

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



please ask for Ellen Heaney
direct line 0300 300 4040
date

NOTICE OF MEETING

AUDIT COMMITTEE

Date & Time

Monday, 12 April 2010 9.30 a.m.

Venue at

Room 13, Priory House, Chicksands

Richard Carr
Chief Executive

To: The Chairman and Members of the AUDIT COMMITTEE:

Cllrs D J Lawrence (Chairman), R A Baker (Vice-Chairman), Mrs A Barker,
T Green, A Shadbolt, P Snelling and B J Spurr

[Named Substitutes:

Cllrs: L Birt, P A Blaine and Mrs C Turner]

All other Members of the Council - on request

***MEMBERS OF THE PRESS AND PUBLIC ARE WELCOME TO ATTEND THIS
MEETING***

AGENDA

1. **APOLOGIES FOR ABSENCE**

Apologies for absence and notification of substitute members

2. **CHAIRMAN'S ANNOUNCEMENTS**

If any

3. **MINUTES**

To approve as a correct record the Minutes of the meeting of the Audit Committee held on 27 January 2010.

4. **MATTERS ARISING**

5. **MEMBERS' INTERESTS**

To receive from Members declarations and the **nature** thereof in relation to:-

- (a) Personal Interests in any Agenda item
- (b) Personal and Prejudicial Interests in any Agenda item

6. **PUBLIC PARTICIPATION**

To deal with general questions and statements from members of the public in accordance with the scheme of public participation set out in Appendix A referred to in the Public Participation Scheme.

7. **PETITIONS**

To receive petitions in accordance with the scheme of public participation set out in Annex 2 in Part 4 of the Constitution.

8. DISCLOSURE OF EXEMPT INFORMATION

To consider proposals, if any, to deal with any item likely to involve disclosure of exempt information as defined in the relevant paragraph(s) of Part I of Schedule 12A of the Local Government Act 1972 prior to the exclusion of the press and public.

REPORTS

| Item | Subject | Page Nos. |
|-------------|---|------------------|
| 9 | Internal Audit Strategy and the three year Strategic Plan This report presents the Internal Audit Strategy, the 2010/11 Annual Audit Plan and the Three Year Strategic Audit Plan for approval. | * 13 - 30 |
| 10 | Internal Audit and Risk Management Progress Report This report provides a progress update on the status of internal audit and risk management work for 2009/10. | * 31 - 40 |
| 11 | Audit Opinion Plan 2009/10 To note the Audit Opinion Plan for 2009/10. | * 41 - 60 |
| 12 | Indicative Fee Letter 2010/11 To receive the indicative fee letter from the Audit Commission for 2010/11. | * 61 - 66 |
| 13 | Annual Claims and Returns Report 2008/09 To note the annual claims and returns. | * 67 - 84 |
| 14 | Audit Progress Monitoring Report To receive the External Audit Progress Report. | * 85 - 90 |

- 15 **Updated Code of audit practice and Statement of responsibilities of auditors and audited bodies** * 91 - 136

To note the updated code of audit practice and statement of responsibilities of auditors and audited bodies from the Audit Commission.

- 16 **Annual Audit Letter Action Plan** * 137 - 144

The report provides information on the authority's response to the key findings of the Audit Commission's Annual Governance Reports for the three predecessor authorities.

- 17 **Final Accounts 2009/10 Progress Report** * 145 - 148

The report provides information on progress made to date in the preparation of the 2009/10 annual accounts.

**ITEM LIKELY TO BE CONSIDERED
FOLLOWING THE EXCLUSION OF THE
PUBLIC**

Report

| <i>Item</i> | <i>Subject</i> | <i>Exempt Para.</i> | <i>Page Nos.</i> |
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| EX1 (10) | Internal Audit and Risk Management Progress Appendix B | * 3 | 149 - 162 |

CENTRAL BEDFORDSHIRE COUNCIL

At a meeting of the **AUDIT COMMITTEE** held in Room 15, Priory House, Monks Walk, Shefford on Wednesday, 27 January 2010

PRESENT

Cllr D J Lawrence (Chairman)
Cllr R A Baker (Vice-Chairman)

Cllrs T Green
A Shadbolt

Cllrs B J Spurr

Apologies for Absence: Cllrs Mrs A Barker
P Snelling

Officers in Attendance: Mr J Atkinson Head of Legal Services
Mrs M Clampitt Democratic Services Officer
Ms S Cousins Health & Safety Manager
Mr C Heaphy Director of Corporate Resources
Mr A King Chief Accountant
Mr N Murley Assistant Director Audit & Risk
Ms K Riches Head of Audit

Others In Attendance: Ms D Hanson Audit Commission
Mr P King Audit Commission
Mrs C O'Carroll Audit Commission

A/09/53 **Chairman's Announcements**

The Chairman made the following announcements:

1. The Committee were informed that the amended Minutes would be the version signed by the Chairman.
2. The Constitution Advisory Group had agreed a change which no longer required the Minutes of the Audit Committee to be presented to the Executive. The Minutes would only be presented if there was an exempt item of business which required their attention.
3. There would now be a 'Matters Arising' section on the agenda from the April Meeting.
4. Officers were requested to bring a report to the April Meeting which would provide more information on the disaggregation of assets. The report would need to include the opening balance sheet for Central Bedfordshire.

5. At the last meeting in October 2009, it was agreed that a consolidated action plan be produced following recommendations made by the Audit Commission in each of the Annual Governance Reports for the legacy authorities. However as item 8 on the agenda, the Central Bedfordshire Annual Audit Letter has consolidated these recommendations, it was agreed an Action Plan will be presented to the next Committee in April in response to this report.
6. IFRS training – this was outstanding to Members. The Officers confirmed that provision of the training was important but the timing was critical. It was agreed that sessions would be provided following the closing of the Accounts.
7. SAP training – Different versions of the system were used all over the world. The Director of Corporate Resources confirmed that he would be providing a presentation to the Chief Executive and would suggest that a similar presentation be given to the Audit Committee.

A/09/54

Minutes**RESOLVED**

that the Minutes of the meeting of the Audit Committee held on 21 September 2009 and the Minutes of the Special Meeting held on 30 October 2009 be confirmed and signed by the Chairman as a correct record.

In relation to the 21 September 2009 Minutes, the Committee have been requested to review the electronically circulated copy and confirm their acceptance after the meeting.

Subject to the 30 October 2009 Minutes being amended at Minute No. A/09/49 recommendation 1 to read as follows:

- 1. that the Bedfordshire County Council Statement of Accounts 2008/09 be approved.***

A/09/55

Members' Interests

- (a) **Personal Interests:-**

None.

- (b) **Personal and Prejudicial Interests:-**

None.

A/09/56 **Petitions**

The Chairman announced that no petitions had been referred to this meeting.

A/09/57 **Public Participation**

No applications had been received under Procedure Rule No. CM9 to speak during the fifteen minute question and statement period at the beginning of the meeting. Furthermore there had been no applications to speak under the Public Participation Scheme on any items included on the Agenda for this meeting.

A/09/58 **Disclosure of Exempt Information**

There were no disclosures of exempt information.

A/09/59 **Central Bedfordshire Annual Audit Letter**

Debbie Hanson, the current District Auditor for Central Bedfordshire, informed the Committee that she would be passing over that responsibility to Mr Paul King. Debbie thanked the Committee for their cooperation during her time working with them. The Chairman thanked Debbie for her hard work and consideration during her time working with Central Bedfordshire Council.

The Audit Commission confirmed that four accounts had been audited which was comprised of the three legacy and the Pension Fund. Whilst there were delays in signing off the accounts due to clarification of various issues, the deadline of 30 November 2009 was met for all four accounts.

It was noted that the disaggregation of the Bedfordshire County Council assets had to be completed following discussions between Bedford Borough Council and Central Bedfordshire Council.

The new IFRS process will require the restatement of the comparatives for 2009/10. The Audit Commission will be monitoring the process to ensure the Council meets the targets.

The Use of Resources assessment for unitary authorities would include much tougher criteria. There was more of an emphasis on outcomes and so measurement would be placed on what difference has been made to services and how this affected people in the Community.

The Value for Money conclusions for Mid Bedfordshire District Council and South Bedfordshire District Council were both found to be adequate and therefore were unqualified. The Bedfordshire County Council conclusion however was qualified due to inadequate management arrangements around data quality.

Within the Managing Performance area the following were noted:

- The financial standing of the Council was seen as a significant risk due to the 2009/10 projected overspend but it was acknowledged that progress had been made to address this position and the overspend had been reduced to within acceptable tolerances.
- Housing Management and Homelessness were going to be particularly challenging areas especially during the current economic climate.
- The audit fees included an additional £28k as a result of the extra work undertaken during the audit of accounts for Bedfordshire County Council £15k and South Bedfordshire District Council £13k.
- A further risk highlighted was around the Housing benefit claims as both Mid Beds District Council and South Bedfordshire District Council audits in this area had been problematic in the past.
- A joint review of the shared services between Bedford Borough Council and Central Bedfordshire Council is being undertaken. This work would help both authorities confirm that certain shared services are still the correct option for both Councils.

RESOLVED

that the Central Bedfordshire Annual Audit Letter be noted.

A/09/60

Progress Report from the Audit Commission

The Committee received and considered the Progress report of the Audit Commission. The progress report provided an overview of where the Audit Commission were in relation to the current audits. The Audit Commission attend each meeting of the Audit Committee.

It was noted that a more detailed plan would be received at the April meeting, including the indicative fee for 2010/11.

It was acknowledged that a review of the grant claims would be carried out towards the back end of the year.

A question was asked in relation to the fact that the Council is capped at 3% for Council Tax and would this give rise to a revised fee? It was confirmed that the Audit Commission fees were standard across different authority types and published document for the whole country.

It was noted that the Grant claims review fee was based on the completion of all grant claims including the audit of NNDR & Housing benefits.

It was noted that Officers were working closely with the Audit Commission to reassure and inform of work done.

RESOLVED

that the Audit Commission Progress Report be noted.

A/09/61

Progress on the Strategic and Directorate Risk Registers

The Committee received and considered the report of the Director of Corporate Resources which provided an update on the progress made on the strategic and service risk registers.

The Executive at its meeting held on 12 January 2010 considered the Strategic Risk Registers which was required as part of the Corporate Risk Management Strategy.

The Assistant Director Audit & Risk informed the Committee of what information was provided by the Risk Register. The detailed strategic register sets out the individual risk, explaining in more detail the likely impact and then provides information on the risk control measures that are in place to mitigate the effect. A risk score, the product of the probability and impact, is presented representing how effective our current controls that are in place. A residual score is then presented assuming all of the controls are in place. The risk control owners are also set out in the register along with an expected completion date.

It was confirmed that the register should be flexible and that review of the register should be undertaken on a regular basis. The next date of that review by CMT would be in April to ensure that it captures the up to date risk position.

Clarification was provided that the Risk Register was owned by the Executive however it was the Audit Committee who were responsible for determining the risk management framework.

Members noted the progress made on the service and directorate registers and overall approved the document but had concerns that not all of the risks registers had been correctly identified under the relevant directorate. Officers accepted that the Leisure and Community Learning service register should now sit under the Sustainable Communities Directorate rather than that of Children, Families and Learning Directorate.

It was agreed that all comments made by the Committee around the Strategic Risk Register would be fed back into the next review undertaken by CMT and that an update on the service and directorate registers would be presented to the April Audit Committee.

RESOLVED

that the progress made on the Strategic and Directorate Risk Registers in line with the Corporate Risk Management Strategy be noted.

A/09/62

Internal Audit and Risk Management Progress Report

The Committee received and considered the report of the Director of Corporate Resources which provided an update on the work of internal audit and risk management for 2009/10.

The Assistant Director Audit and Risk informed the Committee that most of the audits were well underway and that the initial work involved included documenting the systems and then carrying out walk through tests. The substantive testing would then follow.

Other Internal Audit activity included investigating data matches under the national fraud initiative and it was noted that the school audit work was going well and was being reported to the schools forum.

The following issues were also discussed:

- Results set out under managing performance.
- Insurance claims – including dealing with run off claims
- Health & Safety work as detailed in Appendix A to the report. To date 21 audits have been carried out.
- Accident reporting system almost in place across the whole organisation
- There were 11 specific health and safety training sessions held to date which were all well attended. Regrettably the risk awareness event had to be cancelled due to corporate pressures.
- Members discussed the concerns with the way the property maintenance contract had been established.

Lastly members requested some clarification on the implementation of the internal audit recommendations. Officers explained that:

High recommendations were required to be implemented within 1 – 3 months
Med recommendations were required to be implemented within 1 – 6 months
Low recommendations were required to be implemented within 1 – 12 months

RESOLVED

that the progress made to date on the Internal Audit and Risk Management Progress report, be noted.

A/09/63

Third Quarter Close 2009/10 and Progress on IFRS Implementation

The Committee received and considered the report of the Director of Corporate Resources that provided information on proposals to carry out a third quarter close (to 31 December 2009) and were updated on progress made in meeting IFRS reporting requirements.

The Head of Corporate Finance introduced the Committee to Barry Williams, the authority's Interim Chief Accountant.

It was noted that the Third Quarter close was being introduced to raise the profile of the overall annual accounts process and ensure that as much of the work associated with the closure process was completed at the earliest opportunity. This would allow any early identification of any potential issues.

Central Bedfordshire Council were working on ensuring that the foundations for an effective closure process were in place during this process. As such a key output from the third quarter close were the production of a revised Statement of Accounts template that included a new Statement of Accounting Policies that both harmonised the policies of the predecessor authorities and captured any new accounting requirements included in the Statement of Recommended Practice. External Audit have already been engaged to discuss some issues which had arisen and regular meetings are planned through to the conclusion of the annual accounts process.

The authority was also undertaking a fundamental review of its control and suspense accounts (including bank and payroll accounts) in order to gain early assurances over their balances.

It was noted that the valuation work of land and building assets were previously owned by Bedfordshire County Council was due to be produced by Mouchel by the end of January. All bases of valuation were being harmonised in order to ensure consistent practice.

The Head of Corporate Finance updated the Committee on progress made in responding to the requirements of the International Financial Reporting Standards. The changes would impact upon the short and long term accounting arrangements of the authority.

The Committee was informed that the major issue for consideration within the current year's annual accounts was in respect of the treatment of the authority's Private Finance Initiative (PFI). A proposal on this area will be provided to the External Auditor by the end of February 2010.

Longer term IFRS issues are being evaluated by the authority and these include the treatment of unpaid employee benefits, leases and property, plan and equipment. Work has commenced on responding to the initial proposals and potential progress in this area has been helped due to the agreement on the principles of the disaggregation of the Bedfordshire County Council balance sheet.

It was noted that the DCLG has undertaken a further consultation on the implementation of IFRS that could have fundamental impact on the accounting treatment of leases and employee benefits. It was noted that the results of the consultation were due to be received between January and April 2010.

Members asked a number of questions regarding procedures and harmonization of policies and were content with the answers provided by Officers.

RESOLVED

that the comments contained within the Third Quarter Close 2009/10 and Progress on IFRS implementation report of the Director of Corporate Resources, be noted.

A/09/64

Work Programme

The Assistant Director Audit and Risk presented the Committee with the Work Programme and highlighted the items to be considered at the April meeting.

RESOLVED

that the future work programme be noted.

(Note: The meeting commenced at 10.00 a.m. and concluded at 12.25 p.m.)

Meeting: Audit Committee
Date: 12 April 2010
Subject: Internal Audit Strategy and Three Year Strategic Audit Plan
Report of: Director of Customer and Shared Services
Summary: This report presents the Internal Audit Strategy, the 2010/11 Annual Audit Plan and the Three Year Strategic Audit Plan for approval.

Contact Officer: Nick Murley, Assistant Director of Audit and Risk

Public/Exempt: Public

Wards Affected: All

Function of: Audit Committee

CORPORATE IMPLICATIONS

Council Priorities:

The Internal Audit Strategy, 2010/11 Annual Audit Plan and Three Year Strategic Audit plan will support all the Council Priorities

Financial:

Although there are no additional financial implications from the issues identified in the report, the outcome of implementing the Internal Audit Strategy, the 2010/11 Annual Audit Plan and the Three Year Strategic Plan is for the Council to better manage its risk thereby increasing protection from adverse events.

Legal:

None.

Risk Management:

None specifically. The Strategic Audit Plan has been developed from an Audit Needs Assessment using a risk based approach alongside the production of the Strategic, Directorate and Service risk registers.

Staffing (including Trades Unions):

None.

Equalities/Human Rights:

None.

Community Safety:

None.

Sustainability:

None.

RECOMMENDATION(S):

1. **that the Audit Committee approves:**
 - (a) **The Internal Audit Strategy**
 - (b) **The 2010/11 Annual Audit Plan and the Three Year Strategic Audit Plan**

Background

1. The Local Government Act 1972 requires that local authorities have arrangements in place for the proper administration of their financial affairs. More specifically the Accounts and Audits Regulations 2003 requires that a relevant body shall maintain an adequate and effective internal audit of its accounting records and its system of internal control in accordance with the proper audit practices.

Internal Audit Strategy

2. The Internal Audit Strategy is a high level statement of how the Internal Audit service will be delivered to meet these requirements.
3. The strategy sets out the approach for the period 2010/2013 and gives details of the:
 - aims and objectives
 - approach to the risk based planning
 - focus of the key areas of work
 - lines of communication with Members
 - reporting and assurance statement
 - links with risk management
 - quality assurance and performance
 - resources to deliver the strategy
4. The Internal Audit Strategy is attached at Appendix A.

Three Year Strategic Audit Plan

5. The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 states that a risk based plan designed to implement the audit strategy should be produced. The detailed plan should be fixed for a period of no longer than one year. However, a comprehensive Audit Needs Assessment will inform audit planning for future years.

6. As reported to the Audit Committee in September 2009, Internal Audit has been undertaking an Audit Needs Assessment for Central Bedfordshire in order to inform the audit needs for future years. The auditable environment is derived from consultation with Directors, Assistant Directors and Senior Officers of all the service areas and Internal Audit's analysis of the risk areas.
7. An audit plan for 2009/10 was produced and reported to the September Audit Committee, along with an outline of the approach adopted in producing the Audit Needs Assessment. Since then meetings have been held with Assistant Directors and Heads of Service to discuss their emerging risks and priorities. In preparing the Strategic Audit plan, reference has also been made to the Strategic Risk register. The plan has been approved by the Corporate Management Team.
8. The work undertaken has identified the need to ensure that the basic controls are in place across the organisation's systems and establishments, in addition to the following key risk areas:
 - Safeguarding Children
 - Adult Social Care
 - Financial risks, including budgetary constraints, the recession, and fraud
 - Partnerships/programmes and projects
 - Contracts and Commissioning
 - Service level Agreements
 - Environmental and sustainability risks
 - Technological /IT
 - Fundamental systems (e.g. payroll, accounts payable, NNDR)
 - Schools
9. In order to produce a balanced programme of work that addresses the risks identified above, the Three year Strategic Plan will include a rolling programme of work on the above areas, with the emphasis in 2010/11 on fundamental system controls. The specific work to be carried out will be considered when scoping the audit work. This will be undertaken following more detailed discussion with senior management each year to determine the focus of our audit work.
10. It is important to recognise the need for flexibility in the approach to our audit work. The approach adopted recognises the organisational and business transformation changes that are in progress within Central Bedfordshire and acknowledges that the internal control environment is still developing. Central Bedfordshire Council is a new authority and some risks may still be emerging. The current economic climate may also affect the control environment in the future. A contingency has been included within the plan to ensure that Internal Audit can respond accordingly.

Available Resources

11. In determining the available resources it has been assumed that the current level of audit resources will be maintained. During 2009/10 a total of 1,484 productive audit days were available. This was lower than a typical year due to the need for additional staff training, in particular in connection with new audit software.
12. It is estimated that there will be 1,560 productive audit days available for 2010/11 rising to 1,600 for 2011/12 and 2012/13.

Conclusion and Next Steps

13. Approval by the Audit Committee of the Internal Audit Strategy, 2010/11 Audit Plan and the Three Year Strategic plan will ensure that Internal Audit can progress its work in line with an agreed approach.
14. The Audit Committee will then use the final plan to monitor the work of internal audit to ensure that appropriate assurance is provided on the Council's systems.

Appendices:

Appendix A – Internal Audit Strategy

Appendix B – Internal Audit Plan 2010/2013

Background Papers: None

Location of papers: Priory House, Chicksands



CENTRAL BEDFORDSHIRE COUNCIL

INTERNAL AUDIT STRATEGY

2010 - 2013

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1. Statutory Role

- 1.1 The requirement for an Internal Audit function for local authorities is implied by section 151 of the Local Government Act 1972, which requires that authorities “make arrangements for the proper administration of their financial affairs”.
- 1.2 Regulation 6 of the Accounts and Audit Regulations 2003 more specifically requires that:
- “A relevant body shall maintain an adequate and effective system of internal audit of its accounting records and its system of internal control in accordance with the proper internal audit practices”.
- 1.3 The Council recognises that all officers of internal audit shall, in relation to the activities of the Council and as required by the Council’s Financial Regulations
- Have access to all Council properties
 - Be supplied with any documentation, records or explanations of transactions requested by them.

