/09.
- 31** Working papers were provided to support the indicators selected. However, it was not possible for all indicators to agree the working papers to source data. This was largely due to the fact that the information was captured at a particular point in time and supporting evidence was not retained.
- 32** The value for money conclusion will therefore be qualified on the basis that:
- the Council's arrangements for managing performance in key areas were inadequate during 2008/09; and
 - our testing of a sample of performance indicators found that due to elapsed time and disaggregation following local government reorganisation the figures used in the calculation of three of the four indicators tested could not be agreed back to systems reports or prime documents.
- 33** 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.

I have undertaken my audit in accordance with the Code of Audit Practice. In so doing I identified the following:

- the Council’s arrangements for managing performance in key areas were inadequate during 2008/09, and
- our testing of a sample of performance indicators found that due to elapsed time and disaggregation following local government reorganisation the figures used in the calculation of three of the four indicators tested could not be agreed back to systems reports or prime documents.

Having regard to relevant criteria specified by the Audit Commission for principal local authorities, published by in December 2006, and the supporting guidance, 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 except that it did not put in place adequate 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; and
- monitoring the quality of its published performance information, and to report the results to members.

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

The table below includes three additional items identified since we last reported to you on 21st September 2009.

Adjusted misstatements	Nature of Adjustment	Income and Expenditure Account		Balance Sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
Area Based Grant	Presentation in Income and Expenditure Account	17,517	17,517		
Cashflow Statement Long Term Loans Raised / Repaid	Presentation movement in the Cashflow Statement of £27,243k	No impact		No impact	
Cashflow Statement Purchase of Fixed Assets	Capital creditors of £10,245k were not accounted for in this balance.	No impact		No impact	
Income and Expenditure Account, Children's Services	Children's services income was overstated by £6.164m in respect of the double posting of the ABG and £9.076m in respect of the presentation of the ABG in the I&E account.	15,240	15,240		

Appendix 2 – Adjusted amendments to the accounts

		Income and Expenditure Account		Balance Sheet	
	The £9.076m element also forms part of the £17.517m error detailed above.				

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

These were the unadjusted misstatements I reported to you on 21st September 2009. A number of these errors have now been agreed to be amended by management and this is indicated in the table below.

Description of error	Accounts effected	Value of error £Million
<p>The fixed asset note did not agree to the fixed asset register for a number of items.</p> <p>30th October 2009: Management have now agreed to amend for these errors.</p>	<p>Balance Sheet: Note 16 (a) and balance sheet</p>	<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.</p>

Appendix 3 – Unadjusted misstatements in the accounts

Description of error	Accounts effected	Value of error £Million
		Impairments have been understated by £0.497m.
<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>	Fixed Assets: Disclosures	<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 the fact that the total value of the pension fund managed by the County Council at 31 March 2009 exceeded the actuary's estimate by £2.8 million, as a result of improved fund performance.</p>	Balance sheet: Note 36	Pension fund assets understated by £1.032m
<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>	Balance Sheet: Government Grants Deferred	£0.249m uncertainty
<p>The Council reviewed all assets that had capital expenditure greater than £0.500m in year and commissioned their</p>	Balance Sheet: Fixed Assets	Possible overstatement of fixed assets and understatement of revenue expenditure by £0.695m

Appendix 3 – Unadjusted misstatements in the accounts

Description of error	Accounts effected	Value of error £Million
<p>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 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>30th October 2009: Management have now agreed to amend for these errors</p>	<p>Balance Sheet Long term liabilities</p>	<p>Grants Unapplied should be £16.099m Contributions Unapplied should be £12.487m</p> <p>This is a movement between these balances of £6.162m.</p>

The Table below includes all new non-trivial unadjusted misstatements identified since I last reported to you on the 21st September 2009.

