

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



please ask for Leslie Manning
direct line 0300 300 5132
date 13 January 2011

NOTICE OF MEETING

AUDIT COMMITTEE

Date & Time

Thursday, 27 January 2011 9.30 a.m.

Venue at

Council Chamber, Priory House, Monks Walk, Shefford

Richard Carr
Chief Executive

To: The Chairman and Members of the AUDIT COMMITTEE:

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

[Named Substitutes:

R D Berry, P A Blaine, P Freeman and A M 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**

To receive apologies for absence and notification of substitute Members.

2. **Minutes**

To approve as a correct record the Minutes of the meeting of the Audit Committee held on 21 October 2010 (copy attached).

3. **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.

4. **Chairman's Announcements and Communications**

To receive any announcements from the Chairman and any matters of communication.

5. **Petitions**

To receive petitions from members of the public in accordance with the Public Participation Procedure as set out in Annex 2 of Part A4 of the Constitution.

6. **Questions, Statements or Deputations**

To receive any questions, statements or deputations from members of the public in accordance with the Public Participation Procedure as set out in Annex 1 of Part A4 of the Constitution.

Reports

Item	Subject	Page Nos.
7	Annual Audit Letter 2009/10 To receive the Audit Commission's Annual Audit Letter for 2009/10.	* 11 - 36
8	Supplementary Annual Governance Report 2009/10 To receive the Audit Commission's Supplementary Annual Governance Report for 2009/10.	* 37 - 56

- 9 **External Audit Plans - Position Statements for 2009/10 and 2010/11** * 57 - 64
- To receive Position Statements for the Audit Commission's External Audit Plans for 2009/10 and 2010/11.
- 10 **Internal Audit Progress Report** * 65 - 70
- To receive an update on the progress of work by Internal Audit for 2010/11.
- 11 **Tracking of Audit Recommendations** * 71 - 78
- To receive a summary of the high risk recommendations arising from Internal Audit reports together with an outline of how these will be monitored, tracked and reported to the Audit Committee.
- 12 **IFRS Progress** * 79 - 106
- To receive a report setting out the progress made to date in managing the transition to International Financial Reporting Standards (IFRS).
- 13 **2010/11 Annual Governance Report - Progress on Implementation of Recommendations** * 107 - 112
- To receive a report setting out the progress made to date against the recommendations made within the 2009/10 Annual Governance Report.
- 14 **Exclusion of Press and Public**
- To consider whether to pass a resolution under section 100A of the Local Government Act 1972 to exclude the Press and Public from the meeting for the following items of business on the grounds that consideration of the items is likely to involve the disclosure of exempt information as defined in Paragraph 3 of Part I of Schedule 12A of the Act.

Items Likely to be Considered Following the Exclusion of the Press and Public
--

<i>Item</i>	<i>Subject</i>	<i>Exempt Para.</i>	<i>Page Nos.</i>
EX1	Internal Audit Progress Report - Exempt Appendices A and B	* 3	113 - 118

These Appendices provide summaries of Internal Audit activity since the last meeting of the Committee and special investigations

arising and completed during the year to date.

EX2	Tracking of Audit Recommendations - Exempt Appendix 2	* 3	119 - 124
-----	--	-----	-----------

This Appendix details outstanding Internal Audit recommendations.

CENTRAL BEDFORDSHIRE COUNCIL

At a meeting of the **AUDIT COMMITTEE** held in Room 302, Technology House, 239
Amphill Road, Bedford on Thursday, 21 October 2010

PRESENT

Cllr D Bowater (Chairman)
Cllr R A Baker (Vice-Chairman)

Cllrs Mrs A Barker
A Shadbolt

Cllrs P Snelling
B J Spurr

Apologies for Absence: Cllr T Green

Members in Attendance: Cllr M R Jones,

Officers in Attendance: Mr M Bowmer Assistant Director, Financial
Services/Chief Finance Officer
Mrs M Clampitt Democratic Services Officer
Mr R Ellis Director of Customer and Shared
Services
Mr A King Head of Corporate Finance

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

A/10/38 **Chairman's Announcements**

The Chairman informed the Committee that the Supplementary Annual Governance Report from the Audit Commission would be taken as an urgent item of business prior to consideration of the Central Bedfordshire Council Statement of Accounts 2009/10.

A/10/39 **Minutes**

RESOLVED

that the Minutes of the meeting of the Audit Committee held on 27 September 2010 be confirmed and signed by the Chairman as a correct record.

A/10/40 **Members' Interests**

(a) **Personal Interests:-**

None.

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

None.

A/10/41 **Questions, Statements or Deputations**

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/10/42 **Petitions**

The Chairman announced that no petitions had been received.

A/10/43 **Supplementary Annual Governance Report**

The Committee considered the Supplementary Annual Governance Report from the Audit Commission which was issued in conjunction with the Annual Governance Report issued on 22 September 2010 (see Minute No. A/10/32).

The Audit Commission provided the following updates to the report issued on 22 September 2010:-

- Substantive testing – the auditors had just received the outstanding papers which would allow the creditors work to be concluded.
- The cashflow statement was to be audited
- The revised set of accounts review met expectations
- The unadjusted errors had been amended except for the payroll system which was not of concern
- The PFI issue had been revised from £2.6m to an acceptable £18k
- Pension Fund figures for FRS17, which is reported annually, was understated by £1.614m but no adjustment was required.
- Physical verification had items stated which should not have been shown, such as wheelie bins and call recording system hardware. Both items has been corrected.
- Council dwellings were now revalued and not misstated.
- Pension Fund – the split between Bedford Borough Council (BBC) and Central Bedfordshire Council (CBC) had been calculated on head count. This had no impact on the net worth.

- Debtors and Creditors: the detailed breakdowns had been received and six debtors still to be reviewed. Information for 1 debtor was outstanding. The information was outstanding for the 16 Creditors to be tested.
- Errors in the opening balances had resulted in material amendments.

The Audit Commission agreed to issue a final report for publication to the website with all of the updates.

The Value for Money Conclusion confirmed that seven out of the eight outcomes had been met and “except for ”financial reporting that is timely, reliable and meets the needs of internal users, stakeholders and local people, the Audit Commission offered an unqualified audit opinion.

RESOLVED

that the Supplementary Annual Governance Report be noted.

A/10/44

Central Bedfordshire Council Statement of Accounts 2009/10

The Committee considered the Annual Accounts – 2009/10 report which set out the adjustments to the previously approved Statement of Accounts 2009/10 to allow a satisfactory opinion from the external auditor.

The Head of Financial Strategy provided the Committee with an overview of the changes which had been made to the Statement of Accounts since the 27 September 2010 meeting.

The PFI had been further clarified and the difference was now zero. A meeting had taken place in September and Officers had carried out additional works which had resolved the £18k discrepancy.

6(a) Working Capital Reconciliations

It was noted that non-material amendments to the debtors and creditors had been carried out and a material adjustment had been made to the cash closing balance. Details were contained in Appendix B to the report.

6(b) Substantive Testing on Adult Social Care

The testing had been completed following the September Audit Committee and no issues had been identified.

6(c) Cut-off Testing

The work which validated that the authority had recognised its income and expenditure within the appropriate financial year had been completed with no issues.

6(d) Cash Flow Statement

Final amendments to the Cash Flow were to be agreed with the Audit Commission and would be completed by 31 October 2010.

6(e) Other Outstanding Issues

A number of amendments to the Accounts had been concluded with changes identified in Appendix B to the report.

6(f) Disaggregation of Balances

Whilst the majority of issues associated with the disaggregation of balances were resolved within 6(a) above, the opening Pension Liability and Pension Reserve figures were adjusted following additional information provided by the Actuary. The information had not been available until after the preparation of the draft accounts.

6(g) Valuation of Council Dwellings

A full revaluation exercise of the Council's dwelling valuations was undertaken and the balances were adjusted accordingly. The Audit Commission were content with this (see Minute No. A/10/43).

6(h) Grants and Contributions Unapplied

The adjustments were detailed in Appendix B to the report. It was noted that the Government Grants and Section 106 contributions for capital purposes were held and depreciated until ready to be used at which point the funds are released.

6(i) Schools PFI Schemes

Amendments which do not impact on the balances were to be agreed with the Audit Commission and completed by 31 October 2010.

6(j) Area Based Grants

The Grants were applied to the relevant service headings and income had been removed in line with SORP requirements. Appendix B to the report contained details.

The Head of Financial Strategy explained Appendix B to the Committee. It was noted that no further changes were expected.

It was requested that the Chairman be given delegation in consultation with the Chief Finance Officer to agree any final minor amendments. The Committee were in agreement with this proposal.

Officers provided Members with assurance that procedures had been put into place to prevent similar problems occurring in the future.

RESOLVED

that the amended Statement of Accounts 2009/10 be approved and that the Chairman in consultation with the Chief Finance Officer be given delegated authority to approve any final minor amendments.

(Note: The meeting commenced at 2.00 p.m. and concluded at 3.20 p.m.)

Chairman

Dated

This page is intentionally left blank

Annual Audit Letter

Central Bedfordshire Council

Audit 2009/10

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.

Contents

Key messages	2
Audit opinion and financial statements	2
Value for money	3
Audit fees	3
Current and future challenges	4
Financial statements and annual governance statement	5
Overall conclusion from the audit	5
Significant weaknesses in internal control	7
International Financial Reporting Standards	7
Value for money	9
2009/10 use of resources assessments	9
VFM conclusion	9
Risk-based performance reviews	15
Approach to local value for money work from 2010/11	15
Current and future challenges	16
Financial pressures	16
Financial health	17
Closing remarks	18
Appendix 1 Audit fees	19
Appendix 2 Glossary	20
Appendix 3 Action Plan	21

Key messages

This report summarises my findings from the 2009/10 audit. My audit comprises two elements:

- **the audit of your financial statements (pages 5 to 8); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 9 to 15).**

I have included only significant recommendations in this report. The Council has accepted these recommendations.

Audit opinion and financial statements

1 I issued an unqualified opinion on 28 October 2010, after the statutory deadline of 30 September 2010. Before giving my opinion I reported to the Audit Committee, as those charged with governance, on the issues arising from the 2009/10 audit. I presented my Annual Governance Report on 27 September 2010 and my Supplementary Annual Governance Report on 21 October 2010.

2 The Council's accounts were adopted at the Audit Committee meeting on 30 June, but did not include a Cash Flow statement and some of the notes to the accounts were incomplete. A complete set of accounts was made available for audit on 7 July 2010.

3 The audit was completed after the statutory deadline because of significant delays in getting detailed and accurate breakdowns of the debtors and creditors balances in the accounts. These problems prevented me from progressing my audit work on other areas of the accounts.

4 Several material amendments were made to the accounts before the opinion was issued. These were detailed in my Annual Governance Report and Supplementary Annual Governance Report.

5 This year was always going to be a challenging one, being the first set of accounts for the new unitary authority. The accounts and financial systems of the three legacy authorities had to be brought together. In addition the Finance team had to respond to the budgetary pressures facing the Council during 2009/10 and changes in key personnel during the year.

6 The 2010/11 accounts will be based on International Financial Reporting Standards (IFRS) for the first time. Time spent on resolving the problems with the 2009/10 accounts have meant the Council's IFRS timetable has slipped and a lot of work is needed to meet the new requirements, including restating the 2009/10 accounts.

7 I know that officers and Members are reviewing the factors that led to the problems in finalising the Council's 2009/10 statements of accounts. Finance is a key function of the Council, particularly in the current economic climate with considerable financial pressures and uncertainty about future government funding.

Value for money

8 I concluded that, during 2009/10, the Council did not meet the minimum standards for one out of the nine criteria I assessed. The problems experienced with the preparation and audit of the Council's 2009/10 Statement of Accounts are relevant to the Financial Reporting criteria of the Value for Money Conclusion. Having considered these problems, alongside the other elements of the criteria, I concluded that the criteria had not been met. My value for money conclusion was therefore qualified stating that the Council had adequate arrangements in place except for its arrangements for financial reporting.

Audit fees

9 The indicative audit fee of £323,000 was confirmed in my Audit Opinion Plan issued in April 2010. At the Audit Committee meeting on 18 June 2010 an additional fee of £5,000 was agreed to cover the cost of substantive testing of the payroll system. Substantive testing was required as I was unable to rely on controls having been in place in this system during the year. Despite the difficulties with the accounts noted in paragraphs 3 and 4, I have completed the audit within the revised fee.

Current and future challenges

10 The Council faces significant challenges in future years because of the general economic downturn, the Comprehensive Spending Review and its relatively low level of balances.

11 The most recent Budget Management Report for 2010/11, based on information available as at 30 September 2010, forecasts an overspend of £3.251 million at the year-end. This represents a significant improvement on the position as at 30 June 2010 and additional management actions have been taken to reduce this figure further by the year-end.

12 The 2010/11 budget includes some £12 million of efficiency savings and a further £1.5 million is required because of the loss of government grant following the Emergency Budget in June 2010. Further savings of a minimum of £14.6 million are required in 2011/12. The Council is aware that it will have to take difficult decisions in order to make these savings and a full review of the Council's cost base is under way. It is important that these savings are achieved. Any overspend in 2010/11 will require additional savings to be identified in future years and may impact on the Council's aim to increase its general fund balances.