2. Strategic Aims and Objectives

- 2.1 Internal Audit supports the Council in its vision which sets the Council’s focus over the coming years. That vision is “Our vision is to improve the quality of all in Central Bedfordshire, and enhance the unique character of our communities and our environment.”
- 2.2 To deliver this vision, the Council has five strategic priorities as follows:
- Supporting and caring for an ageing population
 - Educating, protecting and providing opportunities for children and young people
 - Managing growth effectively
 - Promoting healthier lifestyles
 - Creating safer communities

Value for money will underpin all of these priorities

- 2.3 Internal Audit strives to provide a high quality service that gives management reasonable assurance on the effectiveness of the Council’s internal control environment and acts as an agent for change by making recommendations for continual improvement. The service aims to be flexible, pragmatic and deliver service in collaboration with management to suit organisational needs. Through a risk based approach, the service will make a positive contribution to corporate governance arrangements and assist management in developing a framework for achieving objectives within acceptable levels of risk. Within the team, it is intended to provide a work environment that is both supportive and challenging to facilitate the development and retention of high calibre staff.
- 2.4 The Terms of Reference of Internal Audit are summarised within the Code of Financial Governance (Section 5.4).

3. Reporting Lines and Communication with Members

- 3.1 The Director of Customer and Shared Services is the lead officer responsible to the Audit Committee.
- 3.2 Internal Audit forms part of the Customer and Shared Services Directorate. The Head of Audit reports on an administrative basis directly to the Assistant Director – Financial Services (Section 151 Officer).
- 3.3 The Head of Audit frequently reports to the Audit Committee and provides an annual report. The report includes an assessment on the standard of internal control within the Council and contributes to the production of the Annual Governance Statement.
- 3.4 The Audit Committee is responsible for agreeing and monitoring the Internal Audit plan, as stated in its terms of reference. The Audit Committee receives progress reports on internal audit and risk management activities. Where there is a need for changes to the audit plan, revisions will be submitted to the Director of Customer and Shared Services for approval. These will also be reported to the Audit Committee.
- 3.5 The Head of Audit has access to Members, the Chief Executive and Directors.

4. Internal Audit Standards

- 4.1 There is a statutory requirement for Internal Audit to work in accordance with 'proper audit practices'. These 'proper audit practices' are in effect 'the Standards' for local authority internal audit. The guidance accompanying the Accounts and Audit Regulations 2003 makes it clear that 'the Standards' are those specified in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.
- 4.2 The Internal Audit unit will adopt these standards in its operations. The refreshed audit manual and charter reflect these standards. The Head of Internal Audit will review and update, on an annual basis, the internal audit manual, charter and strategy. The Director of Customer and Shared Services will approve these and any changes during the year. Significant changes will be brought to the attention of the Audit Committee.

5. Internal Audit Scope

- 5.1 The Council has a risk management service. Internal Audit has integrated its risk assessment with these system and procedures. The scope of Internal Audit's work is determined by a risk based audit universe maintained by Internal Audit. Account is also taken of the Council's risk management processes in terms of identifying significant risks to the achievement of the Council's objectives.
- 5.2 To form the risk based audit universe, an audit needs assessment is completed which will prioritise all of the audit entities. This is carried out by completing a risk assessment for each entity to deliver the prioritisation. The risk assessment will contain the following weighted measures:

Inherent Risk

- Statutory nature of the service
- Contribution to the achievement of Council Objectives
- Gross income and expenditure
- Critical data / data protection
- Assets

Control Risk

- System and staff stability
- Complexity of Systems
- Reporting Structure
- Existence of Formal Management Control / Operating Procedures
- Fraud Susceptibility
- System Continuity
- Sensitivity
- Partnership Working / Service Level Agreements

The Head of Audit then agrees a three year internal audit plan based on these risk priorities and available resources with the Director of Customer and Shared Services, Central Bedfordshire Corporate Management Team and will present it to the Audit Committee for approval.

5.3 The overall Strategy of Internal Audit is:

“To deliver a risk-based audit plan in a professional, independent manner, to provide the organisation with an opinion on the level of assurance it can place upon the internal control environment, and to make recommendations to **improve it.**”

When preparing the audit plan, the following list represents the classification within which audits are considered:

- Audits in progress from previous year
- Key Controls Assurance Work
- Follow-up of “Unsatisfactory” audits or audits where ongoing risks have been identified
- Audits to mitigate the key control weaknesses identified in the risk registers
- Audits drawn from the Audit Universe based upon risk rankings
- New Developments
- Unplanned work (contingency)

5.4 Internal Audit work will focus on the following key areas:

- Reviews that contribute towards the mitigation of the strategic risks
- Managed audits (those reviews on key systems) that we must undertake to provide assurance to the Council (Members) and the S151 Officer that key systems controls are working well and can be relied upon to provide robust and accurate information.
- Systems reviews of the various service areas and processes (including governance arrangements)
- Reviews of the key contracts and partnership arrangements to ensure compliance to the Councils Financial Regulations and Contract Procedures
- Information Communication and Technology reviews across the whole Council

Appendix A

- Special Investigations (including fraud work) to ensure that the Council's anti-fraud and corruption policies are enforced, and the prevention, detection, and investigation of fraud is proactive
 - Follow-up work that ensures implementation of the internal audit and external agencies recommendations
 - Consultancy work that utilises Auditor's skills in providing advice to various officers and projects within the Council without necessarily undertaking an audit and/or issuing a formal report, and without compromising their independence
- 5.5 Our audit work is not just limited to implementing the audit plan. Internal Audit staff are actively involved in other areas supporting projects, using their skills to provide valuable advice to services, and delivering training.

6. Independence and Accountability

- 6.1 Internal Audit will remain independent of the activities that it audits to enable auditors to perform their duties in a manner which facilitates impartial and effective professional judgements and recommendations.
- 6.2 The Head of Audit has direct access and freedom to report in her/his own name and without fear or favour to all officers and members, and particularly to those charged with governance. Accountability for the response to the advice and recommendation of Internal Audit lies with management to either accept and implement the advice or formally reject it. Reviews will be assigned to Auditors and rotated within the various Audit Managers, in order to ensure independence in their reviews, and maximisation of skills.

7. The Annual Governance Statement (AGS)

- 7.1 The Accounts and Audit Regulations (Amendments) (England) 2006 (Reg. 4) requires from 2007/2008 the presentation of an Annual Governance Statement (AGS). In June 2007, CIPFA in association with SOLACE and with the support from key local government organisations from across the UK published a document called "Delivering Good Governance in Local Government Framework". The document provides guidance on the preparation of the AGS, and Internal Audit has an important role in that process.
- 7.2 In order to support the Council in its vision and to support the preparation of the AGS, Internal Audit's roles include reviewing and commenting on the whole corporate governance arrangements of the Council, and on the specific areas of the effectiveness of internal audit and internal controls. The results of Internal Audit's reviews of any of these areas will form part of the Annual Governance Statement, alongside other assurance sources.

8. Internal Audit's link with Risk Management

- 8.1 There is a strong link between Internal Audit and Risk Management. CIPFA identifies this link within the five dimensions to corporate governance (risk management and internal controls). Internal Audit has to provide assurance to senior management on the internal control systems that are controlling the risks to the organisation achieving its objectives. Internal Audit work will focus on key risks and priorities, as resources are finite. The information from the Council's risk management process informs the internal audit planning and work.
- 8.2 The responsibility for risk management is with the Chief Executive, and delegated to the Assistant Director – Corporate Strategy. Effective links between internal audit and risk management will enhance service delivery by identifying business risks, safeguarding

Appendix A

employees, protecting assets, preserving and maintaining effective stewardship of public funds and promoting a favourable corporate image.

- 8.3 Internal Audit and Risk Management, as mechanisms for controlling risks that threaten the assets and objectives of the Council, form a complementary and valuable partnership. Internal Audit is well placed to provide the Council with assurance, advice, independent assessment and scrutiny over its use, management of resources, performance and risk management arrangements (CIPFA - Local Government Internal Audit Manual 2004). Ensuring strong internal controls and an effective risk management strategy remains the responsibility of senior management.

9. Fraud and Corruption

- 9.1 Audit procedures alone, even when performed with due professional care, cannot guarantee the detection of fraud or corruption. Managing the risk of fraud and corruption is the responsibility of management. Internal Auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption. The Internal Audit unit will include Auditors with fraud investigation skills, and will continue to actively participate in the National Fraud Initiative (NFI). Management may request internal audit to undertake fraud and special investigations.
- 9.2 In accordance with the Council's Anti-Fraud and Corruption strategy, members, officers, and staff must report any allegations of fraud to Internal Audit and/or the Director of Customer and Shared Services.
- 9.3 Internal Audit is proactively raising awareness on anti-fraud matters. The unit is tasked with ensuring that appropriate counter fraud and corruption actions are taken in line with CIPFA's 2006 publication on "Managing the risk of fraud".

10. Reporting & Assurance Statement

- 10.1 For every internal audit assignment, the Auditor will prepare a written report. The Head of Audit will review the reports before distribution to the appropriate responsible officer.
- 10.2 Reports will include an 'opinion' on the adequacy of controls in the audited area. There are four opinions in use.

| <u>Opinion</u> | <u>Level of Assurance</u> | <u>Implications on systems of internal control</u> |
|--------------------|---------------------------|--|
| Full Assurance | High | <ul style="list-style-type: none"> • Good controls • Low risk of not meeting objectives • Low risk of fraud, negligence, loss, damage to reputation |
| Adequate Assurance | Medium | <ul style="list-style-type: none"> • Adequate controls • Medium/Low risk of not meeting objectives • Medium/Low risk of fraud, negligence, loss, damage to reputation |
| Limited Assurance | Medium/Low | <ul style="list-style-type: none"> • Limited controls • Medium risk of not meeting objectives • Medium risk of fraud, negligence, loss, |

| <u>Opinion</u> | <u>Level of Assurance</u> | <u>Implications on systems of internal control</u> |
|----------------|---------------------------|--|
| | | damage to reputation |
| No Assurance | Low | <ul style="list-style-type: none"> • Inadequate controls • High risk of not meeting objectives • High risk of fraud, negligence, loss, damage to reputation |

The 'opinion' will impact upon the circulation of the report and what, if any follow-up work is necessary.

- 10.3 Management's response will show actions, responsible officers and milestones in relation to each recommendation. Managers must state reasons for not accepting internal audit recommendations. The Head of Audit is responsible for assessing whether the managers response is adequate. Internal Audit will monitor the implementation of the recommendations and will report progress to senior management and the Audit Committee.

11. Quality Assurance & Performance Management

- 11.1 The audit manual establishes a robust internal review process that addresses the following:

- (a) the quality of audit work
- (b) the quality of supervision
- (c) compliance with CIPFA standards
- (d) compliance with the local audit manual
- (e) key performance indicators.

- 11.2 The Internal Audit charter contains a set of key performance indicators that will aid in monitoring internal audits performance. The realistic targets will be set and reviewed on an annual basis. The Head of Audit will monitor the targets on a regular basis and then report to the Assistant Director – Financial Services and frequently to the Audit Committee.

12. Internal Audit Resources

- 12.1 Internal Audit will be appropriately staffed in terms of numbers, qualifications and experience, having regard to its objectives and to the standards within which it is required to operate.
- 12.2 The Head of Audit is responsible for ensuring that the resources of the Internal Audit section are sufficient to meet its responsibilities and achieve its objectives. They will also ensure that the appropriate mix of qualifications, experience and audit skills exist within the unit
- 12.3 If a situation arose whereby internal audit resources were insufficient, the Head of Audit will discuss this with the Assistant Director - Financial Services.
- 12.4 Internal Auditors will maintain their professional competence through an appropriate ongoing development programme. Auditors will not only be of a suitable quality but also will maintain their independence.

12.5 It may be necessary from time to time to buy-in either agency staff or sub-contractors, but in doing so must ensure that they are of a suitable quality. A call off contract will establish a one stop shop of qualified Auditors to support the service, if and as required.

13. Protocols & Relationship with other review bodies and partners

13.1 To ensure a professional working relationship with managers, partners and stakeholders, Internal Audit has adopted a charter with the Director of Customer and Shared Services. The charter has been approved by the Audit Committee, following consultation with senior management. In addition to detailing how Internal Audit will be working with Auditees (CBC, Partners & Stakeholders), the charter contains key performance indicators internal audit will be expected to meet.

13.2 In addition to the charter with the Director of Customer and Shared Services, Internal Audit will agree a protocol with the Audit Commission to support the managed audit obligations (to follow).

13.3 The Head of Audit is aware of the existence of all key partnerships, controlled and associated companies and other similar arrangements, for audit planning purposes, as this has implications for the risks faced by the authority.

13.4 The Head of Audit must review the processes that are in place to ensure that the governance arrangements of partnerships are sound and provide for a clear definition of responsibilities, and must be satisfied that clear arrangements have been established to determine, rights of access to the staff, systems and information of the governing body of partnerships.

14. Comprehensive Area Assessment (CAA) and Use of Resources (UoR)

14.1 The work of the Internal Audit aims to support the organisation in the achievement of excellent results arising from external inspections, in particular the Comprehensive Area Assessment (CAA) and the Use of Resources (UoR).

14.2 To achieve this Internal Audit will:

- Be alert to the requirements of Key Lines of Enquiry (KLOE) when undertaking their work and provide evidence to demonstrate achievements of these;
- Provide advice and support as and when required either during or in preparation for such inspections

15. National Networks

15.1 In looking to ensure that Internal Audit operates to high standards and ensures currency of knowledge regarding national issues, the Head of Audit and other senior officers regularly liaise with their relevant peers in neighbouring Councils.

These networks currently include:

- CCAN County Chief Auditors Network
- HCCIAG Home Counties Chief Internal Auditors Group
- MCCIAG Midland Counties Chief Internal Auditors Group
- MCCAPG Midland Counties Computer Audit Practitioners Group
- CIPFA - BGF Better Governance Forum (Chartered Institute of Public Finance and Accountancy)
- CIPFA Counter Fraud Advisory Network

- CIPFA Risk Management Panel
- ALARM National Forum for Risk Management in the Public Sector

16. Related Documents

16.1 The other related documents that should be read in conjunction with this strategy are as follows:

- Financial Code of Governance which forms part of the Financial Regulations for Central Bedfordshire Council
- Anti-Fraud and Corruption Strategy
- Confidential Reporting Policy (otherwise known as 'the whistleblowing policy')
- CBC Internal Audit Charter
- CBC Internal Audit Manual
- Audit Commission / Internal Audit Protocol (to follow)
- Audit protocol between Bedford Borough Council and central Bedfordshire council (to follow)

17. Outcomes

17.1 Following the annual review and continuous implementation of this strategy, and commitment from managers in implementing audit recommendations, the Council should see the following:

- Improved secured systems
- Optimum protection of public funds
- Good value for money
- Transparent and effective identification and management of risks
- Continued service improvement

| IA Ref | Audit Title | 2010/11 | 2011/12 | 2012/13 |
|--|---|------------|------------|------------|
| MANAGED AUDITS (Key Financial Systems) | | | | |
| | Accounts Payable/Purchase Ledger | 30 | 25 | 25 |
| | Accounts Receivable/Sales Ledger | 30 | 25 | 25 |
| | Asset Management (incl. Asset Register)/Capital Accounting | 30 | 25 | 25 |
| | Council Tax | 40 | 40 | 30 |
| | Housing Benefits | 60 | 60 | 50 |
| | Main Accounting Systems (MAS) | 30 | 25 | 25 |
| | National Non Domestic Rates NNDR | 40 | 40 | 30 |
| | Payroll | 30 | 25 | 25 |
| | SWIFT Financials | 15 | 15 | 15 |
| | Treasury Management | 30 | 30 | 25 |
| | Housing Rents | 30 | 30 | 25 |
| | Cash And Banking (Income) | 30 | 30 | 20 |
| | TOTAL - MANAGED AUDITS | 395 | 370 | 320 |
| ASSURANCE AUDITS - OFFICE OF CHIEF EXECUTIVE | | | | |
| | Local Area Agreement & Pooled Funding | 10 | 10 | 10 |
| | Partnership Agreements and Joint Working | 20 | 20 | 20 |
| | Performance Management (i.e. Data Quality Management & BVPIs) | 20 | 20 | 20 |
| | TOTAL - OFFICE OF CHIEF EXECUTIVE | 50 | 50 | 50 |
| ASSURANCE AUDITS - CUSTOMER AND SHARED SERVICES | | | | |
| | Major Projects | 20 | 20 | 20 |
| | Area Based Grants | 15 | 0 | 0 |
| | Budgeting & Budgetary Controls | 20 | 0 | 0 |
| | Implementation of IFRS | 5 | 5 | 0 |
| | Accounts Payable (Purchasing Cards Project) | 10 | 0 | 0 |
| | TOTAL - CUSTOMER AND SHARED SERVICES | 70 | 25 | 20 |
| ASSURANCE AUDITS - CHILDREN'S SERVICES | | | | |
| | Safeguarding Vulnerable Children | 20 | 20 | 20 |
| | Commissioning | 20 | 20 | 20 |
| | Learning Skills Council - Transfer of Responsibilities to CBC | 15 | 15 | 15 |
| | Schools General - School Improvement | 300 | 250 | 250 |
| | TOTAL - CHILDREN'S SERVICES | 355 | 305 | 305 |

| IA Ref | Audit Title | 2010/11 | 2011/12 | 2012/13 |
|---|--|-----------|------------|-----------|
| ASSURANCE AUDITS - SOCIAL CARE, HEALTH & HOUSING | | | | |
| | Personalisation/individual Budgets | 0 | 20 | 20 |
| | Safeguarding Vulnerable Adults | 0 | 20 | 20 |
| | Commissioning/Contracting | 20 | 20 | 20 |
| | Local Management of establishments (including Day Centres) | 20 | 20 | 0 |
| | Financial Management | 0 | 20 | 0 |
| | TOTAL - SOCIAL CARE, HEALTH & HOUSING | 40 | 100 | 60 |
| ASSURANCE AUDITS - SUSTAINABLE COMMUNITIES | | | | |
| | Section 106 Agreements | 15 | 0 | 0 |
| | Sustainability | 15 | 15 | 15 |
| | EEDA Economic Participation Programme | 10 | 10 | 10 |
| | TOTAL - SUSTAINABLE COMMUNITIES | 40 | 25 | 25 |
| ASSURANCE AUDITS - GOVERNANCE | | | | |
| | Hospitality & Gifts Registers | 0 | 0 | 0 |
| | Members Code of Conduct | 0 | 5 | 0 |
| | Declaration of Interests | 5 | 0 | 0 |
| | Ethical Governance | 0 | 0 | 5 |
| | TOTAL - GOVERNANCE | 5 | 5 | 5 |
| ASSURANCE AUDITS - CONTRACTS & PARTNERSHIPS | | | | |
| | Service Level Agreements | 10 | 10 | 10 |
| | Contracts Management | 20 | 20 | 20 |
| | Contracts Register | 10 | 0 | 0 |
| | TOTAL - CONTRACTS & PARTNERSHIPS | 40 | 30 | 30 |

| IA Ref | Audit Title | 2010/11 | 2011/12 | 2012/13 |
|--------------------------------|--|-------------|-------------|-------------|
| ASSURANCE AUDITS - ICT | | | | |
| | Information Security (including ContactPoint) | 10 | 10 | 10 |
| | SAP Access & Authorisation | 10 | 10 | 10 |
| | Desk Top Security and End Point Compliance | 0 | 15 | 0 |
| | IT Change and Release Management | 0 | 0 | 15 |
| | IT Disaster Recovery (including Network Backup) | 0 | 15 | 0 |
| | IT Governance (including IT Strategy) | 0 | 0 | 15 |
| | SAP Systems | 0 | 15 | 0 |
| | SAP Basis | 15 | 0 | 0 |
| | SAP Development | 15 | 0 | 0 |
| | TOTAL - ICT | 50 | 65 | 50 |
| SPECIAL INVESTIGATIONS | | | | |
| | National Fraud Initiative (NFI) | 40 | 40 | 40 |
| | Special Investigations | 30 | 30 | 30 |
| | Pro Active Anti Fraud | 20 | 20 | 20 |
| | TOTAL - SPECIAL INVESTIGATIONS | 90 | 90 | 90 |
| AD HOC CONSULTANCY ETC. | | | | |
| | Annual Governance Statement | 5 | 5 | 5 |
| | Use of Resources | 5 | 5 | 5 |
| | Audit of Individual Grants | 30 | 30 | 30 |
| | General Advice | 20 | 20 | 20 |
| | Contingency | 191 | 298 | 408 |
| | Professional Groups | 14 | 14 | 14 |
| | Head of Audit Chargeable Against Plan | 55 | 58 | 58 |
| | Benchmarking Exercise | 5 | 5 | 5 |
| | TOTAL - AD HOC CONSULTANCY | 325 | 435 | 545 |
| CARRY OVER WORK | | | | |
| | Completion of reviews in progress as at 31st March | 100 | 100 | 100 |
| | TOTAL - CARRY OVER WORK | 100 | 100 | 100 |
| | TOTAL CHARGEABLE DAYS REQUIRED | 1560 | 1600 | 1600 |

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Meeting: Audit Committee
Date: 12 April 2010
Subject: Internal Audit and Risk Management Progress Report
Report of: Director of Customer and Shared Services
Summary: This report provides a progress update on the status of internal audit and risk management work for 2009/10.