Description of error	Accounts effected	Value of error £Million
<p>During 2008/09 the County part disposed of two land assets.</p>	<ul style="list-style-type: none"> ● opening revaluations were understated ● disposals are 	<p>£0.235m.</p>

Appendix 3 – Unadjusted misstatements in the accounts

<p>Although these assets formed part of the 20% of the asset base to be revalued in 2008/09, due to the timing of the revaluation only the residual elements of land were revalued.</p>	<p>understated</p> <ul style="list-style-type: none"> the profit on disposal is overstated in respect of these assets. <p>The overall net effect on the closing NBV of these assets is 0 (zero).</p>	
<p>Statement of Total Recognised Gains and Losses (STRGL): Work undertaken on the Capital Adjustment Account (CAA) identified that the 2007/08 capital addition of Rookery Farm was added to SAP twice due to an accounting error</p>	<p>The CAA has been overstated. This also has an impact on the STRGL, which has been misstated by £118k.</p>	<p>£0.118.</p>
<p>Transitional Costs: The three senior officers' redundancy costs have been apportioned over the service headings in the I&E account rather than as part of the transitional costs.</p>	<p>Gross cost of services and transitional costs on the face of the Income and Expenditure accounts.</p>	<p>Gross cost of services is overstated by £0.786m. Transitional costs are understated by £0.703m.</p>
<p>ABG Reversal: ABG grant should not have been apportioned over the BVACOP headings but instead included on the face of the I&E under the principal sources of finance section. In trying to reverse the apportionment, there is an item that cannot be traced back to an individual heading in the</p>	<p>Income and Expenditure Account: Income from services, will be overstated once the amendments have been put through.</p>	<p>£0.176m.</p>

Appendix 3 – Unadjusted misstatements in the accounts

accounts.		
<p>ABG Accounting: ABG was apportioned across service headings twice. As a result both income and expenditure for a number of services headings were overstated.</p>	<p>Income and Expenditure Account: Service income and gross expenditure.</p> <p>Note 1 to the accounts.</p>	<p>Central Services income and expenditure were overstated by £6.160m.</p> <p>Culture, Environment and planning income and expenditure were overstated by £0.909m.</p> <p>Children’s services income and expenditure were overstated by £6.164m.</p> <p>Highways, Roads and Transport income and expenditure were overstated by £1.103m.</p> <p>Adult Social Care income and expenditure were overstated by £3.260m.</p> <p>Note the overall impact on the net cost of services was Trivial (£0.006m).</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

Appendix 4 – Draft letter of representation

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;

- 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:

Financial Guarantees - I confirm that the Council did not enter in to any financial guarantees during the year.

Signed on behalf of Bedfordshire County Council

Signed

Name

Appendix 4 – Draft letter of representation

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					
8	Amend the accounts to disclose Area Based Grant (ABG) in line with SORP requirements.	3				
8	Amend the accounts to correct the further error in respect of the disclosure of the ABG in the Income and Expenditure as detailed above.	3				
8	Amend the Cash Flow statement to correctly account for the transfer of PWLB debt to Luton Borough Council.	3				
9	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				
13	Consider expanding note 13 in respect of officers' remuneration to note the impact of LGR.	2				

Appendix 5 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
15	Ensure in the future that the statements of account provided for audit reconcile to the trial balance produced by the general ledger.	3				
15	Ensure in the future that the statements of account provided for audit reconcile to the underlying asset register records.	3				

The Audit Commission

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

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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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Annual

Governance

Report

South Bedfordshire District Council

Audit 2008/09

Date **22 October 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 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

As Members of the successor body to South Bedfordshire District Council I am pleased to present my report on the results of my audit work for 2008/09 for the latter authority. The report reflects the position at the date of drafting the report (22 October).

A draft of the report was discussed and agreed with the Director of Corporate Resources and will be updated as the remaining outstanding issues noted in paragraph 1 are 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 this report before authorising the financial statements for issue;
- 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 value for money 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).

Yours faithfully

Debbie Hanson
District Auditor
Date 22 October 2009

Key messages

This report summarises the findings from the 2008/09 audit as at the date of drafting (22 October) 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	7
Financial statements presented for audit free from error	No	7
Adequate internal control environment	Yes	8
Use of resources		
Adequate arrangements to secure value for money	Yes	13

Audit opinion

- 1 Our audit work is largely concluded at the time of drafting this report (22 October) apart from checking that the adjustments agreed with officers have been correctly incorporated into the revised accounts, I will provide an update on this at the Committee meeting.
- 2 Based on the work we have completed to date I expect to issue an unqualified audit opinion.