13 The Council's general fund balance at 31 March 2010 was £5.158 million. The medium term financial plan aims to rebuild this balance to £9 million; this will take some time but must continue to be a priority for the Council.

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

I gave an unqualified opinion on the Council's 2009/10 financial statements on 28 October 2010, after the statutory target date.

Overall conclusion from the audit

14 The audit was completed after the statutory deadline, I issued an unqualified audit opinion on 28 October 2010. Before giving my opinion I reported to the Audit Committee, as those charged with governance, on the issues arising from the 2009/10 audit. I presented my Annual Governance Report on 27 September 2010 and Supplementary Annual Governance Report on 21 October 2010.

15 This year was always going to be a challenging one for the Council, being the first set of accounts for the new unitary authority, incorporating the former County Council functions with those of the two district councils. The accounts and financial systems of the three legacy authorities had to be brought together. In addition the Finance Team had to respond to the budgetary pressures facing the Council during 2009/10 and changes in key personnel during the year.

16 The Council's accounts were due to be adopted at the Audit Committee meeting on 28 June 2010 but were not complete at this stage. The accounts which were adopted at the re-convened meeting on 30 June did not include a Cash Flow statement and some of the notes to the accounts were incomplete. A complete set of accounts was made available for audit on 7 July 2010.

17 The quality of the working papers provided to support the entries in the accounts were of a variable standard. A limited number of working papers were provided at the start of the audit, with the rest provided on a piecemeal basis during the audit. Many of the working papers provided to support the accounts were not of the standard that I would expect. It was apparent that insufficient time had been available for senior officers to carry out a quality review of the working papers.

- 18** There were significant delays in getting detailed and accurate breakdowns of the debtors and creditors balances in the accounts. The problems with debtors and creditors prevented me from progressing my audit work on the cash and bank balance and agreeing the Council's opening balances as at 1 April 2009.
- 19** In order to provide accurate breakdowns of the debtors, creditors and cash balances in the accounts officers completed a lengthy and detailed exercise. This exercise identified that several errors had been made in compiling the unaudited statement of accounts. This resulted in material amendments to the following balances as at 31 March 2010: Government Grants deferred; Grants and Contributions Unapplied; Cash and Provisions.
- 20** Material amendments were also made to the following opening balances as at 1 April 2009; Cash and bank; Investments; Debtors; Creditors; Grants and contributions unapplied and Schools reserves.
- 21** I questioned the valuation of the Council's housing stock as at 31 March 2010, in particular the fact there had been no significant revaluations in-year. This was not consistent with the general increase in housing values during 2009/10. The Audit Commission's valuer, Gerald Eve, suggested an increase in residential property values of 5.1 per cent in 2009/10 in the Eastern region (which includes Bedfordshire).
- 22** The Council sought further advice from its own valuer, Wilks Head and Eve, and amended the accounts to reflect an upward revaluation of £23 million in the value of its housing stock as at 31 March 2010.
- 23** The Bedfordshire County Council (BCC) pension liability and reserve was disaggregated based on headcount information, with the split being between those staff that transferred from BCC to either of the new unitaries. Information subsequently provided by the Actuary indicated the split that had been made was materially incorrect. As a result the accounts were amended and Central Bedfordshire's share of the BCC Pension Fund Reserve and Liability were both reduced by £7.602 million.
- 24** Material amendments were required to ensure the accounting for the Council's PFI scheme complied with IFRIC 12. IFRIC 12 was implemented for the first time in 2009/10 as part of the move to International Financial Reporting Standards in local government. The main changes were a decrease in long-term debtors of £12.341 million and the establishment of a Finance Lease Liability of £19.716 million in the Council's balance sheet.
- 25** Area Based Grant (ABG) of £11.21 million had been incorrectly apportioned over the service headings in the income and expenditure account rather than being consolidated with Revenue Support Grant (RSG) under 'non specific' grants. The accounts were amended to reflect the correct disclosure.

26 I know that officers and Members are reviewing the factors that lead to the problems in finalising the Council's 2009/10 statements of accounts, with a view to putting in place arrangements in 2010/11 to avoid a recurrence. Finance is a key function of the Council, particularly in the current economic climate with considerable financial pressures and uncertainty about future government funding.

Significant weaknesses in internal control

27 In my Audit Opinion Plan, presented to the April 2010 Audit Committee I reported that my work on the Council's financial systems, informed by the work of Internal Audit, had identified weaknesses in the operation of controls in the Payroll system. As a result we substantively tested the payroll expenditure included in the accounts. My work did not identify any significant errors that would lead to a material misstatement in the accounts.

International Financial Reporting Standards

28 Local authorities have to produce their accounts under International Financial Reporting Standards (IFRS) for 2010/11. The Council has a timetable for this work and has reported progress to the Audit Committee.

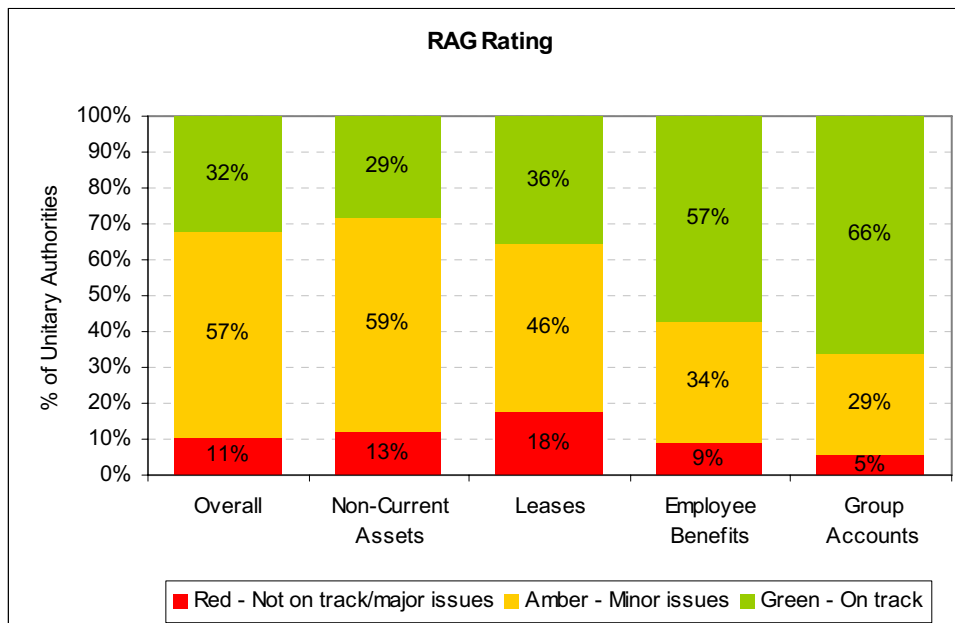
29 The Council plans to restate the opening balance sheet at 1 April 2009 and the 2009/10 financial statements and produce a skeleton set of 2010/11 IFRS-compliant accounts by 31 December 2010. This timescale will allow time for me to review the work undertaken before the financial year-end.

30 The problems in completing the audit of the 2009/10 accounts have taken up significant officer time and has delayed the Council's timetable for IFRS. Failure to meet the planned timescale increases the risk of the 2010/11 draft accounts being produced after the statutory deadline of 30 June. There is also a higher risk that I may not agree with the Council's treatment of key items within the draft accounts. Both risks would increase the likelihood of either a late or qualified audit opinion for 2010/11.

31 The Audit Commission undertook a survey of auditors of all local authorities in summer 2010 to assess local authority readiness for IFRS. Council's need to consider four key areas in preparation for producing IFRS compliant accounts. These are non current assets, leases, employee benefits and group accounts. As part of this survey I rated Central Bedfordshire as being on track for employee benefits and having minor issues in respect of non current assets. However, I assessed the Council as being not on track and therefore at risk of not delivering good quality IFRS-compliant accounts in respect of leases. My assessment of Central Bedfordshire's readiness compared to other unitary councils is highlighted in Figure 1.

Figure 1: **Overall readiness for IFRS**

Compared to other unitary authorities, Central Bedfordshire is at higher risk in respect of leases



Source: Auditor survey summer 2010

Recommendations

R1 Review of the arrangements that were in place for the closure of the 2009/10 accounts to ensure that adequate arrangements are in place for the 2010/11 accounts preparation. In particular to ensure the 2011/11 accounts:

- are prepared on a timely basis
- free from material errors, and
- supported by adequate working papers.

R2 Ensure that adequate resources are allocated to enable the Council to produce IFRS-compliant accounts by 30 June 2011.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money.

I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

2009/10 use of resources assessments

32 At the end of May 2010, the Commission wrote to all chief executives to inform them that following the government's announcement, work on CAA would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

33 However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

34 I report the significant findings from the work I have carried out to support the vfm conclusion.

VFM conclusion

35 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

36 This is a summary of my findings.

Criteria	Adequate arrangements?
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	No
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good Governance	Yes
Risk management and internal control	Yes
Managing resources	
Strategic asset management	Yes
Workforce	Yes

37 I issued a qualified conclusion on 28 October 2010. This stated that the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources except for its arrangements for financial reporting.

38 The problems experienced with the preparation and audit of the Council's 2009/10 Statement of Accounts, are relevant to the Financial Reporting criteria of the Value for Money Conclusion. Having considered these problems, alongside the other elements of the criteria, I concluded that the criteria had not been met.

39 My detailed findings were reported to the Council in my Annual Governance Report to the 27 September Audit Committee and are set out below.

Table 1:

Theme	Managing Finances
Criteria	Finding
<p>Planning for Financial Health</p> <p>Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?</p>	<p>The Council recognises that it faces a challenging financial future and is putting plans into place to manage this.</p> <p>Medium term financial planning is integrated with strategic and service planning. Resources have been moved from low to high priority areas, for example adult social care and the learning agenda.</p> <p>The Council reported a significant overspend in August 2009, with the forecast overspend as the end of September 2009 reported as £8.6 million. Action was taken to actively monitor the Council's financial position throughout the year to minimise the overspend at year-end.</p> <p>The Council identified efficiencies savings of £12 million to achieve a balanced budget in 2010/11. The Efficiencies Board has been set up to monitor achievement of these savings.</p>
<p>Understanding costs and achieving efficiencies</p> <p>Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?</p>	<p>The Council identifies and scrutinises high costs, for example highways, waste and out of county placements. Directorate budget management reports specifically cover these areas.</p> <p>Unit costs are used in the review of all major contracts, for example the SERCO contract review which challenged the cost per payslip.</p> <p>Key costs drivers have been identified for each Directorate and are reported on in the monthly budget monitoring report. Cost variations identified from the 2009/10 budget monitoring process have been analysed and included in the 2010/11 budget setting process as appropriate.</p> <p>The Council is an active member of the CIPFA benchmarking club and the information is being used to support decisions around restructures.</p>

Theme	Managing Finances
<p>Financial Reporting</p> <p>Is the organisation’s financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?</p>	<p>The Council produces timely and reliable monitoring and forecasting information. Financial reports are clear, relevant and concise. Officers have access to understandable financial information that enables them to monitor their service and support decision making.</p> <p>The Council's accounts were adopted at the Audit Committee on 30 June, but did not include a Cash Flow statement and some of the notes to the accounts were incomplete. A complete set of accounts was made available for audit on 7 July 2010.</p> <p>The audit was completed after the statutory deadline because of significant delays in getting detailed and accurate breakdowns of the debtors and creditors balances. Material amendments were made to the accounts before the opinion was issued.</p> <p>Many of the working papers provided to support the accounts were not of the expected standard and insufficient time had been available for senior officers to carry out a quality review of them.</p>
<p>Commissioning and Procurement</p> <p>Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcome and value for money?</p>	<p>The Executive agreed the Commissioning Framework in August 2009 and the Corporate Commissioning and Procurement Strategy in November 2009.</p> <p>The Joint Strategic Needs Assessment (JSNA) is a key driver of the joint commissioning deliverables in Social Care, Health and Housing, and Children, Families and Learning.</p> <p>The Council is part of the Procurement East Network, a regional networking to share best practice and market knowledge; and is a member of the Central Buying Consortium which shares best practice and collaboration of contracts, such as Flexible Procurement of Energy.</p> <p>User friendly procurement toolkits are being actively used across the Council and include the evaluation of different options for the procurement of services.</p>