Contact Officer: Nick Murley, Assistant Director Audit & Risk
Public/Exempt: Public
Wards Affected: All
Function of: Audit Committee

CORPORATE IMPLICATIONS

Council Priorities:

The activities of Internal Audit and Risk Management are crucial to the governance arrangements of the organisation and as such are supporting all of the priorities of the Council.

Financial:

None directly from this report.

Legal:

None directly from this report.

Risk Management:

No risk management implications come directly from this report but the Risk Management team have been actively working with Directors and Assistant Directors to identify and score strategic, directorate and service risk with the controls to mitigate these risks.

Staffing (including Trades Unions):

None directly from this report.

Equalities/Human Rights:

None directly from this report.

Community Safety:

None directly from this report

Sustainability:

None directly from this report

RECOMMENDATION:

That the Audit Committee note the progress made to date.

Background

1. Management is responsible for the system of internal control and should set in place policies and procedures to help ensure that the system is functioning correctly. Internal Audit and Risk Management review, appraise and report on the efficiency, effectiveness and economy of financial and other management controls.
2. In September 2009, the Audit Committee approved the 2009/10 internal audit plan, drawing information from the Audit Needs Assessment exercise that was being undertaken for the whole council to form that plan. This report builds on the information presented to the January Audit Committee updating progress made against the 2009/10 Audit Plan and the work of the Risk Management team to the end of February.

Progress on the 2009/10 Internal Audit Plan.

3. The Audit Needs Assessment informing our Strategic Internal Audit Plan is complete and the outcomes presented in the Strategic Plan presented elsewhere on this agenda.
4. Regular meetings continue to take place with the Audit Commission discussing progress and sharing our audit work.
5. Final reports for these managed audits will not be finished until early in the next financial year as the substantive transaction testing continues to be undertaken to cover the complete 2009/10 financial year.

7. Progress on all audits is given below:

| Review Title | Progress | |
|-----------------------------|---------------------------------------|------------------------------|
| | Systems Documentation and Walkthrough | Substantive Testing |
| Managed Audits | | |
| Accounts Payable | Report issued | Phase 1 fieldwork completed. |
| Accounts Receivable | Report issued | In progress |
| Main Accounting System | Report Issued | Phase 1 fieldwork completed. |
| Cash & Banking | In progress | Not completed. |
| Treasury Management | Draft report issued | Not completed. |
| Payroll | Report issued. | Phase 1 completed. |
| Asset Management | In progress | In progress |
| SWIFT Financials | In progress | In progress |
| National Non Domestic Rates | Draft report issued | Phases 1 and 2 in progress |
| Council Tax | Draft report issued | Phases 1 and 2 in progress |
| Housing Rents - Arrears | Report issued | Phases 1 and 2 in progress |
| Housing rents- Calculation | Draft report completed | In progress |
| Housing Benefits | Report issued | Phases 1 and 2 in progress |
| SAP Access and Security | n/a | In progress |

| Other Audits | |
|------------------------------------|---|
| Review Title | Progress |
| Youth Foster Care | Awaiting management action plan update |
| Grants | Final report issued |
| Gifts and Hospitality | Final report issued |
| Leighton Buzzard Theatre | Awaiting management comments on draft report |
| Teachers Pensions | Fieldwork completed. Report writing in progress |
| EEDA Grant Claim | Fieldwork completed |
| Travel and Subsistence | Fieldwork completed. Report writing in progress |
| Data Quality Management | Fieldwork completed. Report writing in progress |
| Contactpoint | Fieldwork started. |
| Section 31 Outturn Statement | Fieldwork started. |
| Bus Service Operators Grant Claims | Substantially completed. |

9. Our assurance ratings on all of the above will be reported to the June 2010 Audit Committee.

National Fraud Initiative (NFI)

10. We continue to complete work around the National Fraud Initiative (NFI). This involves supplying data to the Audit Commission for matching purposes and then investigating any of the positive matches.
11. During 2009/10 we have been completing work started by the legacy authorities including matches around pension payments to registered deaths, matching payrolls between local authorities, and other matches including UK visas, blue badges, private residential care, and Housing Benefits.
12. As a result of our work to date £7,240.92 has been identified as being fraudulent from the former BCC data matches. No savings have been identified from either the South or Mid Beds portals. There are however a number of matches that are still being investigated. The council tax single person discount (SPD) results for your council are now available and these are in the process of being reviewed.

Special Investigations

13. To date we have completed two special investigations which concluded there were no breaches of key controls or any fraudulent activity.
14. We currently have two further investigations underway and as soon as these have been concluded, any significant control weaknesses or fraudulent activity will be presented to the committee.

Schools

16. Of the planned school FMSiS assessments, 83 have been finalised. 90% of the schools assessed have met the standard which equates to 54% of all Central Bedfordshire Schools. A further 22 assessments are in progress and an additional 8 have been submitted and are awaiting assessment.
17. Reports on the progress of the audit work have been taken to the Schools Forum in June 2009, September 2009 and January 2010.
18. In addition to the CBC schools, the team have also completed 17 Bedford Borough Council (BBC) school assessments that were in progress at the start of the financial year. As such BBC has been invoiced for this element of our work.

Performance Management

24. The Internal Audit Charter approved by the Audit Committee in April 2009 requires Internal Audit to report its progress on some key performance indicators. Processes will be developed to ensure that progress reports contain periodically updated indicators.

25. The indicators include both CBC audit activities and school activity.

26. **Activities for 1 April 2009 – 28 February 2010**

| KPI | Definition | How we performed | Our target |
|------------|--|-------------------------|-------------------|
| KPI01 | Percentage of total audit days completed. | 83% | 80% |
| KPI02 | Percentage of the number of planned reviews completed. | 49% | 80% |
| KPI03 | Percentage of audit reviews completed within the planned time budget. | 49% | 80% |
| KPI04 | Time taken to draft reports: Percentage of reviews where the first final draft report was returned within 10 available working days of receipt of the report from the Auditor. | N/A | 80% |
| KPI05 | Time taken to issue a final report: Percentage of reviews where the final report was issued within 10 available working days of receipt of the response agreeing to the formal report. | N/A | 80% |
| KPI06 | Overall customer satisfaction | 85% | 80% |

27. Analysis of indicators:

KPI01 – In the first eleven months we have delivered a total of 1,244 productive audit days against a total of 1,484 planned days for the year. This exceeds our target for the period.

KPI02 – This KPI measures final reports issued to date, 49% of the planned reviews have been completed to final report stage. However, this excludes work on managed audits for which the final report will not be issued until substantive testing is finalised. In addition, there are 22 FMSiS toolkit assessments in progress.

KPI03 – Only 49% of planned reviews have been completed within the planned time budgets. This includes a number of school FMSiS assessments which have gone over budget. The approach to undertaking these reviews is currently being reviewed. Some audit reviews have taken longer than planned due to staff developing skills in using the new audit software. In addition, the integration of audit teams from three legacy authorities has required harmonisation of working practices and the development of staff to deliver a broader range of audits. Central Bedfordshire Council's systems are still developing which has resulted in additional audit time being taken to identify and document systems.

KPI04 - This indicator cannot be measured until final reports are issued.

KPI05 - This indicator cannot be measured until final reports are issued.

KPI06 - Of the 32 questionnaires sent out, 18 have been returned to date, giving a response rate of 56%. All returned questionnaires relate to FMSiS toolkit assessments. Overall, the feedback has been very positive. The analysis indicates an overall satisfaction rate of 85%.

Progress on the 2009/10 Corporate Risk Management Strategy

28. The Corporate Risk Management Strategy was approved in February 2009 by the Shadow Executive and endorsed by the Audit Committee in April 2009. The framework supporting this strategy was also approved by the Audit Committee at the same meeting in April.
29. Appendix A highlights the progress made to date on the Service and Directorate Risk Registers.

Health & Safety

33. The Health and Safety Manager has produced a 2009/10 annual risk based health and safety audit plan for our buildings. This will be resourced using our insurers, contractors and our own staff.
34. To date 42 audits have been carried out to date. The Risk Management Corporate report, attached at Appendix B, gives more information around where the audits have been completed in February and what the key audit findings were.

35. The appendix also provide various information around other Risk Management team activity including the number of accidents that have occurred during the first three quarters of the year and the number of insurance claims closed or that are still open. Both the Health and Safety and Insurance teams have provided advice and support to management around these incidents.

Training

38. A comprehensive 2009/10 Risk Management and Health & Safety training programme has been developed and is available to all staff and Members. As at 28 February 2010, 19 specific training sessions have been run by the team including working safely, managing safely and risk assessment training.

Conclusion and Next Steps

41. Good progress continues to be made by both of the Internal Audit and Risk Management teams and has enabled us to advise management of some of the control weaknesses we have identified at an early stage.
42. Final audit reports will be issued during the early part of the next financial year and annual reports will be produced for both Internal Audit and Health & Safety.

Appendices:

Appendix A Progress on Directorate and Service Risk Registers

Appendix B Risk Management Corporate Report (Exempt Agenda Item 1)

Background Papers:

2009/10 Internal Audit Plan – Audit Committee 21 September 2009

Location of papers: Priory House, Chicksands, Bedfordshire

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Appendix A

Directorate & Service Area Risk Registers

| | Status |
|--|----------------------|
| Office of the Chief Executive | In progress |
| Communications | Completed |
| Policy Partnerships & Performance | Completed & approved |
| Customer & Shared Services | In progress |
| Audit & Risk | Completed |
| Customer Service & Business Transformation | Completed |
| Financial Services | Completed |
| HR & Organisational Development | Completed |
| Information & Communication Technology | Completed |
| Legal & Democratic Services | Completed |
| Property & Asset Management | Completed |
| Children Families & Learning | Final Amendments |
| Children's Specialist Services | Completed |
| Development & Commissioning | Completed |
| Integrated Services | Completed |
| Learning & School Support | Completed |
| Leisure & Culture Adult & Community Learning | Completed |
| Social Care, Health & Housing | Final Amendments |
| Adult Social Care | Completed |
| Business & Performance | Completed |
| Commissioning | Completed |
| Housing Services | Completed |
| Sustainable Communities | Final Amendments |
| Community Safety & Public Protection | Completed |
| Development Management | Completed |
| Economic Growth Regeneration | Completed |
| Highways | Completed |
| Planning & Development Strategy | Completed |
| Waste Operations & Waste Strategy | Completed |

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Meeting: Audit Committee
Date: 12 April 2010
Subject: Audit Opinion Plan 2009/10
Report of: Audit Commission
Summary: To note the Audit Opinion Plan for 2009/10.

Contact Officer: Cathy O'Carroll, Audit Commission
Public/Exempt: Public
Wards Affected: All
Function of: Audit Committee

CORPORATE IMPLICATIONS

Council Priorities:

The activities of External Audit are crucial to the governance arrangements of the organisation and as such are supporting all of the priorities of the Council.

Financial:

The indicative fee set out in the attached report is covered by the budget provision made in 2010/11.

Legal:

Audit Commission Act 1998

Risk Management:

There is a risk that additional work will need to be undertaken by the Audit Commission in 2010/11 which would lead to additional fees. This would have to be agreed in advance by the Director of Customer and Shared Services.

Staffing (including Trades Unions):

None directly from this report.

Equalities/Human Rights:

None directly from this report.

Community Safety:

None directly from this report

Sustainability:

None directly from this report

RECOMMENDATION:

That the Audit Committee note the report.

Background

1. The information contained within external audit reports should be used by those charged with governance, to help confirm the governance and internal control arrangements in place at the council.
2. A member of our External Auditor team will present their report attached at Appendix A, the 2009/10 Audit Opinion Plan.
3. Committee members will have the opportunity to raise questions or discuss any aspects relating to the report.

Appendices:

Appendix A Audit Opinion Plan 2009/10

Background Papers:

None

Location of papers: Priory House, Chicksands, Bedfordshire

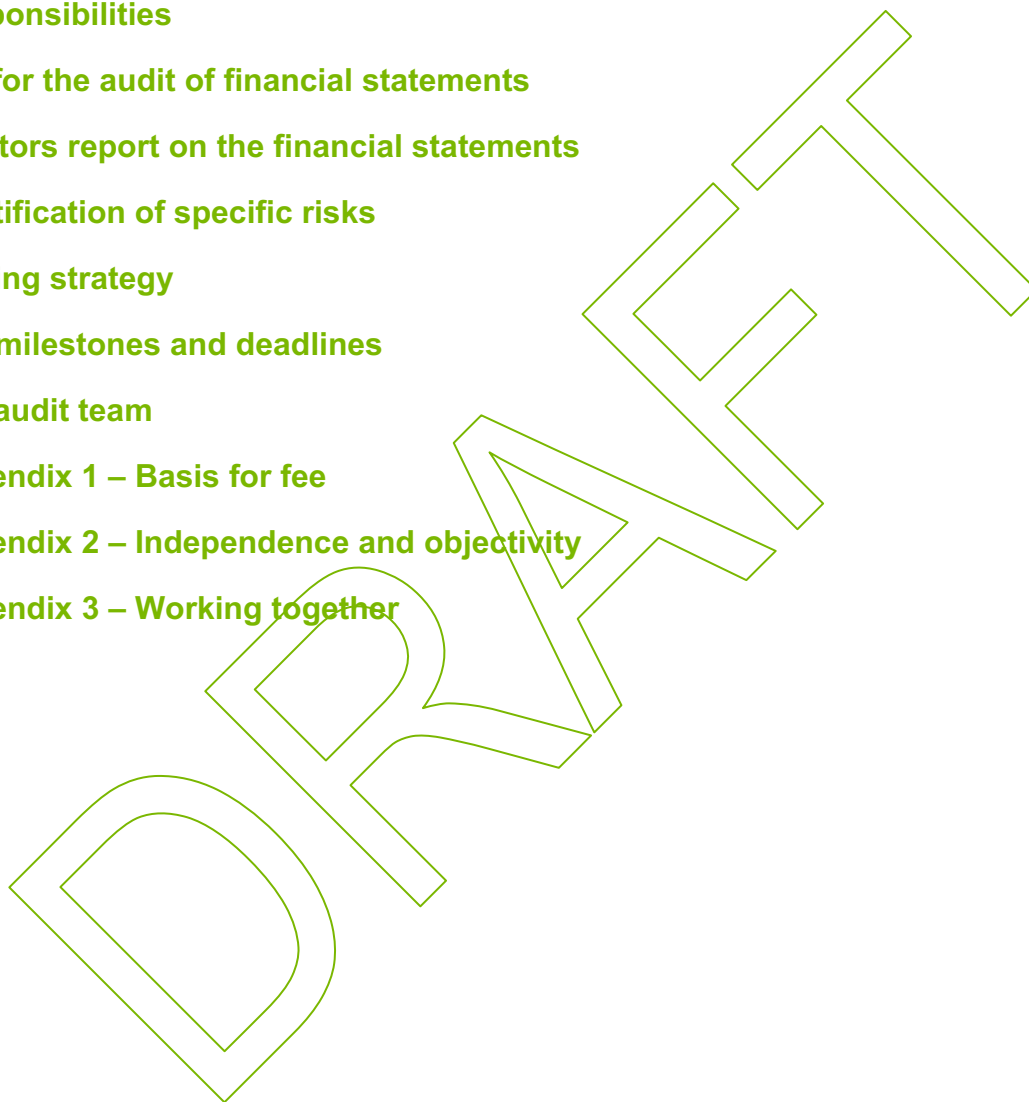
Audit Opinion Plan

Central Bedfordshire Council
Audit 2009/10

DRAFT

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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.
-

Introduction

- 1 This plan sets out the audit work that we propose to undertake for the audit of financial statements 2009/10. The plan is based on the Audit Commission's risk-based approach to audit planning. It reflects:
 - audit work specified by the Audit Commission for 2009/10;
 - current national risks relevant to your local circumstances; and
 - your local risks.

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Responsibilities

- 2 The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to every audited body.
- 3 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and our audit work is undertaken in the context of these responsibilities.
- 4 We comply with the statutory requirements governing our audit work, in particular:
 - the Audit Commission Act 1998; and
 - the Code of Audit Practice.

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Fee for the audit of financial statements

- 5 The indicative fee for the audit is £323,000, this is the same fee as was stated in Debbie Hanson's letter of 22nd May 2009. However, I may have to reassess this fee if further work is required as a result of the risk areas set out in Table 1, below. The details of the structure of scale fees are set out in the Audit Commission's work programme and fee scales for 2009/10. Scale fees are based on a number of variables, including the type, size and location of the audited body.
- 6 The Audit Commission scale fee for Central Bedfordshire Council is £292,005. The fee proposed for 2009/10 is 10.6 per cent above the scale fee and is within the normal level of variation specified by the Commission.
- 7 In setting the fee, we have assumed that:
 - the level of risk in relation to the audit of the financial statements is not significantly different from that identified when we set our indicative fee in May 2009;
 - Internal Audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
 - you will inform us of significant developments impacting on the audit; and
 - the Council will supply good quality working papers, at the start of the audit, to support the 2009/10 financial statements.
- 8 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee. Where this is the case, we will discuss this in the first instance with the Director of Customer and Shared Services and we will issue supplements to the plan to record any revisions to the risk and the impact on the fee.
- 9 Further information on the basis for the fee is set out in Appendix 1.

Specific actions Central Bedfordshire Council could take to reduce its audit fees

- 10 The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to reduce its audit fees. As in previous years, we will work with staff to identify any specific actions that the Council could take and to provide ongoing audit support.
- 11 We meet with Internal Audit (IA) on a regular basis and are working together to ensure that there is no duplication of work and that their work on the financial systems is

complementary to ours. In order to comply with the International Standard on Auditing (UK and Ireland) 315 we are required to document all systems which create a material figure in the accounts and understand and document how transactions flow through the information system, that is 'walkthrough' a transaction. IA plan their work on the Council's material systems to assist us in this.

- 12 IA had planned that their walkthroughs of the Council's key financial systems would be complete by the end of January 2010 so that we could rely on their work in carrying out our own work, planned for February and March 2010. However, not all of the IA work was available at this time, due to IA capacity and the availability of staff across the Council. Therefore we have carried out our own walkthroughs on some of the systems.
- 13 To enable us to place reliance on work carried out by IA their work must comply with our own audit approach. While we have been able to use the work that IA have carried out we have had to raise additional queries and have asked IA to carry out additional work to ensure that the same transaction has been documented through the information system, from initiation to appearing in the financial statements. We will continue to work with IA to ensure that their approach to the managed audits is complementary to our own audit approach.

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Auditors report on the financial statements

- 14 I will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 15 I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view of the financial position of the Council as at 31 March 2010.

Identifying opinion audit risks

- 16 As part of our audit risk identification process, we need to fully understand the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. We do this by:
 - identifying the business risks facing the Council, including assessing your own risk management arrangements;
 - considering the financial performance of the Council;
 - assessing internal control - including reviewing the control environment, the IT control environment and Internal Audit; and
 - assessing the risk of material misstatement arising from the activities and controls within the Council information systems.