Financial statements

- 3 We received the draft financial statements and initial working papers on 21 July, with a signed set provided on the 31 July.
- 4 The working papers provided at the start of our audit on 21 July were not adequate. Although steps were put in place to provide further working papers there remained gaps. Due to local government reorganisation some finance staff had left before the audit commenced and others had moved into new posts at the successor authority. Whilst steps were taken during our audit to bring in personnel to deal with audit queries, the time taken to resolve issues was protracted in some cases.
- 5 Material amendments were required to the financial statements for fixed assets. These included: adjustments to reflect valuations obtained in year for the housing stock; amendment for the impairment chargeable to the revaluation reserve; and revision to the closing figures for fixed assets to show these at the amounts in the valuation certificates provided by the valuers. We also identified that costs of £1.6 million for staff time on local government organisation needed to be reflected within the exceptional item. These amendments are detailed in Appendix 2.
- 6 Our audit also identified a number of non material but non-trivial errors. Management have not amended for these errors which are noted in Appendix 3. A number of amendments were also

Key messages

made to disclosures in the accounts to improve presentation and ensure full compliance with the SORP.

- 7 For the purposes of our audit, we define non-trivial errors as those in excess of 1 per cent of our materiality figure, which for the 2008/09 financial statements is £17,600. Previously we defined non trivial errors as those in excess of 10 per cent of our materiality figure, and on this basis the figure would have been £176,000. 'Material' errors would be any in excess of £1.7 million for the main statements and £3,873,000 for balance sheet items (either individually or in aggregate). Use of resources
- 8 As South Bedfordshire District Council demised on 31 March 2009 no formal use of resources assessment was required by the Audit Commission. However we have undertaken sufficient work to review the arrangements in place in the last year of the Authority in order to be able to issue the value for money conclusion. I will be issuing an unqualified conclusion. .

Audit Fees

- 9 As referred to in the section on 'financial statements' above we have experienced some difficulties with working papers. Capital accounting continues to be the most complex area to be audited and an area where the audit resulted in changes both to working papers and figures within the financial statements. As a result we have incurred additional time on the audit and will need to raise additional fee. The level of additional fee will be discussed and agreed with the Director of Corporate Resources on the conclusion of the audit.

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.

10 I ask the Audit Committee to:

- consider the matters raised in this report before authorising the financial statements for issue;
- 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 value for money 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 Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As members for the successor Council you have final responsibility for these statements. It is important that you consider my findings before authorising the financial statements and annual governance statement for issue.

Opinion on the financial statements

- 11** Subject to satisfactory clearance of outstanding matters noted in paragraph 1, 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

- 12** The material errors identified during the audit were:

- Corporate and democratic core costs included £1,602,000 for staff time involved in local government reorganisation (LGR). In our view, this should have been included within the exceptional costs of LGR line in the net cost of services.
- The total impairment of £14,974,000 on council dwellings and sheltered housing was not initially charged against the balances for individual properties on the revaluation reserve. When this was corrected it was found that £3,981,000 of the impairment should have been charged to income and expenditure, leaving a balance of £3,981,000 on the revaluation reserve against individual assets. This has meant that the impairment charged to the income and expenditure account and the transfer from the capital adjustment account have been increased by this amount.
- The Authority obtained a revaluation of its council dwellings and sheltered housing at 31 March 2009. This had been recommended within our final accounts memorandum on the 2007/08 audit. It is also required to obtain a valuation for resource accounting purposes each year as at 1 April. Although the Council obtained the resource accounting valuation for 1 April 2008 this was not put through the accounts. This valuation showed an overall increase in asset values as at 1 April 2008 of £12 million (a material increase). Correction of this omission has resulted in an increase in revaluation gains and impairments when the valuation increase has been allocated against individual properties.
- The calculation of depreciation for council dwellings and sheltered housing should have taken into account the valuation for resource accounting purposes. Although this has not been done, we have determined that the impact of the £12 million adjustment identified in the previous bullet point on depreciation charged in year was not material.
- Depreciation on council dwellings and sheltered housing was incorrectly deducted from the value as at 31 March 2009 provided by the external valuers. Adjusting for this has increased the closing asset value by £3,769,000 and affected the revaluation reserve and capital adjustment account. The same issue also arose for general fund properties where the value of the depreciation incorrectly deducted was £934,000.