Theme	Managing Finances
<p>Use of Information</p> <p>Does the organisation produce relevant and reliable data and information to support decision making and manage performance?</p>	<p>There is a Performance Management Framework in place, including the Data Quality Strategy and Audit Protocol. A series of Data Quality and Performance Management Training Workshops have been rolled out throughout the Council.</p> <p>My testing of a sample of performance indicators did not identify any specific data quality issues and has validated my assessment that the Council produces relevant and reliable data and information to support decision making and manage performance.</p> <p>The Council has attained Government Connect Secure Extranet CoCo compliance (Code of Connection). Backup tapes are stored offsite at an authorised and specialist backup facility and the media is available for restore/recovery by authorised ICT staff when necessary. However, there has been no test to ensure the restore process would work if required.</p>
<p>Good Governance</p> <p>Does the organisation promote and demonstrate the principles and values of good governance?</p>	<p>This is an area of strength for the Council. The Council adopts, promotes and demonstrates good governance evidenced by a comprehensive training and development programme to equip Members and senior officers to carry out their roles.</p> <p>The Council has put some effective processes in place to facilitate Member development. The Councillor Champion Group is a cross party standing group of lead councillors in place to drive forward councillor development in Central Bedfordshire</p> <p>The Local Strategic Partnership (LSP) has agreed the core terms of reference and governance arrangements for all of the significant partnerships.</p>
<p>Risk management and internal control</p> <p>Does the organisation manage its risks and maintain a sound system of internal control?</p>	<p>The Council has effective risk management arrangements in place. There is a Corporate Risk Management Strategy and a number of strategies and policies to manage the risk of fraud and corruption.</p> <p>The Strategic Risk Register is reviewed by CMT on a quarterly basis and by the Executive Committee on a six monthly basis. There are also directorate and service area risk registers in place. There is evidence that risk registers are considered by the Council when reviewing budgets and in budget monitoring.</p> <p>Risk registers include partnership working, however many of these are proposed rather than actually in place.</p> <p>I reviewed Internal Audit against CIPFA standards. I found that the IA service met the CIPFA standards and that we are able to rely on their work.</p>

Theme	Managing Finances
<p>Strategic Asset Management</p> <p>Does the organisation manage its assets effectively to help deliver its strategic priorities and service needs?</p>	<p>The Council is in the process of developing sound and effective asset management practices. There is a Medium Term Property Strategy 2009-2011 and an Asset Management Plan 2009-2011 in place. The Council has an understanding of its asset base and the scale of backlog maintenance required.</p> <p>The asset register for the new Council is now complete. Asset information from the three legacy councils was all held in different formats and has required a lot of work to reconcile.</p> <p>The Council is working with its partners to identify the best use of assets for service delivery. It is working with Luton Borough Council, as part of Total Place, to identify all public buildings within the two areas and to discuss with the NHS, Police, Fire and Job Centres how and where joint use of facilities can lead to efficiency savings.</p>
<p>Workforce</p> <p>Does the organisation plan, organise and develop its workforce effectively to support the achievement of its strategic priorities?</p>	<p>The Council has made a commitment to develop its staff through a Skills Pledge, a voluntary, public commitment by an organisation to support the skills development of all its employees to develop their basic skills and work towards relevant, valuable qualifications to at least Level 2 (equivalent to 5 good GCSEs).</p> <p>Workforce Management Information, provided monthly to senior managers, monitors staff numbers, vacancies, turnover, absence, and performance management activity.</p> <p>A Performance Development Review process has been implemented.</p> <p>The Council has clear plans in place to improve equality and diversity. An action plan is in place to achieve Level 2 of the new Equality Framework.</p> <p>Overall sickness levels at the Council are around target levels of 9 days. There are issues in Adult Social Care where sickness levels are higher. Part of the recovery plan for Adult Social Care is to equip managers to be able to manage sickness.</p>

Risk-based performance reviews

40 To support my review of the criteria I undertook the following studies.

- Performance management
- Shared Services

41 My work on performance management noted the Council's arrangements were still in the process of development during 2009/10. Performance reporting at the Council should be strengthened in 2010/11 through:

- including corporate health indicators in the quarterly reports to Executive;
- using benchmarking information;
- cascading community outcome objectives for 2010/11 into development plans, service plans and personal development reviews;
- services adopting a more consistent approach to service improvement; and
- using indicators now being provided by the health service, this will help in the effective targeting of action.

42 My review of shared services was a joint review covering Central Bedfordshire and Bedford Borough councils. I reviewed two shared services, one service hosted by Bedford Borough Council and one service hosted by Central Bedfordshire. I found that Central Bedfordshire has not progressed as quickly with the development and review of service level agreements (SLAs) for shared services as was originally envisaged. However, the review of the two SLAs demonstrates that in these instances robust arrangements have been put in place which are meeting the desired objectives for each Council.

Approach to local value for money work from 2010/11

43 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

44 My work will be based on a reduced number reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

45 I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Rather, I will report the results of all my local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

Current and future challenges

Financial pressures

46 The Council faced significant financial pressures during 2009/10. The revised revenue budget for 2009/10 was £170.641 million. Whilst action was taken during the year to identify savings the revenue outturn was £8.3 million overspent. This included £5.7 million on transition costs in relation to Local Government Reorganisation.

47 The 2010/11 budget includes £12 million of efficiency savings. A further £1.5 million is required because of the loss of government grant following the Emergency Budget in June 2010. The most recent Budget Management Report for 2010/11, based on information available as at 30 September 2010, forecasts an overspend of £3.251 million at the year-end. This represents a significant improvement on the position as at 30 June 2010 and additional management actions have been taken to reduce this figure further by the year-end.

48 The government has made clear its priority to tackle the UK's deficit. The Comprehensive Spending Review, reported on 20 October 2010, set spending limits for every government department for the period 2011/12 to 2014/15 and included annual funding reductions of 7.1 per cent for four years for local authorities (totalling approximately 28 per cent over the four years). A more detailed assessment of the impact of the Spending Review will not be available until the local government financial settlement is announced in December 2010.

49 The Council reassessed its Medium Term Financial Strategy (MTFS) in a report to the Executive in August 2010 and expected the impact of the Spending Review to be a cut in general government grants of 25 per cent over the four years covered by the MTFS 2011/12 to 2015/16. As a result, the Council identified the need to reduce expenditure by £36 million over the next three years, with at least £14.6 million of the savings in 2011/12.

50 As part of the budget setting process for 2011/12 the Council has efficiency savings of £9.9 million, leaving a further £4.7 million of savings to be found. A full review of the Council's cost base is taking place and will be considered by the Overview and Scrutiny Committees in December 2010. The Corporate Budget Strategy was endorsed by the Executive on 2 November 2010, including savings proposals.

Financial health

51 The Council's General Fund balance at 31 March 2010 is £5.158 million; the expected closing balance at 31 March 2011 is £6.6 million. The Council's Medium Term Financial Plan allows for an annual contribution to reserves of £1.9 million to building the balances to what the Council consider to be the optimum level of £9 million. This will take some time but must continue to be a key priority for the Council.

Recommendation

R3 Continue to manage the financial position closely in the face of the challenging financial climate following the Comprehensive Spending Review.

Closing remarks

52 I have discussed and agreed this letter with the Chief Executive and the Director of Customer and Shared Services. Copies will be provided to all Council members and I will present this letter at the next Audit Committee meeting.

53 Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the Council during the year.

Report	Date issued
Audit Opinion Plan	April 2010
Report on Internal Audit	June 2010
Annual Governance Report	September 2010
Supplementary Annual Governance Report	October 2010

54 The Council has taken a positive and helpful approach to our audit. I wish to thank officers and Council members for their support and cooperation during the audit.

Paul King
District Auditor
November 2010

Appendix 1 Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	£238,775	£233,775	£5,000
Value for money	£89,225	£89,225	-
Total audit fees	£328,000	£323,000	£5,000
Non-audit work			
Total	£328,000	£323,000	£5,000

At the Audit Committee meeting on 18 June 2010 an additional fee of £5,000 was agreed to cover the cost of substantive testing of the payroll system.

Appendix 2 Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the accounts, auditors must 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 spending and income for the year in question;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

Financial statements

The annual accounts and accompanying notes.

Qualified

The auditor has some reservations or concerns.

Unqualified

The auditor does not have any reservations.

Value for money conclusion

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 money, people and time.

Appendix 3 Action Plan

Recommendations

Recommendation 1

Review of the arrangements that were in place for the closure of the 2009/10 accounts to ensure that adequate arrangements are in place for the 2010/11 accounts preparation. In particular to ensure the 201/11 accounts:

- are prepared on a timely basis;
- free from material errors; and
- supported by adequate working papers.

Responsibility	Assistant Director – Financial Services
Priority	High
Date	March 2010
Comments	<p>The authority has undertaken a fundamental review of the 2009/10 closure programme and devised an action plan of key improvement areas required in the 2010/11 closure process. These findings have been shared with an Informal Audit Committee.</p> <p>Key improvements in the 2010/11 closure programme include the production of draft financial statements through a robust third quarter close. It is planned that these will be shared with the April Audit Committee.</p> <p>Working paper requirements will be reviewed with the Audit Commission in advance of year-end and the authority will ensure that appropriate training is provided to officers.</p> <p>The timetable will allow for adequate scrutiny of the 2010/11 annual accounts in advance of the June deadline in order that assurance over the statements can be obtained by senior management.</p>

Recommendation 2

Ensure that adequate resources are allocated to enable the Council to produce IFRS-compliant accounts by 30 June 2011.

Responsibility	Assistant Director – Financial Services
Priority	High
Date	March 2010
Comments	<p>The authority commenced work on IFRS implementation in 2009. It is planned for a restated, IFRS compliant, opening balance sheet to be produced by 31 December 2010. This will be shared with the January Audit Committee along with the revised draft Statement of Accounting Policies.</p> <p>The authority is ensuring that appropriate resource is available to support the IFRS implementation, this includes the recruitment of an experienced Chief Accountant with appropriate IFRS experience.</p> <p>The authority has planned for full IFRS compliance within its closure programme and will identify responsible officers and timescales accordingly.</p>

Recommendation 3

Continue to monitor the financial position closely and make the necessary decisions about services to balance the budget and increase the general fund balance in 2011/12 and future years.

Responsibility	Assistant Director – Financial Services
Priority	High
Date	Ongoing
Comments	<p>The authority continues to closely manage and monitor its financial position through regular challenge and reports to senior management, Portfolio Holders and Executive. This includes the close scrutiny of planned savings through the Efficiencies Implementation Group chaired by the Deputy Chief Executive.</p> <p>Additionally, in order that it is able to plan into the medium term on a firm and understood basis it has undertaken a fundamental base budget review.</p> <p>The medium term financial planning process commenced early in the financial year and continues to actively review its budget assumptions against government announcements regarding levels of funding.</p>

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

© Audit Commission 2010.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

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.



Audit Commission

1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

Telephone: 0844 798 3131

Fax: 0844 798 2945

Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk

November 2010

This page is intentionally left blank

Supplementary

Annual

Governance

Report

**To accompany the presentation of the Annual
Governance Report
Central Bedfordshire Council
Audit 2009/10**

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.

Contents

Background	2
Supplement 1 – Independent auditor’s report to the Members of Central Bedfordshire Council	6
Independent auditor’s report to the Members of Central Bedfordshire Council.....	6
Opinion on the accounting statements	6
Respective responsibilities of the Assistant Director Financial Services and auditor.....	6
Basis of audit opinion.....	7
Opinion	7
Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources	8
Authority’s Responsibilities	8
Auditor’s Responsibilities	8
Qualified Conclusion.....	8
Certificate.....	9
Supplement 2 - Material amendments to the draft accounts	10
Supplement 3 – Unadjusted misstatements in the accounts	12
Supplement 2 –Letter of representation	13

Background

- 1 This report should be read in conjunction with my Annual Governance Report issued on 22 September 2010.
- 2 Following the Audit Committee meeting on 27 September 2010 further work has been undertaken on the 2009/10 Statement of Accounts. My audit is now complete and I issued an unqualified opinion on 28 October 2010.
- 3 A number of amendments have been made to the accounts. The material errors reported to you in September in respect of Area Based Grant, Government Grants Deferred and Grants and Contributions Unapplied and the Schools PFI have been amended.
- 4 All of the unadjusted errors reported to you in my earlier Annual Governance Report have been amended with the exception of the extrapolated error in respect of my testing of the payroll system. This is included in Supplement 3 together with further errors I have identified in concluding my work that management are not proposing to correct. These relate to the Pension Fund, physical verification of assets and errors found as part of my testing of the debtors and creditors balances.

Pension Fund

- 5 The FRS17 assurance from the Bedfordshire Pension Fund auditors has identified that the value of the Council's pension fund assets as at 31 March 2010 are understated by £1.614 million. This has arisen because the information supplied to the Council by the Actuary is based on the valuation of the Pension Fund as at December 2009. The Council's financial statements were prepared on a reasonable basis using the information available from the Actuary at the time.

Physical verification of assets

6 I selected a sample of 71 assets with a net book value (NBV) of £146,911,163 to physically verify. From this total there were two items with a total value of £14,973 which I was unable to test. These items were; "wheeled bins brought forward from Mid Beds DC", value £6528 and "call recording system hardware" value £8445. It was not possible to identify these bins individually and the hardware was no longer in use. Our audit approach requires me to extrapolate the impact of the items I was unable to test. Extrapolation of the £14,973 which has not been tested across the total fixed asset NBV of £1,098,105 million results in an extrapolated uncertainty of £3.95 million. Although this uncertainty is not material it is above our trivial reporting level and therefore requires reporting to you. We would not expect the accounts to be amended for this issue.

