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

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

#### **CORPORATE IMPLICATIONS**

**Council Priorities:**

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

**Financial:**

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

**Legal:**

None

**Risk Management:**

None

**Staffing (including Trades Unions):**

None

**Equalities/Human Rights:**

None

**Community Safety:**

None

**Sustainability:**

None

## RECOMMENDATION(S):

that the Committee note the contents of the report

### Background

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

### Audit Letter

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

### 4. Annual Governance Report

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

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

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

### 6. International Financial Reporting Standards

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

## 7. **Financial Standing**

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

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

### **Annual Governance Reports**

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

11. **Mid Bedfordshire District Council**

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

12. **South Bedfordshire District Council**

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

**Conclusion**

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

**Background Papers:** (open to public inspection)

Annual Governance Report – Bedfordshire County Council

Annual Governance Report – Mid Bedfordshire District Council

Governance Report – South Bedfordshire District Council

**Location of papers:** Borough Hall, Bedford