Recommendation	
R1	Ensure appropriate valuations are used to compile the 2009/10 accounts and that depreciation is calculated correctly using the resource accounting valuation is used within this.

Material weaknesses in internal control

- 13** Our audit work identified that whilst invoice requests are completed before sales ledger invoices are raised, there were no checks evidenced on these. The Authority was dependent on staff within the exchequer team being aware of the types of income that could be invoiced and those staff who would be likely to raise them. This does not represent an adequate control on which we can rely for our opinion. We therefore undertook substantive testing at year end.
- 14** We have not identified any further 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.
- 15** We have not provided a comprehensive statement of all weaknesses which may exist in internal control. Or of all improvements which may be made. We have reported only those matters that have come to our attention because of the audit procedures we have performed.

Recommendation	
R2	Ensure there are clear authorisation procedures and an authorised signatory lists or that IT systems are configured so that those who raise debtor invoices only do so on receipt of duly authorised instruction.

Letter of representation

- 16** 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

- 17** 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
Risks arise from the potential loss of staff leading to potential breakdown in internal control and good governance arrangements.	Our pre-statements work did not identify significant breakdown in internal control or governance arrangements.
Service continuity will be at risk during the transition. Performance management and risk management must be especially robust during	Some staff did not leave until after 31 March 2009 and service continuity was maintained during the transition.

Issue or risk	Finding
the change period.	
<p>The audit of the financial statements of a demised body contains a significant amount of inherent risk.</p> <p>While we did not identify any specific risk issues in addition to those identified during our initial audit planning in 2008. The following risks remained 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; • there will be unexpected loss of key personnel during the audit period (July-September). • controls may not be operated correctly during the period due to loss of staff, low morale resulting in a substantive approach being required; and • key supporting records may not be able to be located (for example due to relocation or departure of officers). 	<p>We found that controls were operating effectively during the year and staff were mainly in post until 31 March 2009.</p> <p>However we did identify some issues during the course of the audit:</p> <ul style="list-style-type: none"> • Initial working papers provided were not adequate. Further papers were subsequently provided, although some gaps remained. Steps were taken to engage an officer who had left the Authority to help with audit queries and other officers, now working for Central Bedfordshire, also made themselves available. • Some records (payroll reports) could not be located at our audit visit and summary figures had to be prepared for months 1-11 and then month 12 in order to provide us with a full year's figures.
<p>Not all of the fundamental systems will have been covered by the Internal Audit team by the time of our pre-statements visit</p>	<p>Internal Audit coverage did provide us with sufficient assurance in a number of areas and we were therefore required to undertake additional 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; those of most relevance to this Authority being:</p> <ul style="list-style-type: none"> • clarification of circumstances in which Depreciated Replacement Cost can be used; • incorporation of the requirements of "Delivering Good Governance in Local Government" regarding AGS; • clarification of exclusion of previously named deferred charges from Balance Sheet. Such expenditure is now termed "Revenue expenditure funded from capital under statute"; • amendments to the SORP to reflect the Equal Pay Back Pay deferral of the impact of the necessary provision elements of SI2007/573; • clarifying amendments to Chapter 4 	<p>As noted above in paragraph 10, there were issues regarding the accounting for fixed assets. Other changes to the SORP were dealt with satisfactorily, although some minor changes in wording were required to the financial statements, for example the term deferred charges was still used in error in some places.</p>

Issue or risk	Finding
<p>Financial Instruments;</p> <ul style="list-style-type: none"> • amendments re Gains and Losses on disposal; • clarification of accounting for a statutory capital receipt that has not arisen from the disposal of a fixed asset; and • amendment to allow Cash Flow Statements to be prepared using either the 'direct' method or the 'indirect' method. The latter not being cover by the 2007 SORP. 	
<p>The 2007/08 audit identified a number of issues relating to capital accounting. As a result we charged an additional fee of £5,800.</p>	<p>Capital accounting continues to be the most complex and challenging area within the audit. Changes were made to working papers and material amendments were made to the accounts for capital. As a result we will again need to raise additional fee. The level of additional fee will be discussed and agreed with the Director of Corporate Resources on the conclusion of the audit.</p>

- 18** We planned to undertake work centrally across all Bedfordshire councils on items included within the transitional costs which were apportioned out to the other Bedfordshire authorities. Our sample checks undertaken as part of this work found a creditor of £119,000 relating to employee redundancy costs where, as at 1 October 2009, 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. Our testing of transitional costs also identified an overall uncertainty of £169,000. As transitional costs are apportioned between the three demised bodies, the impact on South Bedfordshire's financial statements is clearly trifling (£10,000).