Creditors testing

7 We have now carried out sufficient testing on creditors to conclude that the creditors balance as at 31 March 2010 is not materially misstated. We selected a sample of 23 creditors with a value of £21,609,961 and we found two errors:

- One of the creditors tested was overstated by £106,878 (the tested value was £213,752 whereas the correct value should have been £106,876). As this creditor was part of a larger balance of £8,667,215 we are required to extrapolate the error. An extrapolation, whilst being statistically sound, is only an extrapolation for the purposes of estimating the most likely error in the population. The extrapolation of this error gives an estimated uncertainty of £3,556,000.
- In addition there were three creditors with a total value of £286 which we could not agree due to insufficient information. The extrapolated error for these is £587,916

8 This gives a total extrapolated error of £4,143,571 in respect of the creditors balance in the accounts. Our materiality for the financial statements is £5,933,000. Although this uncertainty is therefore not material it is above our trivial reporting level of £59,000 and therefore was reported to the Chair of the Audit Committee prior to issuing the audit opinion.

Debtors testing

9 We have now carried out sufficient testing on debtors to conclude that the debtors balance as at 31 March 2010 is not materially misstated. We selected a sample of 21 debtors with a value of £18,438,212. We found two errors.

- The debtor raised in respect of Council's the Housing Benefit claim was overstated by £243,000.
- The debtor raised in respect of the NNDR (National Non Domestic Rates) pool was £3,265,000 overstated.

10 This gives a total error of £3.508,000. As noted above our materiality for the financial statements is £5,933,000. Although this uncertainty is therefore not material it is above our trivial reporting level of £59,000 and was reported to the Chair of the Audit Committee prior to issuing the opinion.

Long term investments

11 Long term investments in the balance sheet of £5,936,000 include £600,000 in respect of NIRAH. This was written off in 2009/10 and should have been excluded from this balance.

12 The following paragraphs update Members on the key issues reported to the 27 September Audit Committee.

Valuation of council dwellings

13 The Council has sought further advice from its valuer, Wilks Head and Eve, and has amended the accounts to reflect an upward revaluation in the value of its housing stock as at 31 March 2010. As a result of this the value of the housing stock has increased by £23 million. We have reviewed the valuer's report and we are satisfied that if this revaluation is reflected in the accounts we have sufficient assurance that the fixed asset balance in the accounts is not materially misstated.

Pension Fund opening balance as at 1 April 2009

14 Following the receipt of information by Bedford Borough Council from the Actuary the Central Bedfordshire share of the Former county council's Pension Fund Reserve and Liability as at 1 April 2009 have both been reduced by £7.602 million, the new balances for both the Reserve and the Liability is £154.380 million.

Debtors and creditors

15 As noted above I have concluded my testing of debtors and creditors. I received detailed breakdowns to support the debtor figure of £58.356 million originally included in the accounts. It was not possible to easily identify the balances that I had been previously tested (which totalled £25.160 million) and therefore I had to select a new sample to cover the whole balance. I also received detailed breakdowns to support the creditor figure of £67,932 million originally included in the accounts. Again, it was not possible to easily identify the balances that I had been previously tested (which totalled £19.960 million) and therefore I had to select a new sample to cover the whole balance.

16 In order to provide accurate breakdowns of the debtors, creditors and cash balances in the accounts officers completed a lengthy and detailed exercise. This exercise identified that a number of errors had been made in compiling the unaudited statement of accounts. This has resulted in material amendments to the cash and bank balance and the Provisions balance as set out in Supplement 3.

17 There have also been material amendments to the opening balances as at 1 April 2009. The opening balances that have been changed are set out below and again have been included in Supplement 3.

- Cash and bank.
- Investments.
- Debtors.
- Creditors.
- Grants and contributions unapplied.
- Schools reserves.

18 The changes to the opening balances of the Pension Fund Liability and Pension Reserve have already been noted above.

Value for money conclusion

19 I will issue a value for money conclusion at the same time as my audit opinion. The problems experienced with the preparation and audit of the Council's 2009/10 Statement of Accounts are relevant to the Financial Reporting criteria of the Value for Money Conclusion and having considered these problems, alongside the other elements of the criteria, I have concluded that the criteria has not been met. My value for money conclusion will therefore be qualified stating that the Council had adequate arrangements in place except for its arrangements for financial reporting. This qualification has been added to my Auditor Report, the final form of which is set out in Supplement 1.

Supplement 1 – Independent auditor’s report to the Members of Central Bedfordshire Council

Independent auditor’s report to the Members of Central Bedfordshire Council

Opinion on the accounting statements

I have audited the Authority accounting statements and related notes of Central Bedfordshire Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Central Bedfordshire Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

Respective responsibilities of the Assistant Director Financial Services and auditor

The Assistant Director Financial Services' responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the accounting statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority and its income and expenditure for the year.

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

Opinion

In my opinion the Authority accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended.

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

Authority's Responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

Auditor's Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Qualified Conclusion

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

- the 2009/10 accounting statements adopted by the Authority on 30 June 2010 included a number of material errors and did not include a Cash Flow Statement; and
- the amended and audited financial statements were not published by the statutory deadline of 30 September 2010.

Having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009, and the supporting guidance, I am satisfied that, in all significant respects, Central Bedfordshire Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010 except for financial reporting that is timely, reliable and meets the needs of internal users, stakeholders and local people.

Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Paul King

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

Date

Supplement 2 - Material amendments to the draft accounts

Further work on the 2009/10 financial statements identified the following material misstatements and managers have made the necessary adjustments. I bring them to your attention to aid you in fulfilling your governance responsibilities.

		Income and Expenditure Account		Balance sheet	
Adjusted misstatements	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Dr fixed assets	Revaluation of assets to reflect movement in valuation during 2009/10			23.677	
Cr Revaluation reserve					
Cr I&E service account					23.677
Pension fund opening balances	Amendment to opening balances as a result of revised information received from the Actuary by Bedford Borough Council.			7.602	
Dr Pension Liability 1 April 2009					7.602
Cr Pensions Reserve 1 April 2009					
Dr Cash and bank	Increase in balance to correct understatement			11,695	
Dr Provisions	Reduction in balance to correct understatement			5.312	
Opening balances	Amendments to balances to correct material misstatements				
Dr Debtors				31.861	
Dr Investments				30.875	
Dr Grants and contributions unapplied				13.145	
Cr Cash and bank					5.373

	Income and Expenditure Account	Balance sheet
Cr Creditors		70.234
Cr Schools reserves		6.603

.

.

Supplement 3 – Unadjusted misstatements in the accounts

Further work on the 2009/10 financial statements identified the following misstatements, but management has not adjusted the financial statements. I bring them to your attention to assist you in fulfilling your governance responsibilities. If you decide not to do so, please tell us why in the representation letter. If you believe the affect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the letter.

Description of error	Accounts affected	Value of error £'000
The assurance from the Bedfordshire Pension Fund auditors has identified an undervaluation of the pension fund assets due to estimated valuation by the actuary.	Balance sheet: Pension Liability Pension Reserve Note 19	£1.614m
Extrapolation of error for assets which could not be physically verified.	Balance sheet: Fixed assets	£3.95m
Extrapolation of error found in payroll testing reported in September Annual Governance Report. Employers National Insurance Contributions potentially overstated by £0.263m.	Income and Expenditure Account	£0.263m
Extrapolation of errors found in testing of creditors balance. Creditors potentially overstated by this amount.		£4.144m
The debtor raised in respect of Council's the Housing Benefit claim was overstated by £0.243m.		£3.508m
The debtor raised in respect of the NNDR (National Non Domestic Rates) pool was £3.265m overstated. This gives a total error of £3.508m.		
Long term investments in the balance sheet of £5.936m include £0.6 m in respect of NIRAH. This was written off in 2009/10 and should have been excluded from this balance	£0.6 m	

Supplement 2 –Letter of representation

Mr P King
Audit Commission
Regus House
1010 Cambourne Business Park
Cambourne
Cambridge
CB23 6DP

Dear Paul

Central Bedfordshire Council - Audit for the year ended 31 March 2010

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Bedford Borough Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2010. All representations cover the Council's accounts and Group Accounts included within the financial statements.

Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which give a true and fair view of the financial position and financial performance of the Council and for making accurate representations to you.

Uncorrected misstatements

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

- Reason 1 etc.
- Reason 2.

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council meetings, have been made available to you.

Irregularities

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

There have been no:

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

I also confirm that I have disclosed:

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

Law, regulations, contractual arrangements and codes of practice

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

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

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements. For the valuation assumption for tangible assets, financial assets and liabilities, and pension fund liabilities I confirm:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework;

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

Assets

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

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

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. Except as disclosed in Note 19 to the financial statements we have no other lines of credit arrangements.

Contingent liabilities

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

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

Related party transactions

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

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

Post balance sheet events

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

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Specific - Pension Fund move from Retail Price Index to Consumer Price Index for future public sector pension increases.

Confirmation that the profile for Central Bedfordshire Council's membership of the Bedfordshire Pension Fund is not inconsistent with the overall pension fund member profile giving rise to the estimated reduction of Employer FRS 17 liabilities (6 to 8 per cent).

Specific representations

There are no material onerous contracts that should be provided for under FRS12 other than those which have been properly recorded and disclosed in the financial statements.

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

Signed on behalf of Central Bedfordshire Council

I confirm that the this letter has been discussed and agreed by the Audit Committee on 27 September 2010

Signed

Name Matt Bowmer

Position Assistant Director of Financial Services

Date

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

© Audit Commission 2010.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

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.



Audit Commission

1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

Telephone: 0844 798 3131

Fax: 0844 798 2945

Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk

December 2010

This page is intentionally left blank

Central Bedfordshire Council

2009/10 External Audit Plan – Position Statement at January 2011

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>2009/10 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 and presented to the April Audit Committee meeting.</p>	<p>April 2010</p>
<p>Use of resources assessment</p>	<p>The use of resources (UoR) 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</p>	<p>Following the new Government's recent announcement the Audit Commission will bring work on CAA to a conclusion.</p> <p>Work on updating the area assessment and organisational assessment (including the Managing Performance assessment) ceased with immediate effect following the Government announcement in</p>	<p>VFM conclusion- September 2010</p>

Area of work	Work performed/to be performed	Status	Report due
	<p>also be the "relevant criteria" for the value for money conclusion.</p>	<p>May. These assessments on the Oneplace website will not now be updated. We will not be issuing scores for the use of resources assessment.</p> <p>The findings of our work on UOR, completed to date, were reported back to officers in April. In addition, this work will support the value for money conclusion, which we are required to give alongside the opinion on the financial statements. We have reported the key messages arising from this work in the Annual Audit Letter.</p>	
<p>Managing Performance Assessment</p>	<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>As noted above work on CAA, including Managing Performance, has now ceased in the light of the new Government's announcement in May 2010.</p>	<p>n/a</p>
<p>Shared Service Review</p>	<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 complete and the findings were used to inform the value for money conclusion. This was reported in the Annual Governance Report and presented to the Audit Committee in September 2010.</p>	<p>Included in AGR issued September 2010.</p>

Area of work	Work performed/to be performed	Status	Report due
Performance Management	The review will assess the Council's plans to take forward performance management at Central Bedfordshire and help with areas of best practice.	Our work on performance management is complete and the findings were used to inform the value for money conclusion. This was reported in the Annual Governance Report and presented to the Audit Committee in September 2010.	Included in AGR issued September 2010.
Final accounts	Audit of the Council's financial statements.	Completed Our opinion and value for money conclusion were issued on 28 October 2010 and the findings from our audit reported in the Annual Governance Report of September 2010 and Supplementary Annual Governance Report of October 2010.	Annual Governance Reports – September 2010 and October 2010. Audit Opinion - October 2010
Grant claims 2009/10	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 work needed to meet the requirements of government departments. An estimate of £83,400 for grant claims work has been included in the fee letter.	We audit claims when they are made available to us.	We will issue a report when we have completed the audit of all relevant 2009/10 claims.

Area of work	Work performed/to be performed	Status	Report due
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).	The Annual Audit Letter has been issued to all Members and will be presented at the January 2011 Audit Committee.	Issued to all Members and presented at January 2011 Audit Committee.