Identification of specific risks

17 We have considered the additional risks that are appropriate to the current opinion audit as set out in Table 1.

Table 1 Specific opinion risks identified

| Risk area | Audit response |
|---|---|
| <p>The Council has faced considerable budget pressures in 2009/10. The 2010/11 budget has been set on the basis that the outturn for 2009/10 will be a break even position.</p> <p>This increases the risk of manipulation of income and expenditure by overstating income and understating spending to remain within budgets for 2009/10.</p> | <p>We will continue to monitor the Council's financial health.</p> <p>We will target our cut off testing for the 2009/10 financial statements on expenditure incorrectly excluded from the 2009/10 accounts and income wrongly included within them. We will also target our testing to look for missing spending and creditors and overstated income and debtors.</p> |
| <p>Our work on the Council's financial systems, informed by the work of Internal Audit, has identified weaknesses in the operation of controls in a some systems in particular the following controls were found to have lapsed in the Payroll system:</p> <ul style="list-style-type: none"> - monthly reconciliations between HR and FI records had not been carried out since June 2009. The purpose of this reconciliation is to perform headcount reconciliation between the establishment held on SAP HR and financial postings made in the SAP Finance (FI) module. This reconciliation had not been undertaken since June 2009, and - sample checks on all changes made via SAP changes reports (i.e. starters and leavers) had not been sample checked by the HR Operations Manager since July 2009. | <p>If we unable to rely on controls having been in place in these systems throughout the year we will have to carry out substantive testing to enable us to conclude that the financial statements are not materially misstated.</p> <p>If we are unable to carry out an accurate predictive Analytical Review on the payroll figure in the accounts, which is a risk as 2009/10 is the first year of operation for this Council; we will need to test a sample of payroll payments, in accordance with our audit approach. Our initial calculations suggest that we would need to test approximately 80 payments.</p> <p>This would require additional work above that planned in our initial fee.</p> |
| <p>The new Council has had to bring together three asset registers, to form the Central Bedfordshire Asset</p> | <p>We will review and test the new asset register to ensure that asset details have been transferred correctly and that it is complete.</p> |

Identification of specific risks

| Risk area | Audit response |
|---|--|
| <p>Register. This includes the housing stock from South Bedfordshire District Council (SBDC) with over 5,000 properties and a large number of schools from Bedfordshire County Council.</p> | |
| <p>Bedfordshire CC (BCC) entered into a long term PFI (Public Finance Initiative) contract for two schools in December 2003. The Council need to ensure that the accounting treatment of this scheme is consistent with the requirements of International Financial Reporting Standard IFRIC12.</p> | <p>We will review the Council's accounting treatment of this scheme to ensure that it complies with IFRIC 12.</p> <p>We will have to seek further advice from our Technical Unit to assist with this. This may result in additional fee.</p> |
| <p>We reported in the Central Bedfordshire Annual Audit Letter, in December 2009, that there had been a number of amendments to the SBDC 2008/09 accounts in respect of accounting for the HRA and that Accounting correctly for capital will be a major challenge for the new Council.</p> <p>Capital accounting is a particularly complex area for local government accounting and there are specific rules for HRA assets.</p> | <p>We have monthly meetings with the Chief Accountants Team to discuss accounting issues and we will continue to review the accounting treatment of capital to ensure that there are no material errors.</p> |
| <p>The opening balances of the new Council will comprise the closing balances of Mid Bedfordshire (MBDC) and SBDC and the Central Bedfordshire proportion of the disaggregated BCC balance sheet.</p> | <p>We will be reviewing the Council's opening balances; this will include a review of the disaggregation of the BCC balance sheet as at 31 March 2009.</p> |
| <p>Following the recent restructure at the Council the role of Chief Financial Officer (CFO) is no longer on the Corporate Management Team.</p> <p>The CFO occupies a critical position to ensure that resources are used wisely in order to secure positive results and influence the financial</p> | <p>We will review the arrangements in place in comparison with the CIPFA Statement on the Role of the CFO in Public Service Organisations.</p> |

| Risk area | Audit response |
|---|--|
| direction of the Council. | |
| <p>The audits of the MBDC and SBDC housing benefits claims in 2008/09 were problematic and both claims were subject to qualification reports.</p> <p>We expect to have to carry out additional work on the SBDC 2008/09 claim as we reported to the Department of Works and Pensions (DWP) that there were a number of cells where we were unable to reach a conclusion or quantify the error. The DWP is likely to require us to complete further work to reach an opinion on these cells.</p> | <p>We will carry out additional audit work as required by the DWP. This will result in additional fees in respect of grant claim work.</p> |

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Testing strategy

- 18 On the basis of risks identified above we will produce a testing strategy which will consist of testing key controls and/or substantive tests of transaction streams and material account balances at year end.
- 19 Our testing can be carried out both before and after the draft financial statements have been produced (pre- and post-statement testing).
- 20 Wherever possible, we will complete some substantive testing earlier in the year before the financial statements are available for audit. In discussion with officers we have identified the following areas where substantive testing could be carried out early.
- Review of accounting policies.
 - Investments – ownership.
 - Review of opening balances.
 - Fixed asset additions and disposals.
 - Members' allowances.
 - Review of Register of Members Interests.

Where other early testing is identified as being possible, this will be discussed with officers.

- 21 As already noted in paragraph 10, wherever possible, we seek to rely on the work of Internal Audit to help meet our responsibilities.

Key milestones and deadlines

- 22 The Council is required to prepare the financial statements by 30 June 2010. We are required to complete our audit and issue our opinion by 30 September 2010. The key stages in the process of producing and auditing the financial statements are shown in Table 2.
- 23 We will agree with you a schedule of working papers required to support the entries in the financial statements.
- 24 Every week, we will meet with the key contact and review the status of all queries. If appropriate, we will meet at a different frequency depending upon the need and the number of issues arising.

Table 2 Proposed timetable

| Task | Deadline |
|--|----------------------|
| Control and early substantive testing | 31 March 2010 |
| Receipt of accounts | 30 June 2010 |
| Forwarding audit working papers to the auditor | 1 July 2010 |
| Start of detailed testing | 1 July 2010 |
| Progress meetings | Weekly |
| Present report to those charged with governance at the Audit committee | 28 September 2010 |
| Issue opinion | By 30 September 2010 |

The audit team

25 The key members of the audit team for the 2009/10 audit are shown in the table below.

Table 3 Audit team

| Name | Contact details | Responsibilities |
|--|--|---|
| Paul King District Auditor | paul-king@audit-commission.gov.uk 0844 798 5811 | Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive. |
| Cathy O'Carroll Audit Manager | c-ocarroll@audit-commission.gov.uk 0844 798 5830 | Manages and coordinates the different elements of the audit work. Key point of contact for the Interim Chief Accountant and Head of Corporate Finance. |
| Heather Rothwell-Trickett Team Leader | h-rothwell-trickett@audit-commission.gov.uk 0844 798 5503 | Responsible for day-to-day supervision of the audit team. Key point of contact for the Interim Chief Accountant. |

Independence and objectivity

- 26 I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which we are required by auditing and ethical standards to communicate to you.
- 27 I comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised in Appendix 2.

Meetings

- 28 The audit team will maintain knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Our proposals are set out in Appendix 3.

Quality of service

- 29 We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively, you may wish to contact the Eastern Sub-region Head of Operations, Andy Perrin on a-perrin@audit-commission.gov.uk.
- 30 If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet 'Something to Complain About' which is available from the Commission's website or on request.

Planned outputs

- 31 Reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.

Table 4 **Planned outputs**

| Planned output | Indicative date |
|--|----------------------|
| Opinion audit plan | March 2010 |
| Annual governance report | 28 September 2010 |
| Auditor's report giving an opinion on the financial statements | by 30 September 2010 |
| Final accounts memorandum | November 2010 |

Appendix 1 – Basis for fee

- 1 The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.
- 2 The risk assessment process starts with the identification of the significant financial and operational risks applying to the Council with reference to:
 - our cumulative knowledge of the Council;
 - planning guidance issued by the Audit Commission;
 - the specific results of previous and ongoing audit work;
 - interviews with Council officers; and
 - liaison with Internal Audit.

Assumptions

- 3 In setting the fee, I have assumed that:
 - the level of risk in relation to the audit of the financial statements is not significantly different from that identified when we set our indicative fee in May 2009;
 - you will inform us of significant developments impacting on the audit;
 - Internal Audit meets the appropriate professional standards;
 - Internal Audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
 - good quality working papers and records will be provided to support the financial statements by 1 July 2010;
 - requested information will be provided within agreed timescales;
 - prompt responses will be provided to draft reports; and
 - additional work will not be required to address questions or objections raised by local government electors.
- 4 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee.

Appendix 2 – Independence and objectivity

- 1 Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).
- 2 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 3 International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:
 - discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
 - confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised
- 4 The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Audit Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.
- 5 The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

Appendix 2 – Independence and objectivity

- 6 The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.
- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as being 'additional work' and charged for separately from the normal audit fee.
 - Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
 - The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years.
 - The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.
- 7 The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

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Appendix 3 – Working together

Meetings

- 1 The audit team will maintain knowledge of your issues to inform our risk-based audit through regular liaison with key officers.
- 2 Our proposal for the meetings is as follows.

Table 5 Proposed meetings with officers

| Council officers | Audit Commission staff | Timing | Purpose |
|---|-------------------------|--------------------------------|--|
| Head of Corporate Finance and Interim Chief Accountant. | AM and Team Leader (TL) | Monthly | General update plus: March - audit plan July - accounts progress September - annual governance report |
| Head of Internal Audit and AD Audit and Risk. | AM and TL | Monthly | General update plus: March - audit plan July - accounts progress September - annual governance report |
| Director of Customer and Shared Services | DA and AM | Quarterly | General update |
| Audit Committee | DA and AM | As determined by the Committee | Formal reporting of: Audit Plan Annual governance report Other issues as necessary |

Sustainability

- 3 The Audit Commission is committed to promoting sustainability in our working practices and we will actively consider opportunities to reduce our impact on the environment. This will include:
 - reducing paper flow by encouraging you to submit documentation and working papers electronically;
 - use of video and telephone conferencing for meetings as suitable; and
 - reducing travel.

Meeting: Audit Committee
Date: 12 April 2010
Subject: Indicative Fee Letter 2010/11
Report of: Audit Commission
Summary: To receive the indicative fee letter from the Audit Commission for 2010/11.

Contact Officer: Cathy O'Carroll, Audit Commission
Public/Exempt: Public
Wards Affected: All
Function of: Audit Committee

CORPORATE IMPLICATIONS

Council Priorities:

The activities of External Audit are crucial to the governance arrangements of the organisation and as such are supporting all of the priorities of the Council.

Financial:

The indicative fee set out in the attached report is covered by the budget provision made in 2010/11.

Legal:

Audit Commission Act 1998

Risk Management:

There is a risk that additional work will need to be undertaken by the Audit Commission in 2010/11 which would lead to additional fees. This would have to be agreed in advance by the Director of Customer and Shared Services.

Staffing (including Trades Unions):

None directly from this report.

Equalities/Human Rights:

None directly from this report.

Community Safety:

None directly from this report

Sustainability:

None directly from this report

RECOMMENDATION:

That the Audit Committee note the 2010/11 indicative audit fee.

Background

1. The information contained within external audit reports should be used by those charged with governance, to help confirm the governance and internal control arrangements in place at the council.
2. A member of our External Auditor team will present their report attached at Appendix A, indicating the indicative audit fee for 2010/11.
3. Committee members will have the opportunity to raise questions or discuss any aspects relating to the progress report.

Appendices:

Appendix A Annual Audit Fee 2010/11

Background Papers:

None

Location of papers: Priory House, Chicksands, Bedfordshire

22 March 2010

Richard Carr
Chief Executive
Central Bedfordshire Council
Priory House
Monks Walk
Chicksands
SG17 5TQ

Email paul-king@audit-
commission.gov.uk
Direct line 0844 798 5811

— Dear Richard

Annual Audit Fee 2010/11

Following our discussions, I am writing to confirm the audit work for the 2010/11 financial year at Central Bedfordshire Council. The fee:

- is based on the risk-based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Commission for 2010/11; and
- reflects only the audit element of our work, excluding any inspection and assessment fees. Nigel Smith, Comprehensive Area Assessment Lead for Bedfordshire will be writing to you separately on these fees.

As I have not yet completed my audit for 2009/10 the audit planning for 2010/11, including the risk assessment, will continue and I will review and update the fee as necessary.

The proposed audit fee for 2010/11 is for £342,380, compared to the planned fee of £323,000 for 2009/10. A summary is set out below.

Audit Fee

| Audit area | Planned fee 2010/11 | Planned fee 2009/10 |
|--|--------------------------------|--------------------------------|
| Financial statements | 248,815 | 229,435 |
| Use of Resources/VFM Conclusion | 89,225 | 89,225 |
| WGA | 4,340 | 4,340 |
| Total audit fee | 342,380 | 323,000 |
| Certification of claims and returns | 100,562 | 83,400 |

The Audit Commission has published its work programme and scales of fees 2010/11. The Audit Commission's indicative scale audit fee for an organisation such as Central Bedfordshire Council is £316,923. The audit fee proposed for the Council is +8 per cent compared with that scale fee and is within the normal level of variation specified by the Commission.

The increase in fee for the financial statements element of the audit reflects the costs of additional audit work arising from the introduction of International Financial Reporting Standards (IFRS). However the Audit Commission will make a one-off rebate equivalent to six per cent of the Council's scale fee in order to offset this increase for 2010/11. Changes in international auditing standards will increase the audit procedures I need to carry out, however the Audit Commission will absorb the cost of these additional requirements.

In setting the fee, I have assumed that the general level of risk for the audit of the financial statements is not significantly different from that for 2009/10. I will issue a separate opinion plan for the audit of the 2010/11 financial statements in December 2010. I will identify any additional risks, related audit procedures and changes in fee. If I need to make any significant amendments to the audit fee during the course of this plan, I will first discuss this with the Director of Customer and Shared Services and then prepare a report outlining the reasons the fee needs to change for discussion with the Audit Committee.

The increase in the estimate for the certification of claims reflects the time taken to complete the audit of the South Bedfordshire DC 2008/09 Housing Benefits (HB) claim. We will revisit this estimate following the completion of our audit of the Central Bedfordshire HB claim for 2009/10.

My use of resources assessments will be based upon the evidence from three themes:

- Managing finances;
- Governing the business; and
- Managing resources.

The Audit Commission set out the key lines of enquiry specified for this assessment in its work programme and scales of fees for 2010/11. My work on use of resources informs my 2010/11 value for money conclusion. However, I have identified a number of significant risks in relation to my value for money conclusion. For each risk, I consider the arrangements put in place by the Council to mitigate the risk, and plan my work accordingly. My initial risk assessment for value for money audit work is shown in the table below:

| Risk | Planned work | Timing of work |
|--|--|-------------------------|
| Our 2009/10 work on the Council's financial systems has identified weaknesses in the operation of controls in some systems, in particular in the Payroll system. | The impact of any weaknesses in internal controls will be considered as part of our Use of Resources work on Governing the Business in 2010/11 (KLOE | April 2010 – March 2011 |

| | | |
|--|--|-------------------------|
| There is a significant risk that these control problems will continue in to 2010/11. | 2.4). | |
| The Council will continue to face considerable budget pressures in 2010/11. The budget for 2010/11 has been set on the basis that the outturn for 2009/10 will be a break even position and identified savings of some £12 million will be achieved. | We will continue to monitor the Council's financial position and progress in achieving efficiency savings as part of our UOR work on Managing Finances (KLOEs 1.1, 1.2 and 1.3). | April 2010 – March 2011 |

I will issue several reports about my work during and after the audit. I list these at Appendix 1.

The fee excludes work we may agree to undertake using our advice and assistance powers. We would separately negotiate such work and agree a detailed project specification with you.

The key members of the audit team for the 2010/11 are:

Audit Manager – Cathy O'Carroll 07967 624334
Team Leader – Heather Rothwell – Trickett 07884 114003

I am committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact the Eastern Head of Operations, Andy Perrin (aperrin@audit-commission.gov.uk).

Yours sincerely

Paul King
District Auditor

cc Richard Ellis, Director of Customer and Shared Services
cc David Lawrence, Chair of the Audit Committee

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Meeting: Audit Committee
Date: 12 April 2010
Subject: Annual Claims and Returns Report 2008/09
Report of: Audit Commission
Summary: To note the annual claims and returns.

Contact Officer: Cathy O'Carroll, Audit Commission
Public/Exempt: Public
Wards Affected: All
Function of: Audit Committee

CORPORATE IMPLICATIONS

Council Priorities:

The activities of External Audit are crucial to the governance arrangements of the organisation and as such are supporting all of the priorities of the Council.

Financial:

The fees relating to the legacy authorities as set out in the report will be taken into account when creating the balance sheet for Central Bedfordshire. Future fees are contained within the budget provision for 2010/11.

Legal:

Audit Commission Act 1998

Risk Management:

There is a risk that additional work will need to be undertaken by the Audit Commission in 2010/11 which would lead to additional fees. This would have to be agreed in advance by the Director of Customer and Shared Services.

Staffing (including Trades Unions):

None directly from this report.

Equalities/Human Rights:

None directly from this report.

Community Safety:

None directly from this report

Sustainability:

None directly from this report

RECOMMENDATION:

That the Audit Committee note the report.

Background

1. The information contained within external audit reports should be used by those charged with governance, to help confirm the governance and internal control arrangements in place at the council.
2. A member of our External Auditor team will present their report attached at Appendix A, highlighting the recommendations arising from the certification of grant claims and returns.
3. Committee members will have the opportunity to raise questions or discuss any aspects relating to the report.

Appendices:

Appendix A Certification of claims and returns – annual report 2008/09

Background Papers:

None

Location of papers: Priory House, Chicksands, Bedfordshire

Certification of claims and returns - annual report

Central Bedfordshire Council

Audit 2008/09

Date February 2010

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Key messages

Funding from government grant-paying departments is an important income stream for the Council. The Council needs to manage claiming this income carefully. It needs to demonstrate to the auditors that it has met the conditions which attach to these grants.

This report summarises the findings from the certification of 2008/09 claims for Central Bedfordshire's predecessor Councils. It includes the messages arising from my assessment of the arrangements for preparing these claims and returns and information on claims that we amended or qualified.

We identified a number of areas for improvement in the predecessor council's arrangements for the preparation of claims and returns, particularly in relation to housing benefit claims, that need to be addressed by Central Bedfordshire.

Certification of claims

- 1 Central Bedfordshire Council receives significant funding from various grant-paying departments. The grant-paying departments attach conditions to these grants and the Council must show that it has met these conditions. If the Council cannot evidence this, the funding can be at risk. It is therefore important that the Council manages certification work properly and can demonstrate to us, as auditors, that the relevant conditions have been met.
- 2 As part of our audits of Bedfordshire County Council, Mid Bedfordshire and South Bedfordshire councils in 2008/09, we certified 14 claims with a total value of £176 million. Of these, we carried out a limited review of four claims and a full review of 10 claims. Our audit work resulted in amendments to six claims and qualification of seven claims. Appendix 1 sets out a full summary.
- 3 The fees have charged to date for grant certification work in 2008/09 for Bedfordshire County Council, South Bedfordshire District Council and Mid Bedfordshire District Council totalled £144,087. Of this total, £61,821 relates to the audit of the South Bedfordshire District Council's housing benefit claim.

Significant findings

- 4 At the time of writing this report we are concluding our work on the Mid Bedfordshire District Council Housing Benefits claim. There have been significant delays in completing the audit of this claim, which should have been certified by 30 November 2009. The main reason for this delay has been that the same Central Bedfordshire officers were responsible for dealing with audit queries for both the South Bedfordshire and Mid Bedfordshire Housing Benefit claims. Effort was concentrated on clearing the South Bedfordshire claim which was certified by the required deadline, but was, as in previous years, subject to extensive qualification. We expect that further work will be required in response

to the qualification letter. It is anticipated that the Mid Bedfordshire Claim once certified will also be subject to amendment and qualification.

- 5 We have also had to carry out additional work on the 2007/08 South Bedfordshire Housing Benefit claim in response to queries raised by the Department of Works and Pensions (DWP) in respect of the qualifications we reported to them in respect of the 2007/08 claim.
- 6 Central Bedfordshire Council is currently transferring data from the predecessor authorities to its new housing benefits system. In implementing the new system and training staff in its use, the problems that have led to the qualifications of these claims in previous years need to be addressed.

Certification fees

- 7 The fees charged to date in respect of grant certification work in 2008/09 are set out in Table 1. Of the total fee for South Bedfordshire of £78,838, £61,821 is in respect of the audit of the 2008/09 housing benefit claim and £3,749 in respect of the additional work on the 2007/08 claim. The fee reflects the volume of work required to carry out the audit which is reflected in the extensive qualification letter that we have issued to the Department of Works and Pensions. The Table also includes an estimate of the time required to complete the outstanding claims work at all three predecessor authorities.

Table 1 Grant certification fees charged in respect of 2008/09 claims

| Council | Grant fee per 2008/09 audit plan | Grant fees to date | Estimate total fee to complete work |
|-----------------------------|----------------------------------|--------------------|-------------------------------------|
| Bedfordshire County Council | £37,078 | £30,611 | £37,078 |
| South Bedfordshire DC | £38,786 | £75,089 | £78,838 |
| Mid Bedfordshire DC | £32,000 | £38,387 | £40,000 |
| Total | £107,864 | £144,087 | £155,916 |

Key messages

Actions

- 8 Appendix 2 summarises my recommendations to improve arrangements for the management of claims and returns. The relevant officers of the Council have already agreed these recommendations.