Accounting practice and financial reporting

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

Table 2 Qualitative issues

Issue or risk	Finding
<p>Completeness of assets</p>	<p>During the year the Authority disposed of a strip of land at Churchill Road for £1.25 million. The land was not recorded on the Authority's asset register as it was not assessed to have any value in advance of the disposal. Although we were not able to obtain assurance that there were no other such pieces of land that had been omitted from the register we were satisfied that, in light of their</p>

Issue or risk	Finding
	<p>nominal value in advance of disposal, there was no risk of material misstatement in the accounts.</p> <p>Going forwards, Central Bedfordshire Council needs to ensure that all such assets are identified and recorded in the asset register.</p>
Statement of total recognised gains and losses (STRGL)	<p>There was a difference of £96,000 between the STRGL and the revaluation reserve for the in year revaluation surplus (STRGL showed £19,342,000 and note 25 shows £19,438,000).</p>
Statement of Movement on the general fund balance (SMGFB)	<p>Pension contributions and net charges for pensions in the SMGFB were both understated by the amount of unfunded benefits contributions (£397,000)</p>
Employees earning over £50,000	<p>Redundancy payments paid after 31 March 2009 were not included in the bandings in the officers' emoluments note, although they were included in the overall transition costs which were allocated out to the different authorities.</p> <p>Although this treatment is in line with the SORP we have requested that a line be added to the note to make it clear to a reader that payments to employees which fall into the 2009/10 financial year will be disclosed in the accounts of Central Bedfordshire for 2009/10.</p>
Creditors	<p>Creditor balances of £1.2 million relating to 'other local authorities' and £14,000 relating to 'Government departments' have been included within sundry creditors. These should have been disclosed separately.</p>
Debtors	<p>Debtors incorrectly included a credit balance of £613,000 for the amount payable to the non domestic rates pool.</p>
Operating lease disclosures	<p>No disclosures have been made for leases where the Authority is the lessor, as required by the SORP, we have assessed the level of income as not material in 2008/09.</p>
Housing Revenue Account	<p>Note 8 to the HRA, amount provided for bad debts, was incorrectly stated as £390,000, and should have been £481,000.</p>
Cash flow comparative	<p>Initial analytical review identified that the line for 'other revenue cash payments' in the cash flow had decreased by £4.1 million year on year. Further investigation found that there was an error of £4.5 million in the prior year comparative as payments relating to temporary investments had been shown as £500,000 instead of £5 million. The figure for 'other operating costs' for the prior year will also need to be amended.</p> <p>Note 28 to the cash flow did not include the movement in provisions of £225,000 in the 'movement in provision and earmarked reserves' entry.</p>

Recommendation	
R3	Undertake a review of all land holdings to ensure all are included in the Council's fixed asset register, even where they have nil value.
R4	Ensure the 2009/10 officer emoluments disclosure includes any redundancy payments made to officers who were employees of South Bedfordshire.

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

- 20** 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 local government reorganisation. My conclusions on each of the areas are set out in Appendix 5.
- 21** 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. Appendix 1 contains the wording of my draft report.

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

Opinion on the financial statements

I have audited the Authority accounting statements and related notes of South 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, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account, 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 South 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 Director of Corporate Resources and auditor

The Director of Corporate Resources’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 financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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

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.

