

# **Supplementary**

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# **Annual**

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# **Governance**

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# **Report**

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**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.**

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# 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

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## 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

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- any third party.



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