Background

- 9 The Council receives significant funding from grant paying departments. As this is significant to the Council's income it is important that this process is properly managed. In particular this means:
- an adequate control environment over each claim and return; and
 - ensuring that the Council can evidence that it has met the conditions attached to each claim.
- 10 I am required by section 28 of the Audit Commission Act 1998 to certify some claims and returns for grants or subsidies paid by the government departments and public bodies to Central Bedfordshire Council. I charge a fee to cover the full cost of certifying claims. The fee depends on the amount of work required to certify each claim or return.
- 11 The Council is responsible for compiling grant claims and returns in accordance with the requirements and timescale set by the grant paying departments.
- 12 The key features of the current arrangements are as follows.
- For claims and returns below £100,000 the Commission does not make certification arrangements.
 - For claims and returns between £100,000 and £500,000, auditors undertake limited tests to agree form entries to underlying records, but do not undertake any testing of eligibility of expenditure.
 - For claims and returns over £500,000 auditors assess the control environment for the preparation of the claim or return to decide whether or not they can place reliance on it. Where reliance is placed on the control environment, auditors undertake limited tests to agree from entries to underlying records but do not undertake any testing of the eligibility of expenditure or data. Where reliance cannot be placed on the control environment, auditors undertake all of the tests in the certification instruction and use their assessment of the control environment to inform decisions on the level of testing required. This means that the audit fees for certification work are reduced if the control environment is strong.
 - For claims spanning over more than one year, the financial limits above relate to the amount claimed over the entire life of the claim and testing is applied accordingly. The approach impacts on the amount of grants work we carry out, placing more emphasis on the high value claims.

Findings

Control environment

- 13 Where the value of the claim or return is over the current £500,000 threshold, we assess the control environment for the preparation of the claim or return and conclude as to whether reliance can be placed on it before detailed certification work is carried out.
- 14 In assessing the control environment we assess the following; the degree of risk attached to the claim or return including the volume and type of transactions undertaken, the complexity of the scheme itself, the method of compilation of the claim or return including any changes from the previous period, cumulative auditor knowledge and the findings from predictive analytical review. If we conclude that we are not able to place reliance on the control environment we then consider the extent and adequacy of other work by internal audit in relation to the claim or return and assess whether the work is directly relevant and whether reliance can be placed upon it.
- 15 We were not able to rely on the control environment for any of the claims above the £500,000 threshold audited in 2008/09. This was largely due to the inherent complexity of the claims and issues from previous years audits. Therefore we were required to carry out detailed testing on the claims based on our assessment of risk and in accordance with the certification instruction agreed with the grant paying department.

Specific claims

Bedfordshire County Council

- 16 For the teachers pensions claim we reported that:
 - the Authority had been unable to confirm the arrangements it had in place to satisfy itself that non pensionable items had been excluded from non authority payroll providers;
 - the actual contributory salary figure in the return had been calculated by "grossing up" (i.e. it was mathematically generated) the employers contributions deducted. It should have been taken directly from the authority's payroll records; and
 - additional pension and additional contributions could not be categorised between contributions made under the new scheme (elections made after 1 January 2007) and additional contributions made under the previous scheme.
- 17 Our report on the sure start claim recommended that the arrangements in place to monitor expenditure on the scheme should be strengthened.
- 18 The two school centred initial teacher training (SCITT) claims are prepared by finance staff employed by the Pilgrim Partnership and North Bedfordshire

Consortium. The claim relating to the Pilgrim Partnership required minor amendments to correct the disclosure of income between earmarked funds and other income in the statement of income and expenditure. The claim relating to the North Bedfordshire Consortium required no amendment.

- 19 We are currently auditing the TRA11 claim which relates to grant received from the Department for Transport in respect of the work on the A507 Ridgmont Bypass. This claim should have been received for audit by 30 September 2009 but was not received until January 2010.

South Bedfordshire District Council

- 20 We reported a number of issues relating to the Housing Subsidy Base Data return, largely relating to differences between the figures reported in the return and the Authority's housing system, Simdell.
- 21 We reported on the National Non Domestic Rate Return (NNDR) as, during the transfer of information to the new Central Bedfordshire NNDR system in 2009/10, errors were identified in the way the system in use for 2008/09 had calculated transitional relief for both 2008/09 and 2007/08. Corrections have been made in 2009/10 for these errors and these amendments will be reflected in the Central Bedfordshire return for 2009/10.
- 22 An extensive qualification letter has been issued for the South Bedfordshire 2008/09 Housing Benefits claim.
- 23 The audit approach, as agreed with the Department of Works and Pensions (DWP), is to test an initial sample of 80 cases, this comprises 10 new claim cases and 10 changes of circumstance cases for each of the four benefit types: non-Housing Revenue Account rent rebates, rent rebates, rent allowances and council tax benefit. Testing of this initial sample did not allow us to conclude that the claim was fairly stated and additional testing was required for 19 cells. As agreed with the DWP, an additional random sample of 40 cases was selected by us for the Council to examine. The findings are reviewed and re-performed by us on a sample basis. The results were reported, in the qualification letter, to the DWP by the agreed deadline of 30 November 2009.
- 24 We reported that the Council had continued to misclassify a number of overpayments, therefore claiming the wrong amount of subsidy, and had incorrectly assessed the income of some claimants, thereby leading to an under or over payment of benefit. The errors identified this year are consistent with test findings in previous years.
- 25 We also reported that there were a number of cells where we were unable to reach a conclusion as either the Council had not completed the additional testing or had been unable to quantify the error. The DWP is likely to require us to complete further work to reach an opinion on these cells.
- 26 During the latter part of 2008/09 South Bedfordshire changed its working practices and introduced internal controls to address issues identified in the certification of the 2007/08 housing benefit subsidy claim which was extensively qualified. However due to the time lag in submitting the audited 2007/08

Findings

housing benefit subsidy claim the impact of these changes on the 2008/09 claim is minimal and similar errors have occurred. The audit of the 2007/08 housing benefit subsidy claim began in the summer of 2008 and the audited claim was submitted in March 2009, after the 30 November 2008 deadline, to enable completion of the additional testing that was required.

- 27 We have also had to carry out additional work on the 2007/08 South Bedfordshire housing benefit claim in response to additional queries raised DWP in respect of the qualifications we reported to them in respect of this claim.

Mid Bedfordshire District Council

- 28 The reasons for the qualification of the Mid Bedfordshire NNDR 3 return were not significant and therefore there are no matters to report to those charged with governance.
- 29 We are in the process of concluding our work on the Mid Bedfordshire housing benefits claim which will be subject to amendment and a qualification letter.
- 30 The audit of the Housing Benefit claim has been protracted. There have been significant delays in completing the audit of this claim, which should have been certified by 30 November 2009. This is mainly due to the fact that the same Central Bedfordshire officers were responsible for dealing with audit queries for both the South Bedfordshire and Mid Bedfordshire housing benefit claims. Effort was concentrated on clearing the South Bedfordshire claim which was certified by the required deadline, but as noted above was subject to qualification and may require further audit work.
- 31 We have still to receive the Mid Bedfordshire Disabled Facilities claim which should have been made available for audit by 30 September 2009.
- 32 Central Bedfordshire Council is currently transferring data to its new housing benefits system. In implementing the new system and training staff in its use, the problems that have led to the qualifications of these claims in previous years need to be addressed.

| Recommendation | |
|----------------|--|
| R1 | The Council should ensure that all claims are submitted for audit by the required deadline. |
| R2 | All claims should be completed in accordance with the relevant guidelines set by the grant paying department. |
| R3 | Ensure that, in implementing the Central Bedfordshire housing benefits system and training staff in its use, the problems that have led to the qualifications of the housing benefits claims at South Bedfordshire and Mid Bedfordshire in previous years are addressed. |

Appendix 1 – Summary of 2008/09 certified claims

Claims and returns above £500,000

| Claim | Value £ | Adequate control environment | Amended | Qualification letter |
|---|------------|------------------------------------|-------------------|-------------------------|
| Bedfordshire County Council | | | | |
| Sure Start | 8,930,442 | No | Yes | Yes |
| School Centred Initial Teacher Training - Pilgrim Partnership | 839,871 | No | Yes | No |
| Teachers' Pensions | 26,740,757 | No | Yes | Yes |
| Local Transport Plan major Projects - A507 Ridgmont Bypass | 2,547,000 | Not yet completed | Not yet completed | Not yet completed |
| South Bedfordshire DC | | | | |
| Housing and council tax benefit | 30,958,894 | No | Yes | Yes |
| Housing Subsidy final claim | -8,563,089 | No | No | No |
| HRA subsidy base data return | n/a | No | Yes | Yes |
| NNDR3 | 41,173,791 | No | No | Yes |
| Mid Bedfordshire DC | | | | |
| Housing and council tax benefit | 25,028,545 | No | Yes | Yes |
| NNDR 3 | 29,589,306 | No | No | Yes |

Claims between £100,000 and £500,000

| Claim | Value £ | Amended |
|---|--------------------|--|
| Bedfordshire County Council Claims | | |
| School Centred Initial Teacher Training - North Bedfordshire Consortium | 418,049 | No |
| South Bedfordshire DC | | |
| Disabled facilities grant | 258,000 | No |
| Pooling of housing capital receipts | 342,040 | Yes |
| Mid Bedfordshire DC | | |
| Disabled Facilities Grant | 322,000 | TBC (Not yet certified by the authority) |

Appendix 2 – Action plan

| Page no. | Recommendation | Priority 1 = Low 2 = Med 3 = High | Responsibility | Agreed | Comments | Date |
|----------|--|--|----------------|--------|----------|------|
| | Annual Claims and Returns Report 2008/09 - Recommendations | | | | | |
| | The Council should ensure that all claims are submitted for audit by the required deadline. | 3 | | | | |
| | All claims should be completed in accordance with the relevant guidelines set by the grant paying department. | 3 | | | | |
| | Ensure that, in implementing the Central Bedfordshire housing benefits system and training staff in its use, the problems that have led to the qualifications of the housing benefits claims at South Bedfordshire and Mid Bedfordshire DCs' claims in previous years are addressed. | 3 | | | | |

Appendix 2 – Action plan

| Page no. | Recommendation | Priority 1 = Low 2 = Med 3 = High | Responsibility | Agreed | Comments | Date |
|----------|----------------|--|----------------|--------|----------|------|
| | | | | | | |

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.

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Meeting: Audit Committee
Date: 12 April 2010
Subject: External Audit Progress Report
Report of: Audit Commission
Summary: To receive the External Audit Progress Report

Contact Officer: Cathy O'Carroll, Audit Commission
Public/Exempt: Public
Wards Affected: All
Function of: Audit Committee

CORPORATE IMPLICATIONS

Council Priorities:

The activities of External Audit are crucial to the governance arrangements of the organisation and as such are supporting all of the priorities of the Council.

Financial:

None directly from this report.

Legal:

Audit Commission Act 1998

Risk Management:

None directly from this report.

Staffing (including Trades Unions):

None directly from this report.

Equalities/Human Rights:

None directly from this report.

Community Safety:

None directly from this report

Sustainability:

None directly from this report

RECOMMENDATION:

That the Audit Committee note the action plan.

Background

1. The information contained within external audit reports should be used by those charged with governance, to help confirm the governance and internal control arrangements in place at the council.
2. A member of our External Auditor team will present their report attached at Appendix A, indicating progress made against their audit plan.
3. Committee members will have the opportunity to raise questions or discuss any aspects relating to the progress report.

Appendices:

Appendix A 2009/10 External Audit Plan – Position Statement @ March 2010

Background Papers:

None

Location of papers: Priory House, Chicksands, Bedfordshire

Central Bedfordshire Council

2009-2010 External Audit Plan – Position Statement @ March 2010

| Area of work | Work performed/to be performed | Status | Report due |
|---|--|---|---------------------------------------|
| <p>2009/10 Indicative Fee Letter to Director of Corporate Resources</p> | <p>Letter sent to the Director of Corporate Resources setting out the indicative audit fee for 2009/10.</p> <p>The fee is based on the risk based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission for 2009/10.</p> <p>More detailed planning documents for particular pieces of work will be issued during the year.</p> | <p>The letter was sent in May 2009 and the Audit Manager reported the total indicative fee to the Audit Committee in June 2009.</p> | <p>N/A</p> |
| <p>Audit Opinion Plan</p> | <p>A detailed plan for the audit of the financial statements will be issued shortly. This will detail the risks identified, planned audit procedures and any changes in fee.</p> | <p>Discussed and agreed with the Director of Customer and Shared Services. Included in the agenda for this Audit Committee meeting.</p> | <p>April 2010</p> |
| <p>Use of resources assessment</p> | <p>The use of resources assessment forms part of the Comprehensive Area Assessment (CAA) and will feed into the Council's annual organisational assessment.</p> <p>The UOR key lines of enquiry will also be the "relevant criteria" for the value for money conclusion.</p> | <p>Our work on UOR is in progress. We will be reporting back to officers on our findings to date on 14 April 2010.</p> | <p>VFM conclusion- September 2010</p> |

| Area of work | Work performed/to be performed | Status | Report due |
|---------------------------------|--|--|--|
| Managing Performance Assessment | <p>The scored managing performance assessment considers outcomes achieved by the Council and plans and capacity for future improvement. This together with use of resources contributes to the overall Organisational Assessment for Central Bedfordshire.</p> | <p>We are in the process of agreeing the timescale for this work with your officers.</p> | TBC |
| Shared Service Review | <p>We will carry out a joint review at both Central Bedfordshire and Bedford Borough to assess how the Councils are managing the associated risks and will aim to inform the Councils' approach to the future of shared services.</p> | <p>Our work on shared services is in progress and will inform our UOR assessment.</p> | TBC |
| Performance Management | <p>The review will assess the Council's plans to take forward performance management at Central Bedfordshire and help with areas of best practice.</p> | <p>We are in the process of agreeing the project brief for this piece of work.</p> | TBC |
| Final accounts | <p>Audit of the Council's financial statements.</p> | <p>We have started our work on the Council's key financial systems. The detailed work on the statement of accounts will take place in July/ August/September 2010.</p> | <p>Annual Governance Report – September 2010 Opinion - September 2010</p> |
| Grant claims 2009-10 | <p>Our work on grant claims is charged at published daily rates, the fee is not included within the audit plan as part of the overall audit fee. The time taken to audit grant claims depends on the quality of working papers, whether we can rely on underlying systems and the extent of</p> | <p>We will audit claims when they are made available to us.</p> | <p>We will issue a report when we have completed the audit of all relevant 2009/10</p> |

| Area of work | Work performed/to be performed | Status | Report due |
|--------------------------------|--|---|--|
| | <p>work needed to meet the requirements of government departments.</p> <p>An estimate of £83,400 for grant claims work has been included in the fee letter.</p> | | claims. |
| Annual Audit Letter 2009/10 | Summary of conclusions and significant issues arising from our audit work. (This will include key messages from the Organisational Assessment and Area Assessment if appropriate). | We will draft the Annual Audit Letter in October / November 2010. | Issued to all Members by 31 December 2010. |
| 20010/11 Indicative Fee Letter | <p>A letter will be sent to the Council setting out the indicative audit fee for 20010/11.</p> <p>The fee is will be based on the risk based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission for 20010/11.</p> <p>More detailed planning documents for particular pieces of work will be issued during the year.</p> | The fee letter has been issued to officers and the indicative fee will be reported to the April 2010 Audit Committee. | April 2010 |

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Meeting: Audit Committee

Date: 12 April 2010

Subject: Updated Code of Audit Practice and Statement of Responsibilities of Auditors and Audited Bodies

Report of: Audit Commission

Summary: To note the updated code of audit practice and statement of responsibilities of auditors and audited bodies from the Audit Commission.

Contact Officer: Cathy O'Carroll, Audit Commission

Public/Exempt: Public

Wards Affected: All

Function of: Audit Committee

CORPORATE IMPLICATIONS

Council Priorities:

The activities of External Audit are crucial to the governance arrangements of the organisation and as such are supporting all of the priorities of the Council.

Financial:

None directly from this report.

Legal:

Audit Commission Act 1998

Risk Management:

None directly from this report.

Staffing (including Trades Unions):

None directly from this report.

Equalities/Human Rights:

None directly from this report.

Community Safety:

None directly from this report

Sustainability:

None directly from this report

RECOMMENDATION:

That the Audit Committee note the Code of Audit Practice 2010 and Statement of Responsibilities of Auditor and of Audited Bodies.

Background

1. The information contained within external audit reports should be used by those charged with governance, to help confirm the governance and internal control arrangements in place at the council.
2. A member of our External Auditor team will present their report attached at Appendices A, Code of Audit Practice 2010 and B, Statement of Responsibilities of Auditor and of Audited Bodies.
3. Committee members will have the opportunity to raise questions or discuss any aspects relating to the report.

Appendices:

Appendix A Code of Audit Practice 2010

Appendix B Statement of Responsibilities of Auditors and of Audited Bodies

Background Papers:

None

Location of papers: Priory House, Chicksands, Bedfordshire

The statutory responsibilities and powers of appointed auditors are set out in the Audit Commission Act 1998. In discharging these specific statutory responsibilities and powers, auditors are required to carry out their work in accordance with the Commission's Code of Audit Practice.

Code of audit practice 2010

Local government bodies

March 2010

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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Preface

The role of external audit in the public sector

External audit is an essential part of the process of accountability for public money. It makes an important contribution to the stewardship of public resources and the corporate governance of public services. External auditors in the public sector give an independent opinion on public bodies' financial statements and may review, and report on, aspects of the arrangements put in place by public bodies to ensure the proper conduct of their financial affairs and to manage their performance and use of resources. Because of the special accountabilities attached to public money and the conduct of public business, external audit in the public sector is characterised by three distinct features:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the financial statements, but also aspects of corporate governance and arrangements to secure the economic, efficient and effective use of resources; and
- auditors may report aspects of their work to the public and other key stakeholders.

These features are consistent with the 'principles of public audit' as defined by the Public Audit Forum, which comprises all the national audit agencies in the UK.

The role of the Audit Commission

The Audit Commission (the Commission) is an independent body with statutory responsibilities to regulate the audit of local government and NHS bodies in England, and to promote improvements in the economy, efficiency and effectiveness of public services. We work with our partner inspectorates to assess local public services and make practical recommendations for promoting a better quality of life for local people.ⁱ

The Commission's responsibilities in relation to audit are:

- appointing auditors to local government and NHS bodies;
- setting the required standards for its appointed auditors; and
- regulating the quality of audits.

ⁱ Our partner inspectorates are: the Care Quality Commission; HM Inspectorate of Constabulary; HM Inspectorate of Prisons; HM Inspectorate of Probation; and Ofsted.

The Commission appoints auditors from the Commission's own staff and from private firms of auditors. It provides advice and support to auditors on technical matters and monitors their performance through a rigorous quality review process. Once appointed, auditors carry out their statutory and other responsibilities, and exercise their professional judgement, independently of the Commission.

Statutory responsibilities and powers of appointed auditors

The statutory responsibilities and powers of appointed auditors are set out in the Audit Commission Act 1998 (the Act). In discharging these specific statutory responsibilities and powers, auditors are required to carry out their work in accordance with the Commission's *Code of Audit Practice* (the Code).

The Code of Audit Practice

The Act requires the Commission to 'prepare, and keep under review, a Code of Audit Practice prescribing the way in which auditors [appointed by the Commission] are to carry out their functions under the Act' and which embodies 'what appears to the Commission to be the best professional practice with respect to the standards, procedures and techniques to be adopted by auditors'.

The Act also provides for the preparation of a different Code 'with respect to the audit of the accounts of health service bodies as compared with the Code applicable to the accounts of other bodies'.ⁱ

The Code must be read in conjunction with any regulations that are in force under section 27 of the Act.

The Commission is committed to keeping the Code up to date to reflect changes both in the operating environment of audited bodies and in auditing standards and practice, and may amend the Code where appropriate in the light of practical experience.

ⁱ This Code covers the audits of local government bodies. These comprise the various bodies that provide public services locally, including local authorities (and their pension funds, if applicable), fire authorities, police authorities, local councils and local probation boards and trusts. A separate Code has been prepared for the audits of NHS bodies.

The *Code* must be approved by a resolution of each House of Parliament at intervals of not more than five years. In the intervening period, the *Code* may be amended by laying proposed alterations before parliament. In addition to the *Code*, the Commission publishes separate documents that are aimed specifically at audited bodies and members of the public, including:

- *Statement of Responsibilities of Auditors and of Audited Bodies* – which highlights the different responsibilities of the auditor and the audited body, and the limits on what the auditor can reasonably be expected to do;
- *Councils' Accounts: Your Rights* – which sets out the rights of members of the public to inspect, and of local electors to question and object to, local government bodies' accounts, and explains the powers of the auditor; and
- *How to Complain* – which explains how audited bodies or members of the public can complain about the work of the Commission and its auditors.

The contents of the Code

The *Code* comprises five sections:

- general principles;
- auditors' responsibilities in relation to the financial statements;
- auditors' responsibilities in relation to the use of resources;
- reporting the results of audit work; and
- principles relating to the exercise of specific powers and duties of local government auditors.

Schedule 1 to the *Code* provides for the audit of small bodies.

The Appendix contains a glossary of terms.