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 December 2006, and the supporting guidance, I am satisfied that, in all significant respects, South Bedfordshire District Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

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
(Officer of the Audit Commission)
Regus House
1010 Cambourne Business Park
Cambourne
Cams
CB23 6DP

Xx November 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 Adjusted misstatements

Nature of adjustment	Adjusted misstatements	Income and Expenditure Account		Balance Sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
Corporate and democratic costs included staff costs for local government reorganisation which should have been included in the exceptional item	Dr Exceptional costs of LGR Cr Corporate and democratic core	1,602	1,602		
The adjustment for the impairment of council houses that had not been charged to income and expenditure	Dr Impairments HRA Cr Statement of movement on HRA balance Dr Capital Adjustment Account Cr Revaluation Reserve	3,981	3,981	3,981	
The HRA resource accounting valuation as at 1.4.2008 was not put through the accounts	Dr Fixed assets Details not yet available of the other side will primarily affect the revaluation reserve (for gains) and the capital adjustment account and the statement of			12,000	3,981

Appendix 2 – Adjusted amendments to the accounts

		Income and Expenditure Account		Balance Sheet	
	movement on losses for any losses				
Fixed assets should be shown at the 31.3.09 valuation provided by the valuers	<p>Dr Fixed assets - HRA</p> <p>Dr Fixed assets - GF</p> <p>Details not yet available of the other side will primarily affect the revaluation reserve (for gains) and the capital adjustment account and the statement of movement on losses for any losses</p>			3,769	934

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
Depreciation not charged on the HRA resource accounting value	Fixed assets overstated Depreciation charges in HRA understated Statement of movement HRA credit understated Capital adjustment account overstated	60
Depreciation charge for equipment was understated due to errors in the way that depreciation was calculated by the fixed asset register system	Fixed assets overstated Depreciation charge in income and expenditure understated Statement of movement balance credit understated Capital adjustment account overstated	142

Appendix 3 – Unadjusted misstatements in the accounts

Description of error	Accounts affected	Value of error £000
<p>South Bedfordshire District Council's share of the pension fund assets was understated. This was due to the total value of the pension fund managed by Bedfordshire County Council at 31 March 2009 exceeding the actuary's estimate by £2.8 million, as a result of improved fund performance compared to the FRS17 figures provided by the actuary (which are necessarily provided on an estimated basis).</p>	<p>Pension fund liability overstated Pension fund reserve (negative) overstated</p>	<p>135</p>
<p>The amount due to the pool was understated due to transitional relief error in parameter. This has been corrected in 2009/10</p>	<p>NNDR pool creditor understated NNDR payers account debtor overstated</p>	<p>51</p>
<p>The accounts did not include an adjustment for the difference between depreciation calculated on current cost basis compared with historic cost</p>	<p>Revaluation reserve overstated General fund understated</p>	<p>25</p>

Appendix 4 – Draft letter of representation

Ms D Hanson
District Auditor
Audit Commission
Regus House
10-10 Cambourne Business Park
Cambourne
Cams
CB23 6DP

South 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 officers of the successor body to South 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 Council'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 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 Council and Committee meetings, have been made available to you.

Going Concern

I am satisfied that it is appropriate to adopt the going concern basis in the preparation of the financial statements and that the financial statements include, such disclosures, if any, relating to going concern.

Irregularities

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

There have been no:

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

I also confirm that I have disclosed:

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

Law, regulations, contractual arrangements and codes of practice

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

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

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

Compensating arrangements

Appendix 4 – Draft letter of representation

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. Except as disclosed in Note 22 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;
- 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 successor 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:

All material tangible fixed assets are included in the asset register.

Appendix 4 – Draft letter of representation

Signed on behalf of Central Bedfordshire Council as successor to South Bedfordshire District Council

I confirm that the this letter has been discussed and agreed by the Audit Committee on 30 October 2009

Signed

Clive Heaphy
Director of Corporate Resources

Date

Appendix 5 – Value for money conclusion

The following table summarises the key findings and conclusions for each of the three use of resources themes.

Code Criteria	Description	Met
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
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

Appendix 5 – Value for money conclusion

Code Criteria	Description	Met
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

Ref.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	Annual Governance Report 2008/09 - Recommendations					
R1	Ensure appropriate valuations are used to compile the 2009/10 accounts and that depreciation is calculated correctly using the resource accounting valuation is used within this.	3				
R2	Ensure there are clear authorisation procedures and an authorised signatory lists or that IT systems are configured so that those who raise debtor invoices only do so on receipt of duly authorised instruction.	2				
R3	Undertake a review of all land holdings to ensure all are included in the Council's fixed asset register, even where they have nil value.	2				
R4	Ensure the 2009/10 officer emoluments disclosure includes any redundancy payments made to officers who were employees of South Bedfordshire.	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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