Central Bedfordshire Council

2010/11 External Audit Plan – Position Statement at January 2011

Area of work	Work performed/to be performed	Status	Report due
<p>2010/11 Indicative Fee Letter</p>	<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 2010/11.</p> <p>More detailed planning documents for particular pieces of work will be issued during the year.</p>	<p>The fee letter has been issued to officers and the indicative fee was presented to the April 2010 Audit Committee meeting.</p> <p>The Audit Commission published the proposed work programme and scales of fees 2011/12 in December 2010. The Commission's proposals include rebates for 2010/11. The proposed rebates for 2010/11 are as follows:</p> <ul style="list-style-type: none"> • A rebate of 3.5 per cent of the 2010/11 scale fee for single tier councils. The 2010/11 scale fee for Central Bedfordshire was some £316,900 and on this basis the rebate would be some £11,090. • This rebate is in addition to the earlier rebate of 6 per cent of the 2010/11 scale fee that the Audit Commission made in respect of the additional audit costs arising from the transition to International Financial Reporting Standards (IFRS). This rebate was some £19,000 and paid in April 2010. • The Commission will also not charge inspection fees for work already carried out in 2010/11 on the managing performance element of the organisational assessment. This element was included at £18,293. 	<p>April 2010</p>

Area of work	Work performed/to be performed	Status	Report due
2010/11 Audit Plan	The Audit Plan will detail the risks identified, planned audit procedures and any changes in fee.	A detailed plan for the audit of the financial statements will be issued shortly and will be reported to the April Audit Committee.	April 2011
Final accounts	Audit of the Council's financial statements.	We have started our work on the Council's key financial systems. The detailed work on the statement of accounts will take place from July to September 2011.	Annual Governance Report – September 2011. Audit Opinion - September 2011.
Value for money conclusion	<p>We will issue a conclusion on whether the Council has established proper arrangements for securing economy, efficiency and effectiveness in its use of resources.</p> <p>From 2010/11 auditors will give their statutory value for money (VFM) conclusion based on two criteria specified by the Commission, as follows:</p> <ul style="list-style-type: none"> - The organisation has proper arrangements in place for securing financial resilience - The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness, 	We will be starting this work shortly.	September 2011

Area of work	Work performed/to be performed	Status	Report due
Grant claims 2010/11	<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.</p> <p>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 work needed to meet the requirements of government departments.</p> <p>An estimate of £100,562 for grant claims work has been included in the fee letter.</p>	We will audit claims when they are made available to us.	We will issue a report when we have completed the audit of all relevant 2010/11 claims.
Annual Audit Letter 2010/11	Summary of conclusions and significant issues arising from our audit work.	We will draft the Annual Audit Letter after we have issued the audit opinion and VFM Conclusion.	Issue to all Members by 30 November 2011.

Area of work	Work performed/to be performed	Status	Report due
<p>2011/12 Indicative Fee Letter</p>	<p>A letter will be sent to the Council setting out the indicative audit fee for 2011/12.</p> <p>More detailed planning documents for particular pieces of work will be issued during the year.</p>	<p>The Audit Commission is proposing reductions in audit fees for 2011/12. For Central Bedfordshire, as a unitary council, the reduction will be 10 per cent. The scale fee for Central Bedfordshire Council is £308,142 being a reduction of 10 per cent on the planned 2010/11 fee of £342,380.</p> <p>We will use the 2011/12 scale fee in planning our 2011/12 audit although this will also need to reflect any changes in circumstances and local risks.</p> <p>A letter will be sent to the Council setting out the indicative audit fee for 2011/12 once the Audit Commission has published its final fees proposals following the consultation exercise. Our fee letter will then be reported to the April Audit Committee.</p>	<p>April 2011</p>

Meeting: Audit Committee
Date: 27th January 2011
Subject: Internal Audit Progress Report
Report of: Director of Customer and Shared Services
Summary: This report provides a progress update on the status of Internal Audit work for 2010/11.

Contact Officer: Kathy Riches, Head of Audit
Public/Exempt: Public (with exempt appendices)
Wards Affected: All
Function of: Audit Committee

CORPORATE IMPLICATIONS

Council Priorities:

The activities of Internal 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:

None directly from this report.

Risk Management:

None specifically. The Audit Plan was produced using a risk based approach.

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.

RECOMMENDATIONS:

That the Audit Committee:

- a) 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 reviews, appraises and reports on the efficiency, effectiveness and economy of financial and other management controls.
2. The Audit Committee is the governing body charged with monitoring progress on the work of Internal Audit.
3. The Audit Committee approved the 2010/11 Audit Plan in April. This report provides an update on progress made against the plan up to 31st December 2010.

Progress on the 2010/11 Internal Audit Plan

Managed Audits

4. It was reported to the last Audit Committee that the 2009/10 Managed Audit reviews of Asset Management and SAP Access and Security had been completed to draft report stage, but had still to be finalised. The final reports have now been issued and the outcomes are included at Appendix A (Exempt).
5. The primary focus of the work undertaken to date in respect of the 2010/11 Managed Audits has been to document the systems in detail, identifying the key controls and undertaking walkthrough testing to confirm whether the key controls identified are in operation. Further substantive testing will be undertaken to cover the complete 2010/11 financial year. Recognising the need to communicate initial findings Phase 1 draft reports have been produced for a number of the reviews setting out draft recommendations and provisional audit opinions. The outcomes of these reports are also set out in Appendix A. It is important to recognise that the opinions given are provisional, based upon audit testing undertaken to date. The opinions may be revised once substantive testing for the whole year has been undertaken.
6. The managed audit work is ongoing and further progress will be reported verbally at the Audit Committee meeting.

Other Audit Work

7. In addition to the managed audit work, the following reviews have been finalised since the last Audit Committee:
Luton and Beds Partnership (grant claim)
Data Quality Management 2009/10
Silsoe Horticultural Centre - Imprest Bank Account (Consultancy).
8. The outcomes of these reviews are included at Appendix A.

National Fraud Initiative (NFI)

9. 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.
10. Work has commenced on the 2010/11 data exercise. Arrangements have been made to ensure Fair Processing Notices are in place. Data sets were extracted in October 2010 and submitted via the secure web application. It is anticipated that the 2010/11 matches will be available for review from the end of January 2011.

Fraud and Special Investigations

11. Internal Audit has not finalised any investigations to date this year. However, Internal Audit was requested to assist in an investigation in a service area which has now been concluded. Details are shown at Appendix B (Exempt).
12. There is currently one investigation in progress. As soon as this has been concluded, any significant control weaknesses or fraudulent activity will be reported to the Committee.
13. The Revenues and Benefits Team are currently undertaking a review of entitlements to Single Person's Council Tax Discount. This is an area that has been identified by the Audit Commission as a high risk fraud area. The outcomes of this review will be reported to a future Committee.

Schools

14. The Government announced on 15th November that the Financial Management Standard in Schools (FMSiS) is no longer a mandatory requirement. The Government has recognised the importance of ensuring schools have the right arrangements in place to manage their budgets effectively and are planning to work with interested parties to develop a simpler standard, and hope the replacement standard will be introduced before the summer of 2011. The Department for Education (DfE) has also indicated that it expects schools that have failed to achieve the standard to be amongst the first to achieve the new standard. At the time of the announcement, 98 of Central Bedfordshire's 137 schools had met the standard and most of the remaining schools had assessments in progress. These schools were contacted to confirm whether these assessments should be finalised and the vast majority of schools requested that the assessment was completed. However, responses have not yet been received from all schools. As at the end of December, 101 schools had met the standard, 22 reviews were in progress, and 1 school had submitted evidence. 5 schools to date have decided not to be assessed.
15. Prior to the Government announcement, the Council had already recognised that the FMSiS regime can be burdensome to schools and the Schools' Forum had agreed that schools due for reassessment would be assessed using a lighter touch risk based approach in future. It is anticipated that the simpler standard will be consistent with this approach.
16. Reports on the progress of the FMSiS work continue to be regularly taken to the Schools Forum.
17. School audit visits have now been undertaken at 12 schools. 2 reports have been finalised and issued and reports for the others are in the process of being drafted. Details of the opinions given are set out in Appendix A. 3 further schools have been booked for the Spring Term and preparations commenced for these.

Performance Management

18. The Internal Audit Charter requires Internal Audit to report its progress on some key performance indicators.
19. The indicators include both CBC audit activities and school audit activity.

20. **Activities for 1 April 2010 – 31st December 2010**

KPI	Definition	How we performed		Our Period target		Our Annual target
		Current Period		Previous Period (to 30 th August)		
		Actual	Target	Actual	Target	
KPI01	Percentage of total audit days completed.	67%	58%	36%	35%	80%
KPI02	Percentage of the number of planned reviews completed.	51.4%	55%	22%	30%	80%
KPI03	Percentage of audit reviews completed within the planned time budget.	63%	80%	52%	80%	80%
KPI04	Time taken to respond 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.	33%	80%	38%	80%	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.	100%	80%	100%	80%	80%
KPI06	Overall customer satisfaction	85%	80%	87%	80%	80%

21. Analysis of indicators:

KPI01 – In the first nine months we have delivered a total of 1,047 productive audit days against a total of 1,560 planned days for the year, which exceeds the planned target, and is an improvement on the previous period.

KPI02 – This KPI measures final reports issued to date, 51.4% of the planned reviews have been completed to final report stage along with milestones reached for managed audit work. Work is in progress on the managed audits, school visits, FMSiS assessments and a number of other reviews within the plan. This is slightly below target due, in part, to staff sickness, but represents as improvement on the previous period.

KPI03 – 63% of planned reviews have been completed within the planned time budgets. This is below target but represents a continued improvement. In a number of instances the planned audits have taken longer than expected. In some instances, the planned reviews have only just exceeded the budget. Action continues to be taken to monitor audit work closely in order to improve performance against this indicator.

KPI04 – This indicator measures the time taken for Internal Audit to receive a response from the auditee to the draft report. As at the end of December, only 33% of draft reports were responded to within the target set. Internal Audit will continue to work with departments to encourage a prompt response.

KPI05 – This indicator shows that Internal Audit has continued to issue final reports promptly, once the final response agreeing the report has been received from the auditee.

KPI06 - Of the 40 questionnaires sent out, 28 have been returned to date, giving a response rate of 70%. Overall, the feedback has been very positive. The analysis indicates an overall satisfaction rate of 85%.

Conclusion and Next Steps

22. Internal Audit has continued to support the drive to strengthen internal control within Central Bedfordshire Council, and good progress has been made to date in 2010/11.
23. Further work needs to be undertaken in order to improve the delivery of audits within the planned timescales and to encourage officers to respond to draft audit reports within the required timescales.
24. An update on audit progress will be presented to the next Audit Committee.

**Appendices: Appendix A – Progress on Audit Activity (Exempt)
Appendix B – Special Investigations (Exempt)**

Background Papers:

Location of papers: Priory House, Chicksands, Bedfordshire

Meeting: Audit Committee
Date: 27th January 2011
Subject: Tracking of Audit Recommendations
Report of: Director of Customer and Shared Services
Summary: This report summarises the high risk recommendations arising from Internal Audit reports and outlines how these will be monitored, tracked and reported to the Audit Committee.

Contact Officer: Kathy Riches, Head of Audit
Public/Exempt: Public (with Appendix 2 exempt)
Wards Affected: All
Function of: Audit Committee

CORPORATE IMPLICATIONS

Council Priorities:

An effective internal audit function will indirectly contribute to all of the Council's priorities.

Financial:

Although there are no financial risks from the issues identified in the report, the outcome of implementing audit recommendations is for the Council to enhance internal control, and better manage its risks, thereby increasing protection from adverse events.

Legal:

None arising directly from the report.

Risk Management:

None arising directly from the 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:

- 1. Note and comment on the updates as presented.**

Background

1. One of the purposes of the Audit Committee is to provide independent assurance on the adequacy of the risk management framework and the associated control environment.
2. To further strengthen the Audit Committee's role in monitoring the internal control environment within the Council, Internal Audit has developed a system for monitoring and reporting progress against high risk recommendations arising from internal audit inspections.
3. This paper presents a summary of high risk recommendations made to date, along with the progress made against implementation of those recommendations.

Tracking High Risk Recommendations

4. The September Audit Committee received an initial monitoring report. A further update was provided to the Chair of the Audit Committee at the end of October. This report sets out the position as at the end of December 2010.

5. Appendix 1 provides detail of progress made to date in addressing high risk recommendations. The table below provides a summary by Directorate.

	Customer and Shared Services	Children's Services	Sustainable Communities	Social Care Health and Housing	Total	%
No. of reports	15	1	2	1	19	
Recs:						
Completed GREEN	43	5	4	1	53	72
Ongoing-On schedule for completion within timescales GREEN	3	0	0	0	3	4
No work started Within target GREEN	2	0	0	0	2	3
Ongoing with deadline missed AMBER	14	0	1	0	15	20
No work started Deadline missed RED	1	0	0	0	1	1
Total Recs.	63	5	5	1	74	100

Although progress has been made on implementing the high risk recommendations, 20% are ongoing with target missed within the agreed timescales, and one high risk recommendation where action has not yet started.

6. Appendix 2 (Exempt) provides details of high risk recommendations where implementation of the recommendation is running behind planned completion dates.
7. Wherever possible evidence has been obtained to support the implementation of recommendations. However, in some instances, verbal assurance has been obtained. Where this is the case, further evidence will be obtained to support the assurances given.

Future Monitoring

8. Officers responsible for the implementation of recommendations will be contacted regularly to provide updates on progress made. Evidence will be required to support progress made. Where recommendations are ongoing these will continue to be monitored.

Conclusion

9. The continued tracking and reporting of progress on Internal Audit inspections by the Audit Committee will ensure that the Committee has the means to monitor how effectively the high risk recommendations have been implemented.

Appendices:

Appendix 1 – Details of monitoring of High Risk Internal Audit recommendations (Public)

Appendix 2 - Details on those recommendations that are outstanding (Exempt).