Chapter 1: General principles

Status and application of the Code of Audit Practice

1 This *Code of Audit Practice* (the *Code*) has been laid before parliament under section 4 of the Audit Commission Act 1998 (the Act) and has been approved by resolution of each House of Parliament. It came into effect on 9 March 2010 and replaces the *Code* that has been in effect from 9 March 2005, as amended on 21 July 2008.

Scope of the Code

2 The *Code* prescribes the way in which auditors of local government bodies, as defined in Schedule 2 of the Act, appointed by the Audit Commission (the Commission) should carry out their functions under the Act. As with any code that attempts to cover a wide variety of circumstances, the application of the *Code* in any particular case will depend on the specific circumstances and on auditors' assessments of what is reasonable and appropriate in those circumstances. All the provisions of the *Code* are to be read and applied with that necessary qualification.

3 The Commission may wish to appoint different auditors to carry out different elements of the audit at an audited body. In such cases, auditors should apply the *Code* in so far as, in their judgement, it is appropriate, taking into account any relevant guidance issued by the Commission.

4 There will be circumstances in which aspects of the *Code* that are potentially applicable may be inappropriate to the audit of certain bodies, for example because of the nature of their business or the relatively small amounts of public money controlled by the bodies in question. In carrying out the audit of such bodies, auditors should apply the *Code* in so far as, in their judgement, it is appropriate, taking into account the nature of the business of the body and any relevant guidance issued by the Commission. In carrying out the audit of bodies with either annual income or annual expenditure below a specified financial threshold, auditors should apply Schedule 1 to the *Code*.

5 From time to time, when necessary, the Commission also issues guidance to auditors. The Commission does so under its powers under section 3(8) of the Act and Paragraph 7 of Schedule 1 to the Act, to appoint auditors and to determine their terms of appointment.

Scope of the audit and auditors' objectives

6 Because of the special accountabilities attached to public money and the conduct of public business, the scope of external audit in local government is extended to cover not only the financial statements, but also the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources. Auditors' responsibilities in relation to the financial statements are covered by professional auditing standards and so the *Code* focuses more on how the wider range of functions of auditors appointed by the Commission should be carried out.

7 Auditors' principal objectives are to review and report on, to the extent required by the relevant legislation and the requirements of the *Code*, the audited body's:

- a. financial statements; and
- b. arrangements for securing economy, efficiency and effectiveness in its use of resources.

8 Auditors should plan and carry out their audits to meet these audit objectives and comply with the requirements of the *Code*. The appointed auditor is responsible for carrying out an audit that meets these objectives.

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

The audit approach

10 Auditors should carry out the audit economically, efficiently and effectively, and in as timely a way as possible. In framing an audit approach to meet the objectives of the audit, they should:

- a. plan and perform the audit, on the basis of their assessment of audit risks, determining where to direct their work and to allocate resources to ensure that the audit is tailored to the circumstances of the audited body. They should obtain such information and explanations as they consider necessary to provide themselves with sufficient evidence to meet their responsibilities under statute and the *Code*. Auditors are not expected to review or perform detailed tests of all financial or other systems and processes or of all accounting procedures and transactions;
- b. have regard to the principle that each part of the audit needs to be viewed in the context of the whole, or integrated, audit. No one part stands alone and work in relation to one element of the audit informs work in relation to other elements;
- c. have regard to the fact that local government bodies operate and deliver their services in a range of partnerships and other forms of joint working or contracts with other public, private or third sector bodies. Auditors should therefore consider whether they need to follow public money into and across such arrangements;

- d. discuss with the audited body the need for timely and effective production of working papers and other information required for audit, so that the process can be carried out as efficiently and effectively as possible;
- e. establish effective coordination arrangements with internal audit. Auditors should seek to place maximum reliance on the work of internal audit whenever possible;
- f. cooperate with other external auditors and the Commission, and provide information to the Commission (both locally and nationally), to enable knowledge of good practice to be transferred effectively across local government and from one audited body to another;
- g. establish effective coordination arrangements, including for sharing information, with the Commission, its partner inspectorates and other review agencies and other appointed auditors, to minimise the burden of regulation on audited bodies, so far as is consistent with the discharge of auditors' responsibilities, and to make best use of overall audit and inspection resources; and
- h. adopt a constructive and positive approach wherever possible, thereby supporting and encouraging worthwhile change, while providing independent scrutiny and assurance, and fulfilling their statutory and professional responsibilities.

Integrity, objectivity and independence

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

Data security and confidentiality

12 Auditors and their staff must ensure that all data received or obtained during the audit is held securely and that all reasonable steps are taken to ensure compliance with statutory and other requirements relating to the collection, holding and disclosure of information.

Chapter 2: Auditors' responsibilities in relation to the financial statements

This section sets out how auditors fulfil the following statutory functions. References in the table are to the Audit Commission Act 1998.

| Function | Statute |
|---|--------------------|
| 1 To be satisfied that the accounts comply with statutory requirements. | s5(1)(b), s5(1)(c) |
| 2 To be satisfied that proper practices have been observed in compiling the accounts. | s5(1)(d) |
| 3 To express an opinion on the statement of accounts. | s9(1)(b) |

13 The financial statements, which comprise the published accounts of the audited body, are an essential means by which it accounts for its stewardship of the resources at its disposal and its financial performance in the use of those resources. It is the responsibility of the audited body to:

- put in place systems of internal control to ensure the regularity and lawfulness of financial transactions;
- maintain proper accounting records; and
- prepare financial statements in accordance with the relevant accounting framework.

14 The audited body is also responsible for preparing and publishing with the financial statements a statement on internal controlⁱ and a remuneration report and for preparing a whole of government accounts return. Some local government bodies publish other information, such as an annual report, alongside the financial statements.

15 At the conclusion of the audit of the accounts, auditors are required to give their opinion on the financial statements, including:

- a. whether they present fairly, or give a true and fair view of, the financial position of the audited body and its expenditure and income for the year in question;
- b. whether they have been prepared properly in accordance with the relevant accounting framework; and
- c. for local probation boards and trusts, on the regularity of their expenditure and income.ⁱⁱ

i This is known as the Annual Governance Statement for local authorities.

ii Although local probation boards and trusts are local government bodies for the purposes of this Code, they are not local authorities. In particular, local probation boards and trusts are subject to a different accounting framework from other bodies covered by this Code. Where relevant, requirements that apply specifically to local probation boards and trusts are highlighted in the Code.

16 In carrying out this responsibility, auditors should provide reasonable assurance that the financial statements:

- a. are free from material misstatement, whether caused by fraud or other irregularity or error;
- b. comply with statutory and other applicable requirements; and
- c. comply with all relevant requirements for accounting presentation and disclosure.

17 Auditors should review, and report on as appropriate, other information published with the financial statements, including the statement on internal control and the remuneration report.

18 In reviewing the statement on internal control, auditors should take into account the knowledge of the audited body that they gain through carrying out audit work in relation to the body's arrangements for securing economy, efficiency and effectiveness in its use of resources.

19 Auditors should also review and report on the whole of government accounts return.

20 In carrying out their responsibilities in relation to the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time, and have regard to any other relevant guidance and advice issued by the Auditing Practices Board (APB), including that covering the work of auditors in relation to audited bodies' statements on internal control. Auditors should also comply with the APB's Ethical Standards currently in force, and as may be amended from time to time.

Chapter 3: Auditors' responsibilities in relation to the use of resources

This section sets out how auditors fulfil the following statutory function. References in the table are to the Audit Commission Act 1998.

| Function | Statute |
|---|----------|
| 1 To be satisfied that proper arrangements have been made for securing economy, efficiency and effectiveness in the use of resources. | s5(1)(e) |

21 It is the responsibility of the audited body to put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them. Such corporate performance management and financial management arrangements form a key part of the system of internal control and comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and procuring quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and demonstrating the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

22 The audited body is responsible for reporting on aspects of these arrangements as part of its annual statement on internal control.

Auditors' responsibilities in relation to the use of resources

23 Auditors have a responsibility to satisfy themselves that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In meeting this responsibility, auditors should review and, where appropriate, examine evidence that is relevant to the audited body's corporate performance management and financial management arrangements and report on these arrangements. In doing so, auditors must have regard to the criteria specified by the Commission.

24 Auditors' sources of assurance in discharging their responsibilities in relation to audited bodies' arrangements for securing economy, efficiency and effectiveness in the use of resources are:

- the audited body's whole system of internal control as reported on in its statement on internal control;
- the results of the work of the Commission, its partner inspectorates and other review agencies, if the results of the work have an impact on their responsibilities;
- work specified by the Commission in support of carrying out its functions; and
- any other work that auditors consider is necessary to discharge their responsibilities.

25 Auditors should normally place reliance on the reported results of the work of the Commission, its partner inspectorates and other review agencies in relation to corporate or service performance without carrying out procedures to assess the quality of the work performed and without re-performing any of the work, except where particular circumstances or information lead them to conclude that it would not be reasonable to place reliance on such reported results.

26 In reviewing the audited body's arrangements for its use of resources, it is not part of auditors' functions to question the merits of the policies of the audited body, but auditors may examine the arrangements by which policy decisions are reached and consider the effects of the implementation of policy. The audited body is responsible for deciding whether and how to implement any recommendations made by auditors. In making any recommendations, auditors should avoid any perception that they have any role in the decision-making arrangements of the audited body.

Considerations relating to planning audit work in relation to the use of resources

27 In planning their audit work in relation to the arrangements for securing economy, efficiency and effectiveness in the use of resources, auditors should consider and assess the significant risks of giving a wrong conclusion on these arrangements. The auditor's assessment of what is

significant is a matter of professional judgement and includes consideration of both the quantitative and qualitative aspects of the item or subject matter in question. Auditors should discuss their assessment of these audit risks with the audited body.

28 Auditors' assessment of risk should reflect their consideration of the relevance and significance of the potential business risks faced by all bodies of a particular type, and other risks that apply specifically to individual audited bodies. These are the significant operational and financial risks to the achievement of the audited body's statutory functions and objectives, which apply to the audited body, and are relevant to auditors' responsibilities under the *Code*. Auditors should also consider the audited body's own assessment of the risks it faces and the arrangements put in place by the body to manage and address its risks. In assessing risks in relation to audited bodies' arrangements to secure economy, efficiency and effectiveness, auditors should have regard to:

- evidence gained from previous audit work, including the response of the audited body to previous audit work;
- the results of assessments of performance carried out by the Commission;
- the work of the Commission, its partner inspectorates and other review agencies; and
- relevant improvement needs, identified in discussion with the Commission, its partner inspectorates and other review agencies.

29 On the basis of their risk assessment, auditors should plan their work and decide whether to:

- highlight the risk to the audited body;
- defer any work in the light of current or planned work by the body or the Commission, its partner inspectorates and other review agencies; or
- carry out work in relation to specific risks to form a view on the adequacy of aspects of the body's stewardship and governance and corporate performance management and financial management arrangements.

30 In considering whether to carry out work in relation to a particular risk, auditors should have regard to the potential for them to contribute to improvement in the delivery of the functions of the audited body. Such work may include working with others in order to assess how well risks arising from the audited body's involvement in partnerships or other joint-working arrangements are being addressed.

Work specified by the Commission

31 The Commission may, from time to time, specify additional elements of work to be carried out by auditors so that it can fulfil its statutory functions. Work mandated by the Commission will be in addition to auditors' principal responsibilities.

Chapter 4: Reporting the results of audit work

This section sets out how auditors fulfil the following statutory functions. References in the table are to the Audit Commission Act 1998.

| Function | Statute |
|---|----------|
| 1 To comply with the <i>Code</i> . | s5(2) |
| 2 To consider whether, in the public interest, to report on any matter that comes to the attention of the auditor so that it may be considered by the body concerned or brought to the attention of the public. | s8 |
| 3 To certify the completion of the audit. | s9(1)(a) |
| 4 To express an opinion on the statement of accounts. | s9(1)(b) |
| 5 To consider whether a written recommendation should be made to the audited body requiring it to be considered and responded to publicly. | s11(3) |

Outputs from the audit

32 The results of audit work will be reported in a range of outputs that, unless specified otherwise, should be addressed to the audited body.

33 The following outputs should be issued at key points in the audit process:

- a. audit planning document;
- b. oral and/or written reports or memoranda to officers and, where appropriate, members, on the results of, or matters arising from, specific aspects of auditors' work;
- c. a report to those charged with governance summarising the conclusions of the auditor;
- d. an audit report including the auditor's opinion on the financial statements and a conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources;ⁱ
- e. a certificate that the audit has been completed in accordance with statutory requirements; and
- f. an annual audit letter.

ⁱ For local probation boards and trusts the opinion on the financial statements includes the auditor's opinion on the regularity of expenditure and income.

- 34** In addition, the following outputs, the need for which may arise at any point during the audit process, should be issued where appropriate:
- a. a report dealing with any matter that the auditor considers needs to be raised, in the public interest, under section 8 of the Act;
 - b. any recommendations under section 11(3) of the Act; and
 - c. information to be reported to the Commission in a specified format to enable it to carry out any of its other functions or to assist its partner inspectorates and other review agencies and the National Audit Office in carrying out their functions.

Principles of audit reporting

35 Auditors should maintain regular communications with audited bodies and ensure that emerging findings are discussed on a timely basis at the level within the audited body that auditors consider to be most appropriate.

36 All outputs from the audit should be:

- clear and succinctly expressed;
- relevant to the needs of the audited body;
- explicit when drawing conclusions and making recommendations; and
- issued promptly at the appropriate point in the audit process.

37 Auditors should report to the audited body in such a way as to enable its members or officers to understand:

- the nature and scope of the audit work;
- any significant issues arising from auditors' work;
- the nature and grounds for any concerns they have; and
- where appropriate, any action that needs to be taken by the audited body to secure improvement.

38 Auditors' recommendations, arising from their work in relation to audited bodies' arrangements for securing economy, efficiency and effectiveness in the use of resources, should:

- be specific about what action the audited body should consider taking;
- be useful, practicable and based on an assessment of the benefits to the audited body of implementing them; and
- take account of the costs of implementation and report where these are likely to be significant.

Audit planning documents

39 Audit planning documents should set out how auditors intend to carry out their responsibilities, in the light of their assessment of risks. Auditors should explain their assessment of risks and discuss audit planning documents with those charged with governance. They should include provision for effective follow-up arrangements to review whether the audited body has properly considered any matters that have been identified previously and, where appropriate, has implemented agreed actions. Planning documents should also demonstrate explicitly how

planned audit work will relate to those improvement planning priorities, relevant to the responsibilities of auditors, identified following any relevant assessments of performance by the Commission. Planning documents should be kept under review and updated as necessary.

Reports or memoranda on individual aspects of audit work

40 Auditors may report the results of, and matters arising from, specific elements or parts of the audit in reports, memoranda or properly evidenced presentations. Such reports, memoranda or presentations should be prepared and issued or delivered as soon as possible after completion of the work.

Reports to those charged with governance

41 Auditors' reports to those charged with governance should cover the full range of auditors' responsibilities under statute and the *Code*. However, these reports do not need to duplicate significant matters previously communicated to those charged with governance. Auditors should satisfy themselves that these reports are considered at the level within the audited body that they consider to be most appropriate.

The audit report

42 The audit report covers all the responsibilities of the auditor under section 5 of the Act. Therefore, it comprises the auditor's opinion on the financial statements and, having regard to relevant criteria, the auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The audit report should also include, by exception, any report by the auditor on:

- the statement on internal control;
- any matters that prevent the auditor being satisfied that the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources;
- any matters reported in the public interest in the course of, or at the conclusion of, the audit;
- any recommendations made under section 11(3) of the Act; and
- the exercise of any other special powers of the auditor under the Act.

Auditors' certificates

43 Auditors are required to certify the completion of each audit. The effect of the certificate is to close the audit. This marks the point when the auditor's responsibilities in respect of the audit of the period covered by the certificate have been discharged.

44 There will be occasions when audit work in relation to the financial statements is substantially completed but the audit cannot be concluded – for example, because there are outstanding matters to be resolved arising from action or possible action under the Act. Auditors should consider issuing their audit report, including the opinion and the conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, as soon as the necessary audit work has been carried out, subject to any exception or other qualification that the auditor may need to consider.

Annual audit letters

45 The purpose of preparing and issuing annual audit letters is to communicate to the audited body and external stakeholders, including members of the public, the key issues arising from auditors' work, which auditors consider should be brought to the attention of the audited body. The annual audit letter should cover the work carried out by auditors since the previous annual audit letter was issued and matters previously reported to those charged with governance.

46 The annual audit letter should be addressed to all the members of the audited body and the auditor should ensure that all members receive a copy. Where the audited body does not arrange for distribution to all members, the auditor should make the necessary arrangements. Although some audited bodies are not subject to a statutory requirement to publish their annual audit letters, auditors should encourage these bodies to publicise the availability of the letters.

47 The auditor should issue the annual audit letter to the audited body as soon as possible after completion of the audit and, other than in exceptional circumstances, no later than a date to be specified by the Commission, following the end of the financial year to which the accounts relate.

Reports in the public interest

48 Section 8 of the Act requires that auditors should consider whether, in the public interest, they should report on any matter that comes to their attention in the course of the audit, so that it may be considered by the body concerned or brought to the attention of the public.

49 Auditors should consider whether the public interest requires any such matter to be made the subject of an immediate report rather than of a report to be made at the conclusion of the audit. An immediate report should be made where auditors consider a matter is sufficiently important to be brought to the notice of the audited body or the public as a matter of urgency.

50 In preparing and issuing reports in the public interest, auditors should tailor their approach to the urgency and significance of their concerns.

Recommendations under section 11(3) of the Act

51 The auditor should consider whether to make any written recommendations to the audited body under section 11(3) of the Act, which need to be considered and responded to publicly. Where the auditor considers it necessary to make such recommendations, these can be included, where relevant, within other written outputs from the audit or they may be the subject of a specific report to the audited body.

Information to be reported to the Commission

52 From time to time auditors may be required to report information to the Commission in a specified format to enable it to carry out its functions, including assessments of performance at relevant bodies, or to assist its partner inspectorates and other review agencies and the National Audit Office to carry out their functions.

Chapter 5: Principles relating to the exercise of specific powers and duties of local government auditors

This section sets out how auditors fulfil the following statutory functions. References in the table are to the Audit Commission Act 1998.

| Function | Statute |
|--|--------------------------|
| 1 To give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts. | s15 and s16 |
| 2 To apply to the court for a declaration that an item of account is contrary to law. | s17 |
| 3 To consider whether to issue and, if appropriate, to issue an advisory notice or to make an application for judicial review. | s19A, s19B, s19C and s24 |

53 In addition to the general functions of auditors set out in previous sections of the *Code*, auditors of local government bodies have specific powers and duties under the Act. In exercising any of these specific powers and duties, including when they are carrying out audits of small local government bodies under Schedule 1, auditors should tailor their approach to the particular circumstances of the matters under consideration.

54 Where any representations are made or information is provided that is relevant to the audit, or matters relevant to the audit otherwise come to their attention, auditors should consider whether the matter needs investigation and action under their specific powers or whether it can be considered more effectively within planned work programmes and audit reporting arrangements under their general audit powers.

55 In considering whether to exercise any of their specific powers under the Act, auditors should apply a balanced and proportionate approach in determining the time and resources to be spent on dealing with matters that come to their attention. They should consider:

- the significance of the subject matter;
- whether there is wider public interest in the issues raised;
- whether the substance of the matter has previously been considered by the body's auditor;
- the costs of dealing with the matter, bearing in mind that these fall directly on the taxpayer; and
- in the case of objections, the rights of both those subject to objection and the objector.

Schedule 1: The audit of small bodies

Introduction

S1.1 This Schedule sets out the approach to be adopted for the audit of those bodies (referred to in this Schedule as small bodies) with either annual income or annual expenditure below a financial threshold, which may change from time to time and is prescribed by relevant regulations.ⁱ

Governance and accountability

S1.2 It is the responsibility of small bodies to put in place proper arrangements to ensure the proper conduct of their financial affairs, and to monitor the adequacy and effectiveness of those arrangements in practice. Small bodies are required to maintain proper accounting records and control systems and to maintain an adequate system of internal audit of those accounting records and control systems.

S1.3 Small bodies are responsible for preparing and publishing, and providing the auditor with, the accounting statements prepared for the financial year, together with such additional information and explanation as is necessary to provide sufficient evidence that they have maintained adequate systems of internal control and internal audit throughout the financial year.

The audit approach

S1.4 Auditors of small bodies should undertake an examination of the accounts and additional information and explanation provided by the body.

S1.5 Auditors should meet their responsibility by:

- reviewing compliance with the requirements for the preparation of the accounts;
- carrying out a high-level analytical review of financial and other information provided to the auditor; and
- reviewing such additional information and explanation as is necessary to provide sufficient evidence that the body has maintained an adequate system of internal control and internal audit throughout the financial year.

ⁱ Regulations made under section 27 of the Act prescribe a financial threshold for the purposes of determining the type of financial statements that a body is required to prepare and for other purposes.