Background Papers:

None

Location of papers: Priory House, Chicksands, Bedfordshire

Details of Monitoring of High Risk Internal Audit recommendations as at End December of 2010

CUSTOMER AND SHARED SERVICES

Reference	Name	Date of Report	Expected completion of all Recommendations (Where identified)	Number of Recs	Completed GREEN	Ongoing - On schedule for completion with set timescales GREEN	Ongoing - with deadline missed AMBER	No work started - within target GREEN	No work started - target missed RED
422010	Accounts Receivable 2009-10	10/08/10	31/05/10	3	3	0	0	0	0
452010	Council Tax 2009-10	26/07/10	01/10/10	6	5	0	1	0	0
457010	Housing and Council Tax Benefits 2009-10	26/07/10	31/03/11	6	4	0	0	1	1
482010	Main Accounting System 2009-10	22/07/10	30/04/10	5	4	0	1	0	0
492010	National Non Domestic Rates 2009-10	26/07/10	31/12/10	5	3	0	2	0	0
502010	Payroll 2009-10	26/07/10	30/09/10	10	8	0	2	0	0
1202010	SWIFT Financials 2009-10	23/08/10	30/09/10	4	0	0	4	0	0
522010	Treasury Management 2009-10	31/08/10	31/08/10	6	5	0	1	0	0
4462010	Cash and Banking 2009-10	11/08/10	30/09/10	2	1	0	1	0	0
1202010	ContactPoint 2009-10	29/04/10	31/05/10	3	3	0	0	0	0
1742010	Hospitality and Gifts 2009-10	26/01/10	28/02/10	3	3	0	0	0	0
1092010	Teachers Pensions'	20/08/10	30/03/11	2	0	2	0	0	0
2182010	SAP Access and Security (incl IT DTR0 2009/10	11/10/10	31/12/10	3	2	0	1	0	0
432010	Asset Management 2009/10	19/10/10	31/12/10	2	1	0	1	0	0
602010	Data Quality Management 2009/10	22/10/10	30/04/11	3	1	1	0	1	0
	Total			63	43	3	14	2	1
					68%	5%	22%	3%	2%

Details of Monitoring of High Risk Internal Audit recommendations as at End December of 2010

SUSTAINABLE COMMUNITIES

Reference	Name	Date of Report	Expected completion (Where identified)	Number of Recs	Completed GREEN	Ongoing - On schedule for completion with set timescales GREEN	Ongoing - with deadline missed AMBER	No work started - within target GREEN	No work started - target missed RED
	EEDA 2009-10	23/08/10	31/08/10	2	2	0	0	0	0
4332010	Leighton Buzzard Theatre	18/11/10	30/12/10	3	2	0	1	0	0
	Total			5	4	0	1	0	0
					80%	0%	20%	0%	0%

Details of Monitoring of High Risk Internal Audit recommendations as at End December of 2010

CHILDREN'S SERVICES

Reference	Name	Date of Report	Expected completion (Where identified)	Number of Recs	Completed GREEN	Ongoing - On schedule for completion with set timescales GREEN	Ongoing - with deadline missed AMBER	No work started - within target GREEN	No work started - target missed RED
08/04/61	Youth Foster Care 2009-10	06/05/10	30/05/10	5	5	0	0	0	0
	Total			5	5	0	0	0	0
					100%	0%	0%	0%	0%

SOCIAL CARE, HEALTH AND HOUSING

Reference	Name	Date of Report	Expected completion (Where identified)	Number of Recs	Completed GREEN	Ongoing - On schedule for completion with set timescales GREEN	Ongoing - with deadline missed AMBER	No work started - within target GREEN	No work started - target missed RED
502010	Housing Rents - Arrears 2009-10	21/07/10	31/01/10	1	1	0	0	0	0
	Total			1	1	0	0	0	0
					100%	0%	0%	0%	0%

This page is intentionally left blank

Meeting: Audit Committee
Date: 27 January 2011
Subject: IFRS Progress
Report of: Assistant Director - Finance
Summary: The report provides information on progress made to date in the response to the International Financial Reporting Standards.

Contact Officer: Adrian King, Head of Financial Strategy
Public/Exempt: Public
Wards Affected: All
Function of: Council

CORPORATE IMPLICATIONS

Council Priorities:

The production of robust financial accounting information directly contributes to the authority's ability to meet its priorities.

Financial:

Financial impacts are anticipated through the adoption of IFRS requirements. These are set out in the report.

Legal:

None

Risk Management:

None

Staffing (including Trades Unions):

None

Equalities/Human Rights:

None

Community Safety:

None

Sustainability:

None

RECOMMENDATION(S):

1. that the

Committee note the contents of the report

Background

1. The authority is required to compile its Statement of Accounts for 2010/11 using International Financial Reporting Standards (IFRS), rather than the UK Generally Accepted Accounting Practice. The adoption of IFRS also requires the authority to restate its previously reported opening balances as at 31 March 2009 and 31 March 2010.
2. Adoption of IFRS requires the authority to undertake a fundamental review of its accounting practices in order that it is able to successfully complete the transition to presenting IFRS compliant accounts at the June Audit Committee.

IFRS Review Project

3. The authority has undertaken a fundamental review of the IFRS accounting requirements to understand and plan for any required changes against existing accounting policies and practices. This review identified 19 workstreams for further evaluation. All work is scheduled to be completed by the end of January 2011 to allow External Audit to review at the earliest opportunity and in advance of the end of the financial year.
4. The main outputs from the IFRS Review Project have been identified as follows:

Output	Timescale
Draft Format of Key Financial Statements (excluding figures)	End December 2010
Review of the Individual IFRS Workstreams concluded	End January 2011
Restated Opening Balance Sheet Produced	End January 2011
Draft Statement of Accounting Policies	End January 2011

5. It is important that the external auditors are fully informed of progress in the IFRS transition process and are aware of the potential changes emerging from the 19 workstreams described in the report. To ensure that this objective is met there are fortnightly progress updates provided to the Audit Commission. Regular meetings are also taking place to discuss developments in further detail. In addition, the output from the workstreams, that have been completed to date, are being made available to the Audit Commission for early evaluation.

Progress Against IFRS Workstreams

6. The 19 workstreams and their completion status are set out at **Appendix A**. As at 31 December 2010, 15 of the 19 workstreams (79%) have been completed
7. **Appendix B** provides a detailed update on the progress made against all the individual workstreams.
8. The key pieces of work to be completed are in respect of accounting requirements in respect of Plant, Property and Equipment and Accounting for Leases. These will be completed by 31 January 2011.

Restated Opening Balance Sheet

9. The review of the individual workstreams has resulted in changes to the authority's opening balance sheet position. Transition to IFRS requires the balances reported under SORP requirements as at 31 March 2009 and 31 March 2010 to be retrospectively amended. The changes are due to amendments to format, classification or directly result from new accounting arrangements. The main changes emerging from the review are:
 - the reclassification of Short Term Investments to cash (now recognised as a cash equivalent),
 - the reclassification of Government Grants and Contributions deferred to the Capital Adjustment Account as these are now recognised for funding purposes,
 - reclassification of Provisions between Current and Long Term Liabilities,
 - creation of Provision and Compensated Absences Account that reflects accrued employee benefits.
10. These amendments are shown in **Appendix C** to the report and sets out the conversion from the balance sheet produced under SORP to IFRS requirements. The appendix includes the adjustments required in respect of the 15 workstreams that have been concluded as at 31 December 2010. It is expected that the review of the remaining four workstreams will be concluded by 31 January 2011. It is expected that the review of Property, Plant and Equipment and Leases workstreams will result in adjustments to the presentation of the balance sheet.

Draft Format of Key Financial Statements

11. The review of the IFRS annual accounts reporting requirements has been finalised. This includes the additional and revised notes to the accounts as well as the revised core financial statements. The revised core financial statements are attached at **Appendix D** to the report.

The main changes emerging from the review are the introduction of the Movements in Reserves schedule that outlines the usable and unusable reserves that are set out in the balance sheet. This will provide a clearer picture of the levels of balances that can be utilised by an authority and these will be separated from the reserve balances that have been created due to technical accounting adjustments.

Included within the Movements in Reserve schedule are the reversals of various entries within the Comprehensive Income and Expenditure Statement that should be excluded to remove their impact on general fund balances (shown as Adjustments between Accounting and Funding Basis Under Regulatory Requirements). These entries were previously set out in the Statement of Movement in General Fund Balance statement that has now been removed. Examples of entries within this statement included the reversal of depreciation and pension adjustments required under FRS17.

Draft Statement of Accounting Policies

12. The adoption of IFRS requires the authority to produce and implement revised Statement of Accounting Policies. The review of the policies is taking place in parallel to the IFRS workstreams exercise. It is expected that the revised Draft Statement of Accounting Policies will be completed by 31 January 2011.

Conclusion

13. Significant progress is being made in managing the transition to the IFRS accounting requirements. It is expected that all review work will be completed by the end of January 2011 and is being made available to the Audit Commission to allow early audit work to be undertaken. This will provide a substantial benefit reducing the workload in the preparation of the annual accounts.

Background Papers: (open to public inspection)

None

APPENDIX A

IFRS ACTION PLAN- timescales

	People	Deadline	Position	Addl Comments
A	LS/MM	30/12/10	DONE	
B	MM	31/12/10	DONE	
C	MM	08/12/10	DONE	
D	MM	08/12/10	DONE	
E	LS/MM	mid jan		
F	LS/MM+3	end jan		
G	SM/LS/MM	mid jan		
H	LS/MM	31/12/10	DONE	
I	LS/MM	31/12/10	DONE	
J	MM	14/12/10	DONE	
K	SM/LS/MM	end dec		delayed due to key officer leave
L	MM	17/12/10	DONE	
M	CJ/MM	31/12/10	DONE	
N	CJ/MM	08/12/10	DONE	
O	CJ/MM	13/12/10	DONE	
P	MM	03/12/10	DONE	
Q	MM	03/12/10	DONE	
R	MM	24/12/10	DONE	
S	MM	03/12/10	DONE	

DONE: 15
DONE %: 78.9%

As at: 31/12/2010
Michael Millar (CBC)

This page is intentionally left blank

APPENDIX B

A Government and Non-Government Grants and Contributions

Balances previously demonstrated under SORP requirements as Government Grant Deferred and Contributions Deferred have been reclassified to the Capital Adjustment Account. This change is reflecting the conditions applicable to the grants/contributions. A new Capital Receipts in Advance classification has been established for items previously classified as Grants and Contributions Unapplied.

Potential Impact: There is no impact upon the total assets and liabilities of the authority as this is reclassification rather than adjustment.

Status: Review completed

B Presentation of Financial Statements

The main statements of the Balance Sheet and Income and Expenditure accounts remain have been restructured and in some cases new titles applied. A number of new notes to support the core financial statements are required.

The definition of Cash (perfectly liquid holdings) has been extended to include Cash Equivalents (highly liquid holdings). The definitions of the timescales for recognising Cash Equivalents are at the discretion of individual authorities. A one month timeframe for Cash Equivalents has been set by CBC and a reclassification of Short Term Investments maturing within one month of the balance sheet date (01/04/20??) as Cash Equivalents has been made.

Status: Review completed

C Housing Revenue Account

IFRS requires the re-classification of existing balances based on a new format/structure. These are relatively small changes to the main statements and a consolidation of the two supplementary notes to one.

Potential Impact: There is no impact upon the total assets and liabilities of the authority as this is reclassification rather than adjustment.

Status: Review completed

D Related Party Disclosure

CBC has no material Related Party Disclosures, therefore the requirements in this area are not applicable

Status: Review completed

E Property, plant & equipment

Whilst there are some classification and valuation issues from the IFRS requirements, these are not expected to be significant in terms of adjustments to the total assets and liabilities of the authority. The more important and wide ranging requirement is to identify the material components of Non-Current Assets. This means where elements of an asset have potentially different useful lives (for example a roof being 25 years as apposed to a building of 50 years), these should be valued as separate elements and depreciated at the most accurate rate.

Status: Review due to be completed by 31 January 2011

F Leases

This is the most complex area of IFRS and the one that will potentially have the biggest impact upon CBC. Whilst the need to classify all leases as either Operating or Finance Leases (where CBC is lessor or lessee) was present before IFRS, the definitions have now been amended from the existing basis of recognition of leases. Work has established four areas of leases (property, staff cars (immaterial), fleet vehicles and equipment) and finance officers are working with key lease contacts to establish the financial values needed for the accounting adjustments.

It is expected that the volume of disclosure amendments on CBC's financial statements will be considerable. However, the impact on the total assets and liabilities of the authorities is expected to be minimal (all expenditure has been accounted for in terms of the Income and Expenditure and for Finance Leases with respect to the balance sheet). The minor impact to the 'bottom line' of the financial statements will be where lease amounts differ to the value of the fixed asset, though these are not expected to be significant.

Status: Review due to be completed by 31 January 2011

G Investment Property

The definition of Investment Property has been updated to include only those Investment Properties primarily held for capital gain (rents or value increase). Any other considerations such as social benefit (regeneration etc) will result in the Investment Property being reclassified as a property non-current asset.

Potential Impact: There is no impact upon the total assets and liabilities of the authority as this is reclassification rather than adjustment

Status: Review completed

H Intangible Assets

The definition of Intangible Assets has been extended to include internally generated Intangible Assets, such as computer software produced by CBC staff. No such occurrences at CBC, therefore the requirements in this area are not applicable.

Status: Review completed

I Impairment of Assets

The requirements are concerned with Impairments related to clear consumption of economic benefits, such as physical damage to properties or land. No CBC Impairments are within this area, as CBC Impairments are all short term price changes due to market conditions, not consumption. Therefore the requirements in this area are not applicable.

Status: Review completed

J Borrowing Costs

The accounting process for capitalised Borrowing Costs has been reviewed. However, CBC does not capitalise borrowing costs, its policy is to expense such costs. Therefore the requirements in this area are not applicable.

Status: Review completed

K Non current assets held for sale

Assets Held for Sale must now be classified over short (<1year) and long term (>1year). Under SORP reporting requirements these were all considered long term. It is expected that most, if not all, CBC held for sale assets will be classified as short term. It is anticipated that there will be no impact on CBC's total assets and liabilities as this constitutes a reclassification of balances.

Potential Impact: There is no impact upon the total assets and liabilities of the authority as this is reclassification rather than adjustment

Status: Review due to be completed by 31 January 2011

L Inventories

The requirements for valuing Inventories has been revised with respect to inventories acquired through non-exchange transactions or provided at no/nominal charge. No such occurrences at CBC, therefore the requirements in this area are not applicable.

Status: Review completed

M Benefits payable during employment

A financial value must be calculated for the value of annual and / or flexible leave carried over by CBC staff between accounting periods.

The impact will affect the Income and Expenditure surplus/deficit and currently this is projected to be £378k for opening 2009/10 balance and £679k for closing 2009/10 balance. As these are reversed adjustments, when the annually calculated value is generally consistent year on year, the impact on the Income and Expenditure surplus / deficit will be immaterial.

Status: Review completed

N Termination benefits

The definition of Termination Benefits has been extended from lump sums to include enhancement of retirement benefits and gardening leave. No material examples have been identified.

Status: Review completed

O Post employment benefits

The definition of Post Employment Benefits has been extended from pensions to include other benefits such as life insurance and medical care. No such occurrences at CBC, therefore the requirements in this area are not applicable.

Status: Review completed

P Accounting and reporting by pension funds

As CBC is not a Pension Fund administrator (our pension fund administrator is Beds Borough Council), therefore the requirements in this area are not applicable.

Status: Review completed

Q Financial Instruments

There are no additional local government applicable principles under this area. Standards previously adopted meet the requirements by convergence prior to IFRS.

Status: Review completed

R Provisions and contingent assets/liabilities

Provisions must now be classified over short (<1year) and long term (>1year), previously they were all considered long term.

Potential Impact: There is no impact upon the total assets and liabilities of the authority as this is reclassification rather than adjustment

Status: Review completed

S Group Accounts

CBC has no Group Accounts. Therefore the requirements in this area are not applicable.

Status: Review completed

This page is intentionally left blank

Appendix C(i)

	SORP		Adjustments by work stream:										IFRS	
	at 31/03/2009	£,000	A Grants	B Cash	E PPE	F Leases	G Inv Prop	K For sale	M Leave	R Provision	at 31/03/2009	£,000		
Tangible fixed assets:														
* Council housing	354,889											354,889		
* Land and Buildings	548,128											548,128		
* Vehicles, Plant and Equipment	8,174											8,174		
* Infrastructure Assets	139,311											139,311		
* Community Assets	2,377											2,377		
Non-operational assets:														
* Assets under Construction	25,642											25,642		
* Surplus property	0											0		
												25,642		
* Investment Property	52,621											52,621		
												0		
	4,622											4,622		
Intangible Assets														
* Software	0											0		
* Rights of use of land	0											0		
* Goodwill (groups)	0											0		
												4,622		
Assets Held for Sale - non-current														
												0		
Long Term Investments:														
* Non property investments	5,188											5,188		
* Excess pension fund	0											0		
Investment in Associates & Joint ventures												0		
												5,188		
Long Term Debtors														
* Long Term General Debtors (over one year)	845											845		
												845		
Long Term Assets												1,141,797		
Current Assets:														
Investments	78,670											78,670		
												58,168		
	0											0		
Inventories:														
* Stocks and Works in Progress	42											42		
Short Term Debtors														
* General Debtors (within one year)	66,970											66,970		
												66,321		
Cash	18,635											39,786		
												18,635		
Current Assets												164,317		
Current Liabilities:														
Borrowing repayable within 1 year														
												0		
	-1,449											-1,449		
* Creditors (within one year)	-86,189											-86,189		
												-3,586		
	0											0		
												-3,586		
Provisions - accumulating compensated absences														
	0											0		
												-378		
Liabilities in Disposal Groups														
												0		
Current Liabilities												-91,602		
Long Term Liabilities:														
PFI	-20,459											-20,459		
Provisions	-7,052											-3,586		
												-20,459		
												-3,466		

Closing 2008/09

CORE FINANCIAL STATEMENTS

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes.

The Net Increase /Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the council.

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the authority.

MOVEMENT IN RESERVES STATEMENT

2009/10

<u>Usable</u>	General Fund £'000	GF Earmarked £'000	HRA £'000	HRA Earmarked £'000	Capital Receipts £'000	Major Repairs £'000	Schools £'000	Single Status £'000	<u>Usable Total</u> £'000
Balance @ 31st March 2009									
Movement in Reserves during 2009/10:									
Surplus/(deficit) on provision of services									
Other Comprehensive I&E									
Total Comprehensive I&E									
Adj between a/c and funding basis under reg (note 7)									
Net inc/decrease from trans to Earmarked Reserves									
Transfers to/from Ear marked Reserves (note 8)									
Increase/(Decrease) in year									
Balance @ 31st March 2010									

<u>Unusable</u>	Revel £'000	Available For Sale £'000	Pensions £'000	Capital Adj a/c £'000	Def Cap Receipts £'000	Fin Instr £'000	Collect Fund £'000	<u>Unusable Total</u> £'000	GRAND TOTAL £'000
Balance @ 31st March 2009									
Movement in Reserves during 2009/10:									
Surplus/(deficit) on provision of services									
Other Comprehensive I&E									
Total Comprehensive I&E									
Adj between a/c and funding basis under reg (note 7)									
Net inc/decrease from trans to Earmarked Reserves									
Transfers to/from Ear marked Reserves (note 8)									
Increase/(Decrease) in year									
Balance @ 31st March 2010									

2010/11

<u>Usable</u>	General Fund £'000	GF Earmarked £'000	HRA £'000	HRA Earmarked £'000	Capital Receipts £'000	Major Repairs £'000	Schools £'000	Single Status £'000	<u>Usable Total</u> £'000
Balance @ 31st March 2010									
Movement in Reserves during 2010/11:									
Surplus/(deficit) on provision of services									
Other Comprehensive I&E									
Total Comprehensive I&E									
Adj between a/c and funding basis under reg (note 7)									
Net inc/decrease from trans to Earmarked Reserves									
Transfers to/from Ear marked Reserves (note 8)									
Increase/(Decrease) in year									
Balance @ 31st March 2011									

<u>Unusable</u>	Revel £'000	Available For Sale £'000	Pensions £'000	Capital Adj a/c £'000	Def Cap Receipts £'000	Fin Instr £'000	Collect Fund £'000	<u>Unusable Total</u> £'000	GRAND TOTAL £'000
Balance @ 31st March 2010									
Movement in Reserves during 2010/11:									
Surplus/(deficit) on provision of services									
Other Comprehensive I&E									
Total Comprehensive I&E									
Adj between a/c and funding basis under reg (note 7)									
Net inc/decrease from trans to Earmarked Reserves									
Transfers to/from Ear marked Reserves (note 8)									
Increase/(Decrease) in year									
Balance @ 31st March 2011									

COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

<u>2009/10</u>			<u>2010/11</u>		
<u>Gross</u> <u>Exp</u> <u>£'000</u>	<u>Gross</u> <u>Income</u> <u>£'000</u>	<u>Net</u> <u>Exp</u> <u>£'000</u>	<u>Gross</u> <u>Exp</u> <u>£'000</u>	<u>Gross</u> <u>Income</u> <u>£'000</u>	<u>Net</u> <u>Exp</u> <u>£'000</u>
			Service Analysis		
			Central Services to the Public		
			Court Services		
			Culture, Env., Reg. & Plan Serv.		
			Children's & Education Services		
			Highways & Transport Services		
			Council Housing (HRA)		
			Other Housing Services		
			Adult Social Care		
			Exceptional- social care legal set.		
			Corporate & Democratic Core		
			Non-Distributed Costs		
			Cost of Services		
			Notes		
			9		
			Other Operating Expenditure		
			Payment of precepts to Parishes		
			Levies payable		
			Payments Hou Cap Receipts Govt Pool		
			(Gain)/Loss on Disposal of Fixed Assets- non current		
			(Gain)/Loss on Disposal of Fixed Assets- intangibles		
			10		
			Financing and Investment I&E		
			Interest payable on debt		
			Interest element of finance leases (lessee)		
			Interest payable on PFI unitary payments		
			Premium on early repayment of debt		
			Impairment of financial instruments		
			Pension interest costs		
			Expected return on pension assets		
			Interest and Investment Income		
			Interest received on finance leases (lessor)		
			Discount for early repayment of debt		
			Changes in fair value of investment properties		
			Gain (loss) on disposals of investment properties		
			Dividends received		
			Gain/(loss) on trading accounts (n/a to a service)		
			Rentals received on investment properties		
			Expenses incurred on investment properties		
			Surplus/Deficit of Discontinued Operations		

	Taxation and Non-Specific Grant Income	11
	Recognised capital grants and contributions	
	Council tax	
	NNDR	
	RSG	
	Non service related govt grants	
	(Surplus)/Deficit on Provision of Services	
	Associates & joint venture a/c for on an equity basis	
	Tax expenses- corporation tax payable	
	Group surplus(deficit)	
	(Surplus)/Deficit on revaluation of non-current assets	
	* Revaluation gains	
	* Revaluation losses (chargeable to Reval. Reserve)	
	* Impairment losses (chargeable to Reval. Reserve)	
	(Surplus)/Deficit on reval. of available for sale assets	
	Actuarial (gain)/losses on pensions asset/liabilities	
	Share of other comp E&I of assoc & joint ventures	
	Other Comprehensive I&E	
	Total Comprehensive I&E	

BALANCE SHEET

1 st April 2009 £'000	31 st March 2010 £'000	Note	31 st March 2011 £'000	31 st March 2011 £'000
<u>Property, Plant & Equipment:</u>		12		
* Council Dwellings				
* Other Land and Buildings				
* Vehicles, Plant, Furniture and Equipment				
* Infrastructure Assets				
* Community Assets				
* Assets under Construction				
* Surplus assets not held for sale				
* Finance leases (CBC lessee)- ??				
<u>Investment Properties:</u>		13		
* Investment Properties				
* Investment Properties (AUC)				
<u>Intangible Assets</u>		14		
* Software				
* Rights of use of land				
* Goodwill (groups)				
<u>Assets Held for Sale</u>		20		
<u>Long Term Investments:</u>		15		
* Non property investments				
* Excess pension fund				
Investment in Associates & Joint ventures				
<u>Long Term Debtors</u>		15		
* Long Term General Debtors (>1 year)				
* Long Term Fin. Leases Debtors (>1 year)				
Long Term Assets				
<u>Short Term Investments</u>		15		
<u>Assets Held for Sale</u>		20		
<u>Inventories:</u>		16		
* Stocks and Works in Progress				
<u>Short Term Debtors</u>		18		
* General Debtors (<1 year)				
* Fin. Leases Debtors (<1 year)				
<u>Cash and Cash Equivalent</u> s		19		
Current Assets				
<u>Cash and Cash Equivalent</u> s		19		
<u>Short Term Borrowing</u>		15		
<u>Short Term Creditors</u>		21		
* General Creditors (within one year)				
* Fin Leases Creditors (<1 year)- ??				
<u>Provisions</u>		22		

<u>Provisions- accumulated absences</u>			
<u>Liabilities in Disposal Groups</u>		20	
Current Liabilities			
<u>Long Term Creditors</u>		15	
Long Term Fin Leases Creditors (>1 year)-?			
PFI			
<u>Provisions</u>		22	
<u>Long Term Borrowing</u>		15	
<u>Other Long Term Liabilities:</u>		15	
* Liability to Defined Benefit Pen. Scheme			
* Investment funds			
* Deferred liabilities			
<u>Donated Assets/Inventories Account</u>		38	
<u>Capital Grants (receipts in advance)</u>		38	
Long Term Liabilities			
<hr/>			
Net Assets			
<hr/>			
<u>Usable Reserves</u>		23	
* General Fund Reserve			
* GF Earmarked Reserves			
* Housing Revenue Account Balance			
* HRA Earmarked Reserves			
* Usable Capital Receipts Reserve			
* Community Infrastructure levy			
* Capital Grants Unapplied			
* Major repairs reserve			
* Capital Grants RiA			
* Repairs and Renewals Fund			
* Insurance fund			
* Schools Reserve			
* Single Status Reserve			
<hr/>			
<u>Unusable Reserves</u>		24	
* Revaluation Reserve			
* Available for sale Fin Instruments Reserve			
* Capital Adjustment Account			
* Fin Instruments Adjustment account			
* Deferred Capital Reciepts			
* Pension Reserve			
* Collection Fund Adjustment Account			
* Unequal pay back pay account			
* ST accumulating compensated absences			
<hr/>			
Total Reserves			
<hr/>			