S1.6 Where, on the basis of the auditor's reviews, the auditor requires further evidence in relation to any relevant matter, additional testing should be undertaken to address the auditor's concerns.

S1.7 When the auditor has completed an examination of the accounts and additional information and explanation provided, the auditor gives an opinion on the accounting statements and certifies the completion of the audit. Auditors provide assurance in the form of an opinion whether, on the basis of their review, the accounts and the other information provided are in accordance with the specified requirements and that no matters have come to their attention giving cause for concern that relevant legislative and regulatory requirements have not been met.

Appendix: Glossary

Accounting statements

The annual income and expenditure account, statement of balances or record of receipts and payments that a small body is required to prepare in accordance with, and in the form specified in, any annual return required by proper practices in relation to accounts.

This definition applies to small bodies only. Other audited bodies are required to prepare a statement of accounts. (See also 'Financial statements').

Act (the)

The Audit Commission Act 1998.

Annual audit letter

Report issued by the auditor to an audited body that summarises the audit work carried out in the period, auditors' opinions or conclusions (where appropriate) and significant issues arising from auditors' work.

Annual report

Although not required to do so, some local government bodies produce and publish other information, such as an annual report, alongside the financial statements. The annual report describes the aims and achievements of an audited body during a particular year and may include a summarised version of the financial statements.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by auditors in accordance with the *Code* to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor, comprising both the members of the body and its management (the senior officers of the body). Those charged with governance are the members of the audited body. (See also 'Members' and 'Those charged with governance'.)

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, Ethical Standards and other guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB, which contain basic principles and essential procedures with which auditors are required to comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The *Code of Audit Practice*.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles that apply to the conduct of audits and with which auditors are required to comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts or accounting statements that audited bodies are required to prepare, which summarise the accounts of the audited body, in accordance with regulations and proper practices in relation to accounts.

Small bodies are not required to prepare a statement of accounts. They are required to prepare accounting statements.

Internal control

The whole system of controls, financial and otherwise, that is established in order to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Local government bodies

Bodies other than NHS bodies to which the Commission is responsible for appointing auditors, as set out in Schedule 2 of the Act. These include, for the purposes of applying the *Code*, local authorities, local councils (parish and town councils), police authorities, fire authorities, national park authorities and local probation boards and trusts.

Materiality (and significance)

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only in relation to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, in addition to their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements. The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Members

The elected or appointed members of local government bodies who are responsible for the overall direction and control of the audited body. (See also ‘Those charged with governance’ and ‘Audited body’.)

Partner inspectorates and review agencies

The Commission’s partner inspectorates are those organisations that are responsible for carrying out inspections, including bodies with statutory inspection functions such as Ofsted, the Care Quality Commission, and Her Majesty’s Inspectorate of Constabulary. Review agencies include other bodies that have regulatory responsibilities in relation to local government bodies, including government departments, the government offices and relevant regulators of local government professions.

Regularity (of the expenditure and income of local probation boards and trusts)

Whether, subject to the concept of materiality, the expenditure and income of local probation boards and trusts have been applied for the purposes intended by parliament, and whether they conform with the authorities that govern them.

Remuneration report

Audited bodies are required to produce, and publish with the financial statements, a remuneration report that discloses the salary and pension entitlements of senior managers.

Small bodies

Audited bodies with either annual income or annual expenditure (whichever is the higher) below a financial threshold, which may change from time to time and is prescribed for the purposes of regulations made under section 27 of the Act. The financial threshold is prescribed for the purposes of determining the type of financial statements that a body is required to prepare and for other purposes.

Statement on internal control

Local government bodies are required to publish a statement on internal control (SIC) with their financial statements (or with their accounting statements in the case of small bodies). The disclosures in the SIC are supported and evidenced by the body's assurance framework. At local authorities the SIC is known as the Annual Governance Statement and is prepared in accordance with guidance issued by CIPFA. Police authorities also produce a SIC in accordance with relevant CIPFA guidance. Local probation boards and trusts are required to prepare a SIC in accordance with the requirements specified by HM Treasury in *Managing Public Money*.

Third sector

The third sector includes voluntary and community organisations, charities, social enterprises and cooperative and mutual organisations.

Those charged with governance

Those charged with governance are defined in auditing standards as 'those persons entrusted with the supervision, control and direction of an entity'. In local government bodies, those charged with governance, for the purpose of complying with auditing standards, are:

- for local authorities – the full council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements;
- for police or fire authorities – the full authority, audit committee (where established) or other committee with delegated responsibility for approval of the financial statements;
- for local probation boards and trusts – the board or audit committee; and
- for other local government bodies – the full authority or board or council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements.

Audit committees are not mandatory for local government bodies, other than police authorities and local probation boards and trusts. Other bodies are expected to put in place proper arrangements to allow those charged with governance to discuss audit matters with both internal and external auditors. Auditors should satisfy themselves that these matters, and auditors' reports, are considered at the level within the audited body that they consider to be most appropriate.

Whole of Government Accounts

The Whole of Government Accounts initiative is to produce a set of consolidated financial accounts for the entire UK public sector on commercial accounting principles. Local government bodies, other than probation boards and trusts, are required to submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, their statutory accounts.

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We welcome your feedback. If you have any comments on this report, are intending to implement any of the recommendations, or are planning to follow up any of the case studies, please email: nationalstudies@audit-commission.gov.uk



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Statement of responsibilities of auditors and of audited bodies

Local government, March 2010

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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Introduction

1 The Audit Commission (the Commission) is responsible for appointing auditors and determining their terms of appointment, as well as for preparing a Code of Audit Practice (the Code), which prescribes the way auditors are to carry out their functions. The Commission has prepared a Code for the audits of local government bodies and a Code for the audit of local NHS bodies. From time to time, the Commission issues guidance to auditors under section 3(8) of the Audit Commission Act 1998 (the Act) and Paragraph 7(3) of Schedule 1 to the Act. This statement sets out guidance on general responsibilities relevant to audits of local government bodies and so supports the Code. A separate statement has been prepared for the audits of NHS bodies.

2 This statement serves as the formal terms of engagement between the Audit Commission's appointed auditors and local government bodies.ⁱ It summarises where the different responsibilities of auditors and of the audited body begin and end, and what is to be expected of the audited body in certain areas. Throughout this statement, the term 'audited body' covers both the members and senior officers of the body.

3 The responsibilities of auditors are derived from statute (principally the Audit Commission Act 1998) and from the Code. Nothing in this statement is intended to limit or extend those responsibilities. In particular, audited bodies should note that because auditors must not prejudice their independence of the audited body, the role of the appointed auditor does not include providing financial or legal advice or consultancy to the audited body.

4 Auditors may wish to refer to this statement in audit planning documents, annual audit letters, reports and other audit outputs.

Introduction to responsibilities

5 Those responsible for the conduct of public business and for spending public money are accountable for ensuring that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

ⁱ This statement covers the audits of local government bodies. These include the various bodies that provide public services locally, including local authorities (and their pension funds, if applicable), fire authorities, police authorities, local councils, local probation boards and trusts and integrated transport authorities and passenger transport executives.

6 In discharging this accountability, public bodies are responsible for putting in place proper arrangements for the governance of their affairs and the stewardship of the resources at their disposal.ⁱ They are also required to report on their arrangements in their statement on internal control.ⁱⁱ

7 It is the responsibility of the audited body to ensure that proper arrangements are in place, but certain individuals may also have specific responsibilities. Local authorities have designated statutory officers, each of whom has a specific role in relation to accountability and control. For local authorities, these include:

- the head of paid service, usually the chief executive, responsible to the full council for the corporate and overall strategic management of the authority;
- the monitoring officer, who is responsible for reporting to the authority any actual or potential breaches of the law or any maladministration and for ensuring that procedures for recording and reporting key decisions are operating effectively; and
- an officer with responsibility for the proper administration of the authority's financial affairs.

8 In carrying out their work, auditors will:

- plan and manage the audit in a timely, professional and efficient manner;
- plan to complete work within agreed deadlines;
- maintain close liaison with the audited body; and
- provide appropriate and adequate resources and assign responsibilities to staff with the relevant expertise and experience.

9 In meeting their responsibilities, auditors obtain representations from management, both orally and in writing, on specific aspects of the audit.

10 The following paragraphs summarise the specific responsibilities of auditors and of audited bodies in relation to the responsibilities of auditors described in the Code.

Responsibilities in relation to the financial statements

11 The financial statements, which comprise the published accounts of the audited body, are an essential means by which it accounts for its stewardship of the resources at its disposal and its financial performance in the use of those resources. It is the responsibility of the audited body to:

- put in place, and review the effectiveness of, its system of internal control, including arrangements to ensure the regularity and lawfulness of transactions;ⁱⁱⁱ

i The various local government bodies covered by this statement are constituted differently and their governance arrangements will vary accordingly.

ii Known as Annual Governance Statement for local authorities.

iii For example, Regulation 4(2) of the Accounts and Audit Regulations 2003, as amended, requires local authorities and other specified bodies to 'conduct a review at least once in a year of the effectiveness of its system of internal control'.

- maintain proper accounting records; and
- prepare financial statements that give a true and fair view of the financial position of the body and its expenditure and income and that they are in accordance with applicable laws, regulations and accounting policies.

12 A local authority that is the administering authority for a local authority pension fund must prepare pension fund financial statements and an annual report for each financial year. The financial statements must give a true and fair view of:

- the financial transactions of its 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.

13 The audited body is also responsible for preparing and publishing with its financial statements a statement on internal control and, where required to do so, a remuneration report.ⁱ Local authorities and other specified bodies also prepare a whole of government accounts return. Although not required to do so, some local government bodies publish other information, such as an annual report, alongside the financial statements.

14 In preparing their financial statements, audited bodies are responsible for:

- preparing realistic plans that include clear targets and achievable timetables for the production of the financial statements;
- assigning responsibilities clearly to staff with the appropriate expertise and experience;
- providing necessary resources to enable delivery of the plan;
- maintaining adequate documentation in support of the financial statements and, at the start of the audit, providing a complete set of working papers that provide an adequate explanation of the entries in those financial statements;
- ensuring that senior management monitors, supervises and reviews work to meet agreed standards and deadlines; and
- ensuring that a senior individual at top management level personally reviews and approves the financial statements before presentation to the auditor. Specifically, the responsible financial officer must sign, date and certify the financial statements before they are approved by the body.

15 If draft financial statements and working papers of appropriate quality are not available at the agreed start date of the audit, the auditor is unable to meet the planned audit timetable and the start date of the audit will be delayed. The audit fee is calculated on the basis that the draft financial statements, and detailed working papers, are provided to an agreed timetable and are of an acceptable standard. If information is not provided

ⁱ Local authorities prepare an Annual Governance Statement which includes a statement on internal control. Regulation 4(4) of the Accounts and Audit Regulations 2003, as amended, requires that a statement on internal control is included with an authority's accounts.

to this timetable, or is provided to an unacceptable standard, the auditor will incur additional costs in carrying out any extra work that is necessary. The Commission will charge an additional fee if the additional work is substantial.

16 In carrying out their responsibilities in relation to the financial statements, auditors have regard to the concept of materiality.

17 Subject to the concept of materiality, auditors provide reasonable assurance that the financial statements:

- are free from material misstatement, whether caused by fraud or other irregularity or error;
- comply with statutory and other applicable requirements; and
- comply with all relevant requirements for accounting presentation and disclosure.

18 Subject to the concept of materiality, auditors of local probation boards also provide reasonable assurance on the regularity of expenditure and income. In carrying out an audit, auditors do not perform detailed tests of all transactions. Therefore the audit process should not be relied upon to disclose all unlawful transactions or events that may have occurred or might occur.

19 Auditors plan and perform their audit on the basis of their assessment of risk. Auditors examine selected transactions and balances on a test basis and assess the significant estimates and judgements made by the audited body in preparing the statements.

20 Auditors evaluate significant financial systems, and the associated internal financial controls, for the purpose of giving their opinion on the financial statements. However, they do not provide assurance to audited bodies on the operational effectiveness of specific systems and controls or their wider system of internal control. Where auditors identify any weaknesses in such systems and controls, they draw them to the attention of the audited body, but they cannot be expected to identify all weaknesses that may exist.

21 Auditors review whether the statement on internal control has been presented in accordance with relevant requirements and report if it does not meet these requirements or if it is misleading or inconsistent with other information the auditor is aware of. In doing so, auditors take into account the knowledge of the audited body gained through their work in relation to the financial statements and through their work in relation to the body's arrangements for securing economy, efficiency and effectiveness in the use of its resources. They also have regard to the work of other regulators, to the extent that it is relevant to auditors' responsibilities. Auditors are not required to consider whether the statement on internal control covers all risks and controls, and auditors are not required to express a formal opinion on the effectiveness of the audited body's corporate governance procedures or risk and control procedures.

22 Auditors also review for consistency other information that is published by the audited body alongside the financial statements, such as an annual report. If auditors have concerns about the consistency of any such information they will report them to those charged with governance.

23 At the conclusion of the audit of the accounts, auditors give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its expenditure and income for the year in question;
- whether they have been prepared properly in accordance with relevant legislation and applicable accounting standards;
- for probation boards, on the regularity of their expenditure and income; and
- for certain bodies, on whether the part of the remuneration report to be audited has been properly prepared.

24 In the case of local authorities and other specified bodies, auditors also give their opinion on whether the whole of government accounts return has been properly prepared.

25 Auditors of local authorities that are the administering authorities for a local authority pension fund include a separate opinion on the pension fund accounts within their report on the financial statements. They also issue a separate opinion on the financial statements contained in the pension fund annual report.

Electronic publication of the financial statements

26 Where the audited body wishes to publish its financial statements electronically, it is responsible for ensuring that the publication presents accurately the financial statements and the auditor's report on those financial statements. This responsibility also applies to the presentation of any financial information published in respect of prior periods. Similarly, where the audited body wishes to distribute electronic copies of the financial statements, and the auditor's report on those financial statements, to its stakeholders, it is responsible for ensuring that these are presented accurately.

27 The auditor's report on the financial statements should not be reproduced or referred to electronically without the auditor's prior written agreement. This enables the auditor to review the process by which the financial statements to be published electronically are derived from the financial information contained in the manually signed financial statements, check that the proposed electronic version is identical in content with the manually signed financial statements and check that the conversion of the manually signed financial statements into an electronic format has not distorted the overall presentation of the financial information.

28 The examination of the controls over the electronic publication of audited financial statements is beyond the scope of auditors' responsibilities in relation to the financial statements and the auditor cannot be held responsible for changes made to audited information after the initial publication of the financial statements and the auditor's report.

Responsibilities in relation to arrangements for securing economy, efficiency and effectiveness in the use of resources

29 It is the responsibility of the audited body to put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them. Such corporate performance management and financial management arrangements form a key part of the system of internal control and comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and procuring quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and demonstrating the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help it deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

30 The audited body is responsible for reporting on these arrangements as part of its annual statement on internal control.

31 Auditors have a responsibility to satisfy themselves that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In doing so they are required to have regard to criteria specified by the Audit Commission.ⁱ In meeting this responsibility auditors review and, where appropriate, examine evidence that is relevant to the audited body's corporate performance management and financial management arrangements.

ⁱ These criteria are published on the Commission's website.

32 In planning this work, auditors consider and assess the significant risks of giving a wrong conclusion on the audited body's arrangements for securing economy, efficiency and effectiveness. The auditor's assessment of what is significant is a matter of professional judgement and includes consideration of both the quantitative and qualitative aspects of the item or subject matter in question. Auditors discuss their assessment of these risks with the audited body.

33 When assessing risk auditors consider:

- the relevance and significance of the potential business risks faced by all bodies of a particular type. These are the significant operational and financial risks to the achievement of the audited body's statutory functions and objectives, which apply to the audited body and are relevant to auditors' responsibilities under the Code;
- other business risks that apply specifically to individual audited bodies;
- the audited body's own assessment of the risks it faces; and
- the arrangements put in place by the body to manage and address its risks.

34 In assessing risks auditors have regard to:

- evidence gained from previous audit work, including the response of the audited body to previous audit work;
- the results of assessments of performance carried out by the Commission;
- the work of other statutory inspectorates; and
- relevant improvement needs, identified in discussion with the Commission or other statutory inspectorates.

35 Where auditors rely on the reports of statutory inspectorates as evidence relevant to the audited body's corporate performance management and financial management arrangements, the conclusions and judgements in such reports remain the responsibility of the relevant inspectorate or review agency.

36 In reviewing the audited body's arrangements for the use of resources, it is not part of auditors' functions to question the merits of the policies of the audited body, but auditors may examine the arrangements by which policy decisions are reached and consider the effects of the implementation of policy. It is the responsibility of the audited body to decide whether and how to implement any recommendations made by auditors and, in making any recommendations, auditors must avoid giving any perception that they have any role in the decision-making arrangements of the audited body.

37 Auditors do not provide assurance to audited bodies on the operational effectiveness of specific aspects of their arrangements for the use of resources. Neither can they be relied on to have identified every weakness or every opportunity for improvement. Audited bodies should consider auditors' conclusions and recommendations in their broader operational or other relevant context.

38 In reviewing audited bodies' arrangements for producing relevant and reliable data and information to support decision making and manage performance, auditors may review the data supporting specific performance information. Audited bodies are responsible for applying appropriate data quality standards, collecting data that is fit for purpose and, where applicable, conforms to prescribed definitions. Audited bodies are also responsible for satisfying themselves that performance information is reliable and accurate.

39 Where auditors identify significant misstatements or errors in specific performance information or the underlying data, they draw them to the attention of the audited body, but they do not provide assurance to audited bodies on the accuracy or reliability of performance information or the underlying data.

40 Audit work in relation to the audited body's arrangements to ensure it promotes and demonstrates the principles and values of good governance and does not remove the possibility that breaches of proper standards of financial conduct, or fraud and corruption, have occurred and remained undetected. Neither is it the auditors' responsibility to prevent or detect breaches of proper standards of financial conduct, or fraud and corruption, although they are alert to the possibility and act promptly if grounds for suspicion come to their notice.

41 The reviews arising from national studies developed by the Commission, and the extent to which auditors are expected to apply them at relevant bodies, are prescribed by the Commission and are notified to audited bodies each year by the Commission in its annual work programme and by auditors in their audit planning documents. When carrying out national studies, auditors are required to follow the methodologies and, for certain studies, use comparative data provided by the Commission. Responsibility for the adequacy and appropriateness of these methodologies and the data rests with the Commission.

42 At the conclusion of the audit, auditors report their value for money conclusion on:

- the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources; and
- whether significant matters have come to their attention which prevent them from concluding that the audited body has put in place proper arrangements.

Specific powers and duties of auditors

43 Auditors have specific powers and duties under the Audit Commission Act 1998 (the Act) in relation to matters of legality and, for local authorities, electors' rights.

44 Auditors must:

- consider whether to issue a public interest report concerning any matter that comes to the auditor's attention during the course of the audit, which they judge should be considered by the audited body or brought to public attention (section 8 of the Act); and
- give electors the opportunity to raise questions about a local authority's accounts, and consider and decide upon objections received from electors in relation to the accounts (sections 15 and 16 of the Act).

45 Auditors may decide:

- that the audited body should consider formally, and respond to in public, recommendations made in an audit report (section 11(3) of the Act);
- to issue an advisory notice or to apply to the court for a declaration that an item of account is unlawful (sections 17 and 19A of the Act), if they have reason to believe that unlawful expenditure has been or is about to be incurred by an audited body; and
- to apply for judicial review with respect to a decision of an audited body or a failure of an audited body to act, which it is reasonable to believe would have an effect on the accounts of that body (section 24 of the Act).

46 Fees arising in connection with auditors' exercise of these powers and duties, including costs relating to the appointment of legal or other advisers to the auditors, are borne by the audited body.

Reporting the results of audit work

47 Auditors provide:

- audit planning documents;
- oral and/or written reports or memoranda to officers and, where appropriate, members on the results of, or matters arising from, specific aspects of auditors' work;
- a report to those charged with governance, normally submitted to the audit committee, summarising the work of the auditor;
- an audit report, including the auditor's opinion on the financial statements and a conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources;
- a certificate that the audit of the accounts has been completed in accordance with statutory requirements; and
- an annual audit letter addressed to the audited body, which is based on the report to those charged with governance.

48 Audit reports are addressed to officers or members of the audited body, as appropriate. Auditors do not have responsibilities to officers or members in their individual capacities (other than observing the rules of natural justice in the exercise of auditors' specific powers and duties in relation to electors' rights) or to third parties that choose to place reliance upon the reports from auditors.

49 In addition, the following outputs, the need for which may arise at any point during the audit process, are issued where appropriate:

- a report under section 8 of the Act;
- recommendations under section 11(3) of the Act; and
- information to be reported to the Commission in a specified format to enable it to carry out any of its functions, including assessments of performance at relevant bodies, or to assist other bodies, such as the National Audit Office, in carrying out their functions.

50 When considering the action to be taken on audit reports, audited bodies should bear in mind the scope of the audit and responsibilities of auditors, as set out in the Code and as further explained in this statement. Matters raised by auditors are drawn from those that come to their attention during the audit. The audit cannot be relied upon to detect all errors, weaknesses or opportunities for improvements in management arrangements that might exist. Audited bodies should assess auditors' conclusions and recommendations for their wider implications before deciding whether to accept or implement them.

Ad hoc requests for auditors' views

51 There may be occasions when audited bodies seek the views of auditors on the legality, accounting treatment or value for money of a transaction before embarking upon it. In such cases, auditors are as helpful as possible, but are precluded from giving a definite view in any case because auditors:

- must not prejudice their independence by being involved in the decision-making processes of the audited body;
- are not financial or legal advisers to the audited body; and
- may not act in any way that might fetter their ability to exercise the special powers conferred upon them by statute.

52 In response to such requests, auditors can offer only an indication as to whether anything in the information available to them at the time of forming a view could cause them to consider exercising the specific powers conferred upon them by statute. Any response from auditors should not be taken as suggesting that the proposed transaction or course of action will be exempt from challenge in future, whether by auditors or others entitled to raise objection to it. It is the responsibility of the audited body to decide whether to embark on any transaction.

Grant claims and returns – certification

53 Auditors may be required by the Commission to carry out work to support certification of grants or returns. Auditors carry out this work on an agency basis on behalf of the Commission. A separate statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors covering this work can be found at www.audit-commission.gov.uk

Access to information, data security and confidentiality

54 Auditors have wide-ranging rights of access to documents and information in relation to the audit. Such rights apply not only to documents and information held by the audited body and its members and staff, including documents held in electronic form, but also to the audited body's partners and contractors, whether in the public, private or third sectors. Auditors may also require a person holding or accountable for any relevant document to give them such information and explanation as they consider necessary.

55 There are restrictions on the disclosure of information obtained in the course of the audit, subject only to specific exemptions. The Freedom of Information Act 2000 does not apply to the Commission's appointed auditors, as they have not been designated as 'public authorities' for the purposes of that legislation, although they are subject to the Environmental Information Regulations 2004. Audited bodies wishing to disclose information obtained from an auditor, which is subject to a statutory restriction on its disclosure, must seek the auditor's consent to that disclosure.

56 Auditors protect the integrity of data relating to audited bodies and individuals either received or obtained during the audit. They ensure that data is held securely and that all reasonable steps are taken to ensure compliance with statutory and other requirements relating to the collection, holding and disclosure of information.

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We welcome your feedback. If you have any comments on this report, are intending to implement any of the recommendations, or are planning to follow up any of the case studies, please email: nationalstudies@audit-commission.gov.uk



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Meeting: Audit Committee
Date: 12 April 2010
Subject: Audit Letter and Annual Governance Report Action Plans
Report of: Assistant Director Finance
Summary: The report provides information on the authority's response to the key findings of the Audit Commission's Annual Governance Reports for the three predecessor authorities.

Contact Officer: Matt Bowmer, Assistant Director Finance
Public/Exempt: Public
Wards Affected: All
Function of: Council

CORPORATE IMPLICATIONS

Council Priorities:

The successful completion of a full year end close will assist in providing evidence to the Audit Commission to support the financial reporting requirements of the Use of Resources Assessment for the Council.

Financial:

No direct effects, although the exercise will help to provide information on Council balances and identify potential impacts on current spending.

Legal:

None

Risk Management:

None

Staffing (including Trades Unions):

None

Equalities/Human Rights:

None

Community Safety:

None

Sustainability:

None

RECOMMENDATION(S):

that the Committee note the contents of the report

Background

1. The Council is required to prepare its annual accounts for presentation to its Audit Committee by the 30 June. To ensure a successful closure process, the authority must consider and positively respond to the findings of the Audit Commission in the Annual Governance Reports and Annual Audit Letter.

Audit Letter

2. Central Bedfordshire Council's Audit Committee received its Annual Audit Letter at its January meeting. This included a range of high level statements including the main findings emerging from the Annual Governance Reports issued to Central Bedfordshire on behalf of its predecessor authorities.
3. Four recommendations were included within the Audit Letter and the detailed actions to address these recommendations is included at Appendix A to the report. The key responses are summarised in paragraphs 4 to 7 below.

4. **Annual Governance Report**

R1 Ensure the appropriate skills, capacity and information systems are in place to meet the capital accounting requirements: interim staff with significant capital accounting experience have been recruited to review historic capital accounting issues and ensure the harmonisation of accounting practices are satisfactorily undertaken.

5. **Grants Audit – Certification of Grants and Returns**

R2 Ensure that in implementing the new housing benefits system and training staff in its use, the problems that have led to the qualification of these claims in previous years are addressed: Increased automation provided through the system will aid the reduction in qualification issues. Staff have received substantial training following the 2007/08 claim issues and this should have a substantial impact.

6. **International Financial Reporting Standards**

R3 Monitor progress on implementing the IFRS plan to enable the Council to meet the new reporting requirements under IFRS: a project plan has been introduced within the authority and initial proposals on the accounting for PFI have been provided to the Audit Commission for review. Full details of the progress in responding to the new reporting framework is provided in the "2009/10 Annual Accounts Progress Report" that is being submitted to the Audit Committee dated 12 April 2010.

7. **Financial Standing**

R4 Continue to take action to identify the reasons for the 2009/10 projected overspend so that an accurate budget can be set for 2010/11:

Significant work has been undertaken during 2009/10 to fully align the Council's budget with its activities. This work has informed the setting of the 2010/11 budget and is in part evidenced by a number of significant base budget adjustments.

Annual Governance Reports

8. Central Bedfordshire Council's Audit Committee received three Annual Governance Reports from the Audit Commission following the audit of the three predecessor authority's annual accounts. An Annual Governance Report was issued for Bedfordshire County Council, Mid Bedfordshire District Council and South Bedfordshire District Council. Each Annual Governance Report was supported by an unqualified audit opinion.
9. The Audit Commission included in its reports the key findings of its audit work after scrutinising the procedures, disclosures, assumptions and approach that the authorities utilised in preparing the statements. The Annual Governance Report has been previously communicated to the Audit Committee and following this the authority has carefully reviewed the key findings and has formulated an action plan to respond positively to this. The action plan can be found at Appendix B. The commentary below describes some of the key findings of the Annual Governance Reports that have potential to impact on Central Bedfordshire Council on an ongoing basis.
10. **Bedfordshire County Council**
- (i) **Material errors found in respect of the treatment of Area Based Grant:** the authority amended the statements to allow the correct presentation of the income and Central Bedfordshire Council will ensure that the accounting for the grant is undertaken in accordance with recommended practice in future financial statements.
 - (ii) **Reconciliations from the Working Papers / Supporting Records to the Annual Accounts:** all working papers provided as part of the annual accounts process will include clear audit trails from the annual accounts to the supporting documentation in future annual accounts processes. Training is being provided in April to finance staff, with the support of the Audit Commission, on working paper and audit evidence requirements.
 - (iii) **Payroll Controls:** Central Bedfordshire Council has been working across its departments and with its payroll provider SERCO to make the level of changes required to allow adequate assurances over the controls in payroll. However, it is likely that this assurance will not be sufficient as this will lead to a higher level of audit scrutiny as part of year end testing.

11. **Mid Bedfordshire District Council**

- (iv) **Risks of Repetition of Issues in 2009/10 Accounts Process:** quality assurance procedures are being reviewed on an ongoing basis and it is expected that this should give greater assurances over a range of issues identified within the Annual Governance Report.

12. **South Bedfordshire District Council**

- (v) **Valuation of Fixed Assets:** Central Bedfordshire Council has undertaken a thorough review of its accounting policies and has harmonised the approaches of the three predecessor authorities in respect of all areas of practice, including the valuation of fixed assets. The approach to the valuation of fixed assets will be discussed with the external auditor on an ongoing basis prior to the submission of the accounts.

Conclusion

13. The authority has been able to make positive responses to the findings and has been successful in implementing solutions to the majority of the issues identified within the Annual Governance Reports. However, it should be noted that the authority may not provide sufficient assurance over the level of controls within the payroll system and this may lead to a higher level of testing within the final accounts audit.

Background Papers: (open to public inspection)

Annual Governance Report – Bedfordshire County Council

Annual Governance Report – Mid Bedfordshire District Council

Governance Report – South Bedfordshire District Council

Location of papers: Borough Hall, Bedford

| Recommendation | Responsibility | Agreed | Comments | Date |
|---|--|--------|--|----------|
| R1 Ensure the appropriate skills, capacity and information systems are in place to meet the capital accounting requirements | Chief Accountant | Yes | Interim staff with significant year end and capital accounting experience have been recruited to review historic capital accounting issues and ensure the harmonisation of accounting practices are satisfactorily undertaken. | Ongoing |
| R2 Ensure that in implementing the new housing benefits system and training staff in its use, the problems that have led to the qualification of these claims in previous years are addressed | Assistant Director Business Transformation and Customer Services | Yes | <p>Increased automation provided through the system will aid the reduction in qualification issues but with the system going live some three quarters of the way through the current year the full benefit will not be recognised or achieved until the audit of the 2010/11 subsidy claim.</p> <p>Staff have received substantial training following the 2007/08 claim issues and it is recognised that a combination of the system and the training should have substantive impact in addressing the issues previously identified. The subsidy claim for 2008/9 is nearing completion and has far fewer issues than the previous year.</p> | Ongoing |
| R3 Monitor progress on implementing the IFRS plan to enable the Council to meet the new reporting requirements under IFRS | Chief Accountant | Yes | Individual project teams dealing with IFRS issues have been established and are developing delivery plans to prepare for IFRS. As part of this process they are expected to report back to Corporate Resources Leadership Team in July 2010. A further report on IFRS will be taken to the next Audit Committee meeting. | Ongoing |
| R4 Continue to take action to identify the reasons for the 2009/10 projected overspend so that an accurate budget can be set for 2010/11 | Assistant Director Finance | Yes | A significant amount of work has been undertaken by the Finance team together with Services to address the 2009/10 forecast overspend. Currently, the actions taken as a consequence have reduced the overspend to £1.3m. This work has been undertaken in parallel with the setting of the 2010/11 budget and there have been a number of base budget adjustments and realignments to ensure that there is an accurate and realistic budget in place for 2010/11. There is a reserves policy in place to reinstate balances to put Central Bedfordshire on a more resilient financial position for the medium term. | 31/03/10 |

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Annual Governance Reports – Action Plan

Appendix B

| Recommendation | Responsibility | Agreed | Comments | Date |
|---|-----------------------|---------------|--|--------------------------|
| <u>Bedfordshire County Council</u> Amend the accounts to disclose Area Based Grant in line with SORP requirements. | Chief Accountant | Yes | 2008/09 accounts amended. Area Based Grant will be correctly reflected 2009/10 accounting statements. | 29/10/09 |
| Amend the accounts to correct the further error in respect of the disclosure of the ABG in the Income and Expenditure Account as detailed above | Chief Accountant | Yes | 2008/09 accounts amended to correctly demonstrate Area Based Grant. | 29/10/09 |
| Amend the Cash Flow Statement to correctly account for the transfer of PWLB debt to Luton Borough Council | Chief Accountant | Yes | Cash Flow Statement amended. | 29/10/09 |
| Ensure the recommendations made by Internal Audit in respect of the Payroll System, which is now being used by Central Bedfordshire Council, are implemented. | Chief Accountant | Yes | Controls around the payroll system are being reviewed to comply with Internal Audit recommendations. The adequacy of the processes will impact upon the level of testing required during the audit of the 2009/10 accounts. | Ongoing |
| Consider expanding note 13 in respect of officers remuneration to note the impact of LGR | Chief Accountant | No | No changes to the 2008/09 accounts made in respect of this item. The authority complied with the reporting requirements of the Statement of Recommended. New reporting requirements proposed by the DCLG will be adopted for 2009/10 accounts. | 03/06/10 |
| Ensure in the future that the Statements of Account provided for audit reconcile to the trial balance produced by the general ledger | Chief Accountant | Yes | The opening balances for Central Bedfordshire within SAP will be reconciled to the disaggregated balances from Bedfordshire CC and South / Mid Bedfordshire District Councils. When the preparation of the 2009/10 accounts is complete a further trial balance will be taken, which will support the figures in the Income and Expenditure Account and Balance Sheet. | 03/06/10 |
| Ensure in the future that the Statements of Account provided for audit reconcile to the underlying asset register records | Chief Accountant | Yes | A new fixed asset register has been created that reconciles to the opening net book balances transferred from Bedfordshire CC and South / Mid Bedfordshire District Councils. In year movements to these balances will be supported by detailed working papers and ledger reports. | 29/01/10 03/06/10 |

| | | | | |
|--|------------------|-----|---|----------|
| <u>Mid-Bedfordshire District Council</u> Central Bedfordshire should review closedown procedures to reduce the risk of similar issues occurring during the 2009/10 closedown. | Chief Accountant | Yes | New procedures are being put in place to ensure that the Statement of Accounts correctly reflects the financial position of the Council and reconciles to the General Ledger. The material changes highlighted within the 2008/09 AGR will be followed up to ensure that the treatment within the 2009/10 accounts is correct | 03/06/10 |
| <u>South Bedfordshire District Council</u> Ensure appropriate valuations are used to compile the 2009/10 accounts and that depreciation is calculated correctly using the resource allocation valuation. | Chief Accountant | Yes | Valuations are being provided on a consistent basis to Central Bedfordshire from all three valuers involved in this process i.e. Property Services, Mouchel & Wilkes, Head and Eve. Depreciation will be calculated consistently using valuations at 1 April 2009 being provided by these agencies regardless of the derivation of the asset. | 01/04/10 |
| Ensure there are clear authorisation procedures and an authorised signatory list or that IT systems are configured so that those who raise debtor invoices only do so on receipt of duly authorised instruction. | Chief Accountant | Yes | Central Bedfordshire has controls for raising debtor invoices and hold a list of duly authorised signatories within the Chief Accountant's Team. | Ongoing |
| Undertake a review of all land holdings to ensure all are included in the Council's fixed asset register – even where they have a nil value. | Chief Accountant | Yes | The opening balance for fixed assets to be used for the 2009/10 Statement of Accounts is based on the existing asset register from SBDC. Property Services will be asked over the next year to review all land and property records to recognise potential discrepancies within the fixed asset register. | Ongoing |
| Ensure the 2009/10 officer emoluments disclosure includes any redundancy payments made to officers who were employees of South Bedfordshire. | Chief Accountant | Yes | New reporting requirements proposed by the DCLG will be adopted for 2009/10 accounts. HR will be asked to provide a schedule for all staff whose total remuneration, including redundancy costs, fall within this new guidance. | 03/06/10 |

Meeting: Audit Committee
Date: 12 April 2010
Subject: 2009/10 Annual Accounts Progress Report
Report of: Assistant Director - Finance
Summary: The report provides information on progress made to date in the preparation of the 2009/10 annual accounts.

Contact Officer: Matt Bowmer, Assistant Director Finance
Public/Exempt: Public
Wards Affected: All
Function of: Council

CORPORATE IMPLICATIONS

Council Priorities:

The completion of a successful annual accounts closure process will assist in providing evidence to the Audit Commission regarding the Use of Resources Assessment for the Council.

Financial:

No direct effects, although the exercise will help to provide information on Council balances and identify potential impacts on current spending.

Legal:

None

Risk Management:

None

Staffing (including Trades Unions):

None

Equalities/Human Rights:

None

Community Safety:

None

Sustainability:

None

RECOMMENDATION(S):

that the Committee note the contents of the report

Background

1. The Council is required to prepare its annual accounts for presentation to the Audit Committee by the 30 June.
2. To ensure a successful closure process, a third quarter closure was considered to be an important step to accelerate, as far as possible, a number of year-end and ongoing processes prior to the end of the financial year, thereby reducing the work that will have to be undertaken after 31 March.
3. There are also many potential accounting changes to consider in the short and medium term due to the implementation of the International Financial Reporting Standards.

Third Quarter Close Progress

3. As outlined in January's report on the Third Quarter Close Programme, the key emphasis of the third quarter close was to develop and embed year-end procedures, consolidate the balance sheets and supporting information from predecessor authorities and accelerate, where possible, a number of ongoing and year-end processes.
4. The commentary below describes the progress made in achieving the anticipated outputs of the exercise:

a) Format of Accounts

A draft Statement of Accounts has been produced for Central Bedfordshire, including the Housing Revenue Account transferred from South-Beds District Council and has been provided to the Audit Commission for review.

b) The Core Financial Statements

Within the Statement of Accounts the core financial statements have been prepared to ensure compliance with the Best Value Accounting Code of Practice and the 2009 Statement of Recommended Practice. These have been provided the Audit Commission for review.

c) Statement of Accounting Policies

A draft Statement of Accounting Policies has been produced that harmonises the practices adopted by the predecessor authorities. These have been provided the Audit Commission for review.

d) Balance Sheet Disaggregation / Opening Balances

The final disaggregation of the opening balance sheet is expected to be completed by the end of April. That part of the balance sheet that will transfer over to Central Bedfordshire plus the balance sheet values from Mid and South Bedfordshire will form the opening balances for the Council at 1 April 2009. The majority of the principals of the disaggregation have been agreed but some additional work is required to ascertain the final position of the 'run down' of the working capital of the County Council. Officers from Central Bedfordshire Council and Bedford Borough continue to work together to bring this to successful conclusion. The authority is in the process of identifying the areas that the Audit Commission can review at the earliest opportunity.

e) Control and Suspense Accounts

The original timescale for the completion of all control and suspense accounts to be reconciled to 31 December was the end of January. This work has yet to be completed for all control and suspense accounts.

f) Support Services and Management Overheads

The apportionment and allocation of support services and management overheads is crucial in determining the total cost of services. A fundamental review of support services has been undertaken and proposals will be taken to CMT in April for review and agreement.

5. External audit are being consulted over the process on an ongoing basis with a view to identifying any potential early audit work in relation to the 2009/10 closure.

Full Year Closure

6. The authority issued its closure timetable at the start of March 2010. This was supplemented by a comprehensive 'closure pack' that included full guidance and reporting templates requiring completion by budget managers. These packs have been sent to all senior management staff within the authority for review and action. Regular closure bulletins are distributed to budget managers to ensure that key messages over the closure programme are communicated.
7. Training has been provided by the Audit Commission to senior finance staff on developments in accounting practice. This will be supplemented by additional training to all finance staff that will emphasise the requirements of this year's closure process with the main focus being on the preparation of working papers and presenting robust audit trails to the accounts.
8. Regular meetings are taking place with the Audit Commission to discuss progress to date on final accounts and allow any emerging issues to be resolved.

International Financial Reporting Standards (IFRS)

9. As previously reported to the January Audit Committee, the authority will be required to compile its Statement of Accounts for 2010/11 using IFRS regulations rather than the current UK Generally Accepted Accounting Practice. It should be noted that the authority will be required to restate its 2009/10 closing balances using IFRS regulations when it discloses its comparative figures in the 2010/11 Statement of Accounts.
10. The authority has commenced a wider review of these arrangements and this was being led by the Interim Chief Accountant. However, serious illness resulted in a prolonged absence due to ill health and this was followed by the news that he was unable to return to work due to ill-health reasons. This has prohibited the authority in making significant inroads into the wider implications of IFRS. However, a new Interim Chief Accountant has been appointed and the project can again be moved forward.
11. As a result, the authority has prioritised the revised requirements that will have an immediate impact upon the preparation of the 2009/10 accounts. This is in primarily in respect of the treatment of Private Finance Initiative arrangements. The details are outlined below:

PFI projects, which are covered within the 2009 SORP, and effectively bring PFI projects on to the Council's balance sheet. The Council currently has a PFI project for the improvement of 2 schools within mid-Bedfordshire at Harlington Upper School and Samuel Whitbread Community College, both of which have been granted Foundation School status and are therefore no longer owned by the Council. A detailed proposal of the accounting treatment of this arrangement has been provided to the Audit Commission for review.
12. The individual project teams dealing with IFRS issues have been established and are developing delivery plans to prepare for IFRS. As part of this process they are expected to report back to Corporate Resources Leadership Team in July 2010. A further report on IFRS will be taken to the next Audit Committee meeting.
13. The working groups are evaluating the longer terms implications and placing the emphasis on being able to understand the restatement requirements for the 2009/10 closing balances. Working groups have been established to cover the key areas including Annual Leave Accounting arrangements, Component Accounting and Leases. One of the early outputs from this process is requests for details of accrued leave being co-ordinated through HR in parallel to the workforce data collection exercise.

Conclusion

14. Progress is being made in fulfilling the requirements of the Third Quarter Close, Full Year Close and responding to the new accounting arrangements caused by the implementation of IFRS.

Background Papers: (open to public inspection)

None

Document is Restricted

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