CASH FLOW

X

2009/10 £'000	Note	2010/11 £'000	2010/11 £'000
<u>Net surplus/(deficit) on the provision of services</u>			
<u>Adj. net surplus/deficit on the provision of services for non-cash movements</u>			
- Depreciation and impairment			
- Revaluation decreases to I&E			
- Deferred grants amortised in year			
- Pension fund adj.			
- Contributions to provisions			
<u>Adj. for items included in the net surplus/deficit on the prov. of services that are investing and financing activities</u>			
- Interest and investment income			
- Interest on finance leases			
- REFCUS			
- Gain/loss on disposal of assets			
- (Inc)/decrease in stock			
- (Inc)/decrease in debtors			
- (Inc)/decrease in creditors			
Net cash flows from operation activities		25	
<u>Investing activities</u>			
- Purchase of PPE, inv prop and intangible assets			
- Purchase of st and It investments			
- Other payments for investing activities			
- Proceeds from the sale of property, plant and equip, inv prop and intangible assets			
- Capital grants			
- Proceeds from s.t. and l.t. investments			
- Other receipts from investing activities			
<u>Financing activities</u>			
- Cash receipts of s.t. and l.t. borrowing			
- Other receipts from financing activities			
- Cash payments for the reduction of o/s liabilities relating to finance leases and on-balance sheet PFI contracts (principal)			
- Repayments of s.t. and l.t. borrowing			
- Other payments for financing activities			
Net inc/decrease in cash and cash equivalents			
Cash and cash equivalents at 1st April			
Cash and cash equivalents at 31st March		19	

HOUSING REVENUE ACCOUNT- INCOME & EXPENDITURE STATEMENT

X

2009/10 £'000	Note	2010/11 £'000	2010/11 £'000
Income			
(20,555)	Dwelling Rents (Gross)		
(484)	Non Dwelling Rents (Gross)		
(821)	Charges for Services and Facilities		
(4,231)	Contributions towards Expenditure		
0	HRA Subsidy Receivable		
0	Sums directed by the Secretary of State that are income in accordance with proper practices		
(26,091)			
Expenditure			
4,395	Repairs and Maintenance		
4,970	Supervision and Management		
174	Rents, Rates, Taxes and Other Charges		
12,329	HRA Subsidy Payable		
18,444	Depreciation and Impairment of non-current assets		
156	Debt management costs		
0	Sums directed by the Secretary of State that are expenditure in accordance with the Code		
40,468			
14,377	Net Cost of HRA Services as included in the whole authority Comprehensive I&E Statement		
104	HRA Services share of Corporate and Democratic Core <u>HRA share of other amounts included in the whole Authority Net Cost of Services but not allocated to specific Services</u>		
0	* FRS17 Past Service Cost		
104			
14,481	Net Cost of HRA Services		
<u>HRA share of operating I&E included in the whole Authority Comprehensive I&E Statement</u>			
(467)	* (Gain) or Loss on Disposal of non-current assets		
0	* Interest payable and similar charges		
(216)	* HRA interest and Investment Income		
656	* Pensions Interest Cost & Expected Return on Pensions Assets		
(27)			
14,454	(Surplus) / Deficit for the Year on HRA services		

MOVEMENT ON THE HRA STATEMENT

X

2009/10 £'000	Note	2010/11 £'000	2010/11 £'000
4,010	HRA Balance at the end of the previous reporting period		
(14,454)	Surplus / (Deficit) on HRA I&E Statement		
	<u>Adjustments between accounting basis and funding basis under regulations</u>		
0	* Diff between int payable and similar charges inc amortisation of premiums & discounts determined in accordance with the Code and those determined in accordance with Statute		
14,849	* Diff between any other item of I&E determined in accordance with Code and determined in accordance with statutory HRA requirements		
(467)	* (Gains) / Losses on sale of HRA assets		
656	* HRA share of contributions to or from the Pensions Reserve		
(343)	* Capital expenditure funded by the HRA		
0	* Sums directed by Sec of State to be debited or credited to the HRA that are not I&E in accordance with the Code		
14,695	Net Increase / (Decrease) before transfers to or from reserves		
	<u>Transfers to or from reserves</u>		
(55)	* Transfer (to)/from the Major Repairs Reserve		
0	* Transfer (to)/from the Capital Adjustment Account		
0	* Transfer (to)/from the Housing Repairs Account		
(55)			
14,640	Increase / (Decrease) in year on the HRA		
4,196	HRA Balance at the end of the previous reporting period		

THE COLLECTION FUND

X

2009/10 £'000	Note	2010/11 £'000	2010/11 £'000
<u>Income</u>			
Income from Council Tax			
Transfers from General Fund			
-Council Tax Benefits			
Income Collectable from Business Ratepayers			
<u>Expenditure</u>			
Precepts and Demands (in year)			
Central Bedfordshire Council			
Bedfordshire Police Authority			
Bedfordshire and Luton Fire Authority			
Business Rates:			
-Payment to National Pool			
-Costs of Collection			
Bad and Doubtful Debts:			
-Council Tax Write-offs			
-Increase in Bad and Doubtful Debts Provision			
Cont's towards previous year's estimated Collection Fund Surplus			
Movement on Fund Balance			
Surplus Balance Bought Forward			
Surplus generated in year (Central Bedfordshire Council)			
Surplus generated in year (Bedfordshire Police Authority & Bedfordshire and Luton Fire Authority)			
Total in year surplus			
Distribution of prior year surpluses			
Movement in Year			
Surplus Balance Carried Forward			

This page is intentionally left blank

Meeting: Audit Committee
Date: 27th January 2011
Subject: 2010/11 Annual Governance Report-
Progress on Implementation of Recommendations
Report of: Assistant Director - Finance
Summary: The report provides information on progress made to date against the recommendations within the 2009/10 Annual Governance Report.

Contact Officer: Michael Millar, Interim Chief Accountant
Public/Exempt: Public
Wards Affected: All
Function of: Council

CORPORATE IMPLICATIONS

Council Priorities:

The Council's priority is to ensure preparation of robust financial information, by statutory deadline.

Financial:

No direct effects, although the robustness of the annual accounts process will ensure the integrity of the Authority's financial accounting information.

Legal:

None

Risk Management:

None

Staffing (including Trades Unions):

None

Equalities/Human Rights:

None

Community Safety:

None

Sustainability:

None

RECOMMENDATION(S):

1. **that the**
Committee note the contents of the report

Background

1. The Council is required to prepare its annual accounts for approval by the Audit Committee by 30th June in the calendar year.
2. The objective of the 2010/11 annual accounts process is to prepare accounts that are free from material error.
3. The Council had the 2009/10 Statement of Accounts certified by its external auditors (Audit Commission) in October 2010. Following this certification, the Annual Governance Report (AGR) was issued with recommendations, for implementation, to improve the closedown process and accounts production.

Action Plan

4. In response to the AGR provided by the Audit Commission, the authority has prepared an action plan that provides detailed responses to the recommendations. Appendix A sets out the completed action plan in response to the AGR report.

Annual Governance Report recommendations- progress update

5. There were eight key recommendations and progress against each is summarised below.
6. R1 Amend the accounts to correct the material errors

These were incorporated within the final version of the annual accounts that were certified by the Audit Commission in October. The corrections have also been made in the authority's financial ledger, SAP.

Recommendation cleared

7. R2 Consider amending the accounts for the non material and non trifling errors

These potential amendments were actioned, where appropriate. A limited number of adjustments were not made due to their non material nature. These were approved by the Audit Committee and outlined in its letter of representation.

Recommendation cleared

8. R3 Ensure that journals are authorised in accordance with the Council's financial procedures

The "Financial Journal Preparation and Entry" Financial Procedure is currently being reviewed by the Chief Accountant with a view to formal publication and communication by 31st January 2011. The review will look to streamline the process whilst ensuring fundamental control. Once implemented, compliance will be monitored through regular inspection including spot checks and general reviews.

Recommendation to be implemented by 31st January 2011

9. R4 Ensure that Councillors' declarations are retained for a suitable period following the receipt of any new declarations

The Chief Accountant's team will establish an annual file for all declarations (related party transaction (RTP)) related to councillors and senior staff which will be maintained permanently into future periods. Annual (RPT) reviews will be made and signed off by the Chief Accountant.

Recommendation to be implemented by 31st March 2011

10. R5 The Council should consider the out of hour use of both schools included in the PFI scheme against IFRIC 4 and IAS 17 for the 2010/11 accounts

The Chief Accountant is the lead officer for International Financial Reporting Standards (IFRS) implementation. This area of out of hours will be considered within the leases work stream that is being undertaken as part of the transition to IFRS accounting requirements. This review is scheduled to be completed by 31st January 2011.

Recommendation to be implemented by 31st January 2011

11. R6 Carry out a review of the procedures in place for the closure and preparation of the 2009/10 accounts

A fundamental review of the 2009/10 annual accounts process was undertaken by senior finance staff and the findings of this review were shared with an informal Audit Committee in September. The actions resulting from this review are being implemented within existing processes, third quarter close and final accounts arrangements.

The Chief Accountant will be the lead officer for closure and preparation of the 2010/11 accounts. A third quarter closedown has begun with a formal timetable of activities for completion. The outputs of this work will be reported to the Audit Committee in April. It is anticipated that the third quarter closedown will provide greater assurance in the delivery of the financial accounts.

The Chief Accountant and external audit representatives are discussing the actions that will be taken to improve the process.

The annual accounts timetable will be thoroughly reviewed in January and benchmarked against other authorities' practices. A draft timetable will be sent for consultation to all stakeholders and finalised in February

Recommendation to be implemented by 28th February 2011

12. R7 Amend the 2009/10 accounts for the consistency and presentational issues

These amendments were completed during the 2009/10 accounts certification process in October 2010.

Recommendation cleared

13. R8 Ensure that adequate resources are allocated to ensuring that the Council is able to produce IFRS compliant accounts by 30 June

The Chief Accountant's post will take the lead on IFRS. This is being filled on an interim basis by an experienced Chief Accountant until 30 June whilst the permanent recruitment process is completed.

IFRS implementation has been split into 19 individual work streams that are due to be concluded by 31st January 2011. 15 of the 19 work streams had been completed by 31st December 2010. The remaining four workstreams will be completed by the end of January.

Recommendation to be implemented by 31st January 2011

Conclusion

14. Significant progress has been made in fulfilling the requirements of the AGR recommendations. An update on the third quarter close will be shared with the Audit Committee in April.

Background Papers: (open to public inspection)

Annual Governance Report – Audit Commission October 2010

Appendix A

<u>Recommendation</u>	<u>Priority (1-low / 2-med / 3-high)</u>	<u>Responsibility</u>	<u>Agreed</u>	<u>Comments</u>	<u>Date</u>
R1: Amend the accounts to correct the material errors noted above in respect of: <ul style="list-style-type: none"> • Government Grants Deferred • Grants and Contributions Unapplied • Disclosure of Area Based Grant (ABG) and the revenue element of the £1.389m of Housing and Planning Delivery Grant (HPDG) in the Income and Expenditure Account. • The pension liability as at 1 April 2009 	3	Chief Accountant	Agreed	Accounts have been amended for material adjustments required	Oct-10
R2: Consider amending the accounts for the non material and non trifling errors set out in Appendix 3.	3	Chief Accountant	Agreed	Review undertaken and adjustments made where required. Where amendments were not completed these were outlined in the accounts letter of representation	Oct-10
R3: Ensure that journals are authorised in accordance with the Council's financial procedures.	2	Chief Accountant	Agreed	Review of Journals FP to be undertaken, once formalised a communication to all applicable staff will be made to ensure compliance.	Jan-11
R4: Ensure that Councillors declarations are retained for a suitable period following the receipt of any new declarations.	2	Chief Accountant	Agreed	Process to change so Finance officers maintain all declarations for councillors and senior staff (permanent file)	Jan-11
R5: The Council should consider the out of hour use of both schools included in the PFI scheme against IFRIC 4 and IAS 17 for the 2010/11 accounts	3	Chief Accountant	Agreed	Recruitment to Chief Accountants post, then review under IFRS implementation- lease workstream	Jan-11
R6: Carry out a review of the procedures in place for the closure and preparation of the 2009/10 accounts to ensure that adequate arrangements and sufficient resources are in place for the 2010/11 accounts preparation.	3	Chief Accountant	Agreed	Review of the 2009/10 annual accounts process undertaken with senior finance staff and shared with informal Audit Committee. Recruitment to Chief Accountant's post, then formalise a review of Q3 and annual closedown processes and procedures, establishing a complete and accurate work stream list with realistic timeframes for completion meeting statutory deadlines	Mar-11
R7: Amend the 2009/10 accounts for the consistency and presentational issues identified as part of the technical review of the accounts.	3	Chief Accountant	Agreed	Accounts have been amended for consistency and presentational adjustments required	Oct-10
R8: Ensure that adequate resources are allocated to ensuring that the Council is able to produce IFRS compliant accounts by 30 June	3	Chief Accountant	Agreed	Resources established and recruitment to Chief Accountant's post to facilitate lead role for IFRS implementation	Jan-11

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank