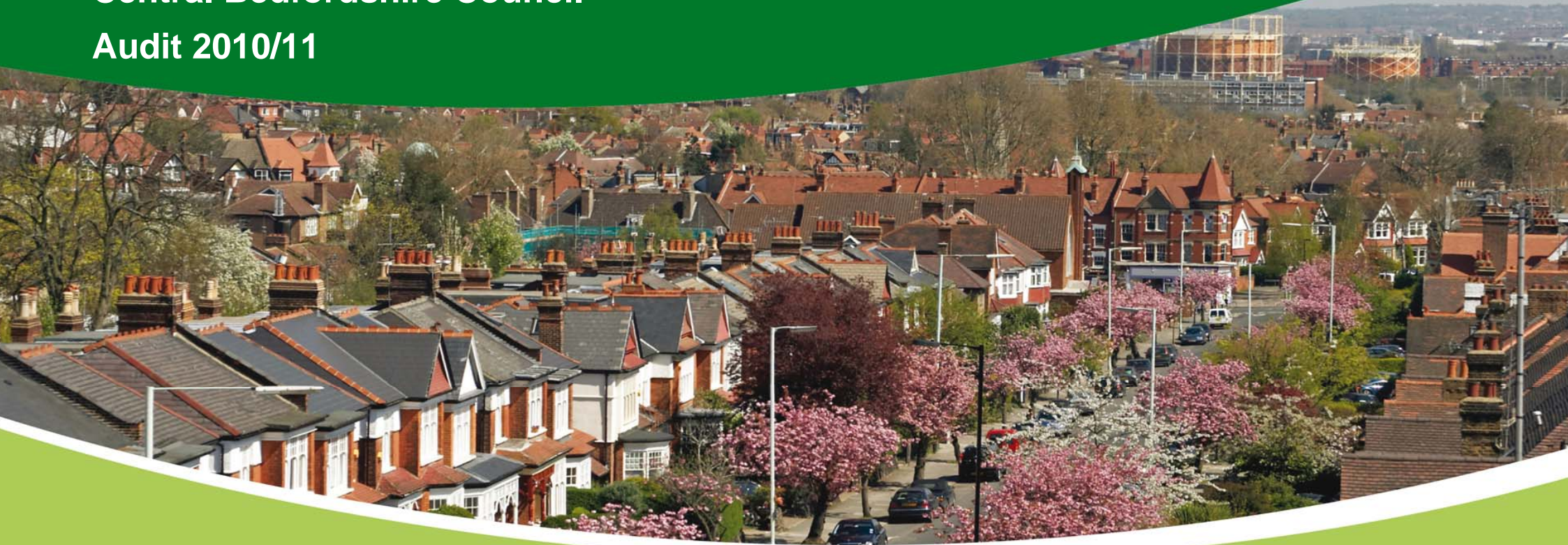


Annual governance report

Central Bedfordshire Council

Audit 2010/11



Contents



- Key messages.....3**
 - Audit opinion and financial statements.....3
 - Value for money4
- Before I complete my audit.....5**
- Financial statements6**
 - Opinion on the financial statements6
 - Errors in the financial statements6
- Value for money.....18**
- Appendix 1 – Draft audit report.....20**
- Appendix 2 – Amendments to the draft financial statements23**
- Appendix 3 – Unadjusted misstatements to the financial statements27**
- Appendix 4 – Glossary.....33**
- Appendix 5 – Draft Letter of Representation33**
- Appendix 6 – Action Plan 39**

Traffic light explanation

Red  Amber  Green 

Key messages

This report summarises the findings from the 2010/11 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

	Our findings
Unqualified audit opinion	
Proper arrangements to secure value for money	

Audit opinion and financial statements

The audit is substantially complete. Subject to the satisfactory clearance of outstanding matters and the completion of my final review, I plan to issue an audit report including an unqualified opinion on the financial statements

The following key area of work had still to be completed at the time of writing this report (13 September 2011):

- Agreement of the proposed amendments to Note 7 'Adjustments between Accounting Basis and Funding Basis under Regulations'

The arrangements for the preparation and submission of the financial statements have improved significantly compared to last year. A complete set of accounts were submitted for audit by the due date of 30

June, supported by much improved working papers. This improvement was achieved in a year in which the requirements of International Financial Reporting Standards (IFRS) meant that the financial statements for 2010/11 were much more complex than last year. The audit process was helped by clear planning for the audit and the prompt response of officers to questions raised by the audit team.

My audit testing did not identify any material errors which would impact on the Council's reported financial position or the financial results for the year. The balance on the General Fund remains unchanged from that reported in the financial statements presented for audit on 30 June 2011. I did identify some material disclosure errors within notes to the accounts and a number of non material errors and uncertainties. Your officers have agreed to adjust the financial statements for all but 12 of the errors. These are detailed in Appendix 3. The financial effect of the amendments made is to reduce the net worth of the Council by £0.623m as at 31 March 2011. Subject to satisfactory completion of the remainder of the audit work, I expect to be able to issue an unqualified opinion.

Value for money

I intend to issue an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

Questions from a member of the public

A member of the public has asked questions about the Council's accounts. I am currently considering these questions in the context of

my responsibilities as the Council's appointed auditor and the appropriate response to these questions. At this stage I do not consider that they are likely to affect my opinion on the financial statements or my value for money conclusion, although they may affect the issue of the certificate of audit completion.

Before I complete my audit

I confirm to you

My report includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. In planning my audit I identified a potential risk to independence due to a member of my staff having previously worked with the Council's Head of Audit. To reduce this potential risk to an acceptably low level I ensured that this member of staff was not allocated any work that reviewed Internal Audit in general or specific pieces of Internal Audit work.

During the year the Audit Commission's Audit Practice undertook non-audit work for the Council. The Council agreed to work with the Audit Commission to pilot its Simplify and Perfect approach in Housing Benefit Services. No fee was charged for this work. In addition a Final Accounts workshop was held at the request of Central Bedfordshire and Bedford Borough Councils. The fee charged for the joint workshop was £5600.

I ask you to confirm to me

I ask the audit committee to:

- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion; and
- agree your response to the proposed action plan (Appendix 6).

Financial statements

Opinion on the financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft report.

Errors in the financial statements

My audit seeks to ensure that the accounts are materially correct and present a true and fair view of the Council's state of affairs for the year ending 31 March 2011 and of the financial transactions of the Council in 2010/11. The concept of materiality is defined at Appendix 4. For the 2010/11 accounts I have set materiality at £6,990,000 for the financial statements as a whole and £10,737,000 for items in the balance sheet which have no impact on the revenue account. International Auditing Standards (IAS) require me set a threshold below which I judge any error to be "trivial" and do not ask for the accounts to be amended. For 2010/11 the triviality threshold is £69,000 for the financial statements as a whole and £107,000 for balance sheet items. Where I identify errors above this threshold, under IAS, I must request officers to amend the accounts. Where officers choose not to do so, and the Audit Committee agrees, I ask that the reasons for not adjusting the errors are set out in the letter of representation.

My audit testing did not identify any material errors which would impact on the Council's reported financial position. I did identify a number of material disclosure errors within notes to the accounts which have been amended. These amendments did not have any impact on the Comprehensive Income and Expenditure Statement (CIES) or balance sheet and are included in Appendix 2.

My audit testing also found a number of non-material errors and uncertainties. The more significant non-trivial errors and disclosure errors that have been amended are included in Appendix 2. In Appendix 3 I set out the 12 items that management have decided not to amend for. I would ask that you set out your agreement and reasons for not amending in your letter of representation.

Where I have concluded that an error found as part of my sample testing is something likely to be found across the population as a whole I am required to assess the potential scale of the error or uncertainty, based on the sample testing I have carried out. This is called an extrapolation. Whilst extrapolation is a statistically-based way to estimate the most likely error in the population as a whole, it is only an estimate. The only way to determine the actual level of error present in the population would be to test every single item in the population, which would not be practical or efficient, nor possible.

Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Key audit risk and our findings

Key audit risk	Finding
1. International Financial Reporting Standards (IFRS) This is new requirement for 2010/11. The Council had to produce IFRS compliant accounts by 30 June 2011 and restate its opening balances as at 31 March 2009 and 31 March 2010.	 After falling behind in its preparations for IFRS during 2010 the Council made significant progress in early 2011. The restated accounts were reported to the Audit Committee in April 2011. I reviewed and agreed the restated balance sheets for 1 April 2009 and 31 March 2010, together with the Comprehensive Income and Expenditure Statement for 2009/10 and reported my findings in the Pre statements memorandum to the Audit Committee in April 2011. IFRS required a number of new disclosure notes to be included in the 2010/11 financial statements. I have reviewed these notes as part of my audit of the statement of accounts. The financial statements submitted for audit did not include a note setting out the material differences between the amounts presented in the 2009/10 accounts (as prepared under the SORP) and the amounts for 2010/11 (prepared on an IFRS basis) as required by the Code of Practice on Local Authority Accounting. The relevant note has now been included in the amended financial statements.

Key audit risk

Finding

2. Valuation and impairment

Valuation issues resulted in a material amendment to the accounts in 2009/10. Impairment is a material accounting estimate

I have reviewed the valuations and impairments included in the 2010/11 accounts. There are no issues that I need to report to you.

3. Interim appointments

The Section 151 officer and Chief Accountant are both interim appointments.

A permanent S151 has been appointed and took up his post on 1st July 2011. The District Auditor and Audit Manager have had monthly meetings with the interim s151 officer and latterly also with his permanent replacement to monitor progress with the closure of the accounts and discuss potential risks to the audit.

The interim Chief Accountant leaves at the end of September 2011. A replacement post has been advertised.

4. Controls weaknesses

We reported in our Pre statements Memorandum that IA had issued limited assurance opinions on the Main Accounting, Payroll and Housing Benefit systems. Having completed our work we were in agreement with these findings.

I adopted a substantive approach to testing payroll expenditure. I tested 46 payments made through the payroll system. I found no errors or issues that we need to report to you.

I also adopted a substantive approach to the testing of expenditure made through the SWIFT system. I found no errors and there are no issues that I need to report to you.

We had planned to carry out controls testing on the SWIFT system but our walkthrough identified that controls were not in place. SWIFT is the system in place for processing payments to the independent sector and foster carers.

I have reviewed year end cash and bank reconciliations as part of my audit of the statement of accounts. My testing found some non trivial errors, which have not been amended, and are included in Appendix 3.

I have carried out sufficient work on the Housing Benefit claim to enable me to conclude that the income and expenditure included in the statement of accounts in respect of housing benefits is not materially misstated.

5. Housing Benefit claim

The audit of the Council's 2009/10 housing benefits and council tax claim resulted in a detailed qualification report. We expect to have to carry out additional work on this claim as we reported to the Department of Works and Pensions (DWP) that there were a number of cells where we were unable to reach a conclusion or quantify the error. The DWP is likely to require us to complete further work to reach an opinion on these cells. We will carry out additional audit work as required by the DWP. This will result in additional fees in respect of grant claim work.

The DWP have requested that both the Council, and my team, carry out additional work on some of the issues raised in the 2009/10 qualification report. The DWP require a response by 30th November 2011.

I have estimated that the additional work will cost some £4000, as reported in my Certification of Claims Report in April 2011. The fee for this work has been included in the estimate for 2009/10 claims of work of £90,000 as reported in the financial statements.

Financial statements

Significant weaknesses in internal control

As noted above, Internal Audit (IA) issued limited assurance opinions on the Main Accounting, Payroll and Housing Benefit systems for 2010/11. My work on the Council's system for processing payments to the independent sector and foster carers, SWIFT, found that one of the key controls we sought to place reliance on was not in place. I have repeated the recommendations made in my Pre statements Memorandum, reported to you in June 2011, below.

My work on the audit of the Teachers Pensions claim found that one of the controls to ensure that payments made to the Teachers Pension Authority are correct is not always carried out. The value of the error was not material (£5,547) but the key issue is that the control was not operating.

These weaknesses are only those I identified during the course of the audit that are relevant to preparing the financial statements. I am not expressing an opinion on the overall effectiveness of internal control.

Internal control issues and our findings

Description of weakness	Potential effect	Management action
<p>1. Main accounting system</p> <p>IA issued a limited assurance opinion on the main accounting system. IA identified a number of weaknesses around the clearance of control and suspense accounts and the timeliness and review of some bank account reconciliations.</p>	<p>Income and expenditure is not coded to the appropriate accounts on a timely basis.</p>	<p>The clearance of control and suspense accounts and the reconciliation of bank accounts have been prioritised by Finance officers. Good progress has been made since January 2011, in particular as part of the closedown programme for the preparation of the 2010/11 accounts.</p>
<p>2. Payroll</p> <p>IA issued a limited opinion on the Payroll system. IA found that some key controls had not been operating effectively in the payroll system for the whole of the financial year.</p>	<p>Payroll expenditure in the financial statements could be misstated.</p>	<p>Recovery work is being undertaken to respond to the Internal Audit findings within Finance and Human Resources in line with the action plan drawn up in response to Internal Audit recommendations</p>

Description of weakness	Potential effect	Management action
<p>3. SWIFT</p> <p>We had planned to carry out controls testing on the SWIFT system but our walkthrough identified that one of the key controls we sought to place reliance on was not in place.</p>	<p>Payments made through the SWIFT system to the independent sector and foster carers could be misstated.</p>	<p>The Council has recognised the controls with the SWIFT system and the interfaces to SAP need to be strengthened. As a result and included within the Adult Social Care Recovery Programme, a specific project 'RP203 Integrated Financial and Business Processes' has been established to address the weaknesses. The project is in progress and due to go live in October 2011.</p>
<p>4. Housing Benefit</p> <p>IA issued a limited opinion on the Housing Benefit (HB) system. IA found that a number of controls had not been operating effectively.</p>	<p>Housing benefit entitlement may be calculated incorrectly.</p>	<p>A plan has been developed and is being implemented to respond to the Internal Audit findings and actions agreed to implement the recommendations during this financial year.</p>
<p>5. Authorisation of payments made in to the Teachers Pensions Authority (TPA)</p> <p>My work on the audit of the Teachers Pensions claim found that for one of the twelve monthly payments made by the Council to the TPA, the authorising officers had approved an incorrect payment. The CHAPS payment form, which was authorised, did not agree to the supporting payroll reports. The amount was not material (£5547) but the key issue is that the control was not operating.</p>	<p>Incorrect payment may be made to the Teachers Pensions Authority.</p>	<p>The procedures in relation to completion of the Teachers' Pension contributions claim are subject to ongoing review between all parties concerned. The cause of the error has been identified and measures agreed to avoid further recurrences.</p>

Recommendation

- R1** Within the overall operations of controls in the main accounting system throughout 2011/12 ensure that in particular the following operate effectively:
- the controls to provide assurance the Council's suspense and control accounts are reviewed and cleared regularly, and
 - that bank reconciliations are reconciled on a timely basis and appropriately reviewed
- R2** Ensure that the weaknesses in payroll controls identified by IA are addressed to ensure that adequate controls are in place for 2011/12
- R3** Ensure that payment schedules sent to providers are returned to BSU and any amendments made to SWIFT as appropriate
- R4** Ensure that the weaknesses in the housing benefits controls identified by IA are addressed to ensure that adequate controls are in place for 2011/12.
- R5** Ensure that officers are reminded of the importance of agreeing payments to supporting documentation prior to authorisation.
-

Financial statements

Quality of your financial statements

The arrangements for the preparation and submission of the financial statements have improved significantly from last year. A complete set of accounts were submitted for audit by the due date of 30 June. The draft financial statements were made available to audit prior to the 30 June 2011. The quality of the working papers provided to support the financial statements was significantly better than in 2009/10. The audit process was helped by clear planning for the audit and the prompt response of the Chief Accountant and other members of the finance team to questions raised by the audit team.

The requirements of International Financial Reporting Standards meant that the financial statements for 2010/11 were more complex than last year, and a number of additional disclosure notes were required.

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures. I identified some areas for improvement and these are set out below.

Accounting practices, policies, estimates and financial disclosures

Issue	Findings and recommendations
1. Debtors and Creditors	<p>The analyses provided of the debtors and creditors balances in the Balance Sheet had improved significantly from last year's audit. However, the working papers to support the individual items tested were not always adequate. Errors found in the initial samples selected for testing meant that additional testing was carried out to provide adequate assurance.</p> <p>The financial statements submitted for audit included £11.118m of creditors due to Bedford BC and £9.803m debtors due from Bedford BC. These figures were significantly different to the equivalent amounts included in the Bedford BC financial statements; £6.545m due to Central Bedfordshire and £16.454m due from Central Bedfordshire. An exercise was carried out by officers to reconcile the amounts disclosed in both sets of accounts. As a result the following errors were found in Central Bedfordshire's accounts:</p>

Issue	Findings and recommendations
	<ul style="list-style-type: none"> ■ both the debtors and creditors balances in respect of Bedford BC were understated by £1.7m. This adjustment did not change the net financial position between the two authorities. ■ £3.5m of debtors originally recorded as due from Bedford BC were in fact due from other parties. Note 18 has been amended to reflect the change in classification of these debtors. This is an amendment to a disclosure note and did not change the debtors balance in the balance sheet. <p>The reconciliation also includes £2.5m in respect of invoices issued by Bedford BC but which are disputed by Central Bedfordshire.</p> <p>As a result of this exercise differences remain of £0.211m in respect of payments due to Bedford BC and £1.283m in respect of payments due from Bedford BC. These differences are reported in Appendix 3 as uncorrected.</p>
2. Financial statement disclosure	I identified a number of presentational and internal consistency issues for which the Council has adjusted. I have also made a number of recommendations to ensure that the disclosures made are sufficient to ensure compliance with the Code of Practice on Local Authority Accounting and International Financial Reporting Standards. I have not listed all of the amendments made; the more significant amendments have been set out in this table and Appendix 2.
3. Accounting policies	A small number of amendments to the wording of some of the Council's accounting policies, as disclosed in the financial statements, have been agreed with officers.
4. Explanatory Foreword	Amendments have been made to the wording of the Explanatory Foreword to ensure that its content was consistent with the guidance as set out in the Code of Practice.
5. Note on IFRS Restatement	The financial statements submitted for audit did not include a note setting out the material differences between the amounts presented in the 2009/10 accounts (as per SORP) and the amounts for 2010/11 (IFRS based) as required by the Code of Practice on Local Authority Accounting. The relevant note has now been included in the amended financial statements.
6. Note 7 Adjustments between Accounting Basis and Funding Basis under Regulations	Note 7 included an "other adjustments" line for both 2009/10 and 2010/11. The amounts included in this line were £7.985m for 2009/10 and £2.883m for 2010/11. The entries in both

Issue	Findings and recommendations
	<p>cases should be nil. I received an amended Note 7 on 13th September and at the time of writing this report I am in the process of agreeing the proposed amendments. In the amended Note 7 the amounts in the “other adjustments” line have reduced to (£0.594m) for 2009/10 and £0.535m for 2010/11. The proposed amendments will not affect the CIES or balance sheet. I have included these unreconciled differences in Appendix 3.</p>
<p>7. Note 28 Segmental Reporting</p>	<p>This is a new note required under IFRS. A number of amendments to this note have been made, the most significant of which are reported in Appendix 2.</p>
<p>8. Note 38 Grant Income</p>	<p>There have been a number of amendments to this note as follows:</p> <ul style="list-style-type: none"> ■ A reduction of £3.331m in income from “other grants”, this was a disclosure error and was not due to an overstatement of grant income in the Comprehensive Income and Expenditure Statement. ■ £0.330m has been moved from Standards Fund grant income to “other”. ■ The £24.440m of non – service government related grants included a number of grants which individually are >£1m and should be disclosed separately.
<p>9. Note 48 Contingent Liabilities</p>	<p>An additional disclosure has been added in respect of an EEDA grant paid to the former Bedfordshire County Council which may have to be repaid to EEDA’s successor body. There is a potential liability of £100,000 - £400,000 which will be shared between the Council and Bedford BC. The Council was informed of this liability after the accounts had been submitted for audit.</p>
<p>10. Note 40 Government grants and other contributions</p>	<p>Evidence could not be provided to confirm the value of the Community Safety Partnership Grant income of £0.028m received in 2010/11 or that the income had been spent in accordance with any grant conditions. This grant is part of the total Area Based Grant received by the Council.</p>

Recommendation

- R6** Ensure that responsible officers are reminded of the importance of maintaining adequate evidence to support the debtors and creditors included in the accounts.
 - R7** Reconcile the “other adjustments” line in Note 7.
 - R8** Ensure that supporting documentation is retained to evidence the different elements of the Area Based Grant received and to confirm that income has been spent in accordance with any conditions attached to the grant.
-

Financial statements

Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 5 contains a draft letter of representation.

Value for money

I am required to conclude whether the Council put in place proper corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My conclusion on each of the two areas is set out below.

I intend to issue an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

Value for money criteria and our findings

Criterion	Findings
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>The Council has proper arrangements in place to secure financial resilience.</p> <p>Members and the Corporate Management Team (CMT) understand the financial challenges that face the Council. The Medium Term Financial Plan (MTFP) has been updated to reflect the changing national/government financial situation.</p> <p>CMT provide constructive scrutiny and challenge on financial matters. There is also evidence of improved Member challenge as part of the 2011/12 budget setting process.</p> <p>There is an Audit Committee in place which provides effective challenge.</p> <p>Budget pressures are discussed on a regular basis at CMT, EIG (Efficiencies Implementation Group) and the Executive. Key cost drivers are used to inform forecasts and target corrective action. These drivers identify some of the budgets that have a significant impact on the forecast outturn and variances.</p> <p>The Council was successful in achieving the £12m of efficiency savings included in the</p>

Criterion	Findings
<p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2010/11:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>2010/11 budget. The year end position was a surplus of £0.328m. The surplus has remained unchanged from that reported in the financial statements submitted for audit on 30 June 2011.</p> <p>The Council has a positive track record in delivering savings. The 2009/10 budget was included efficiency savings of £10m. The 2010/11 budget included £12m of savings and efficiencies together with further in year savings of £1.5m in response to Area Based Grant reductions.</p> <p>The Council can demonstrate that resources are prioritised on areas of need, for example Adult Social care remains a key strategic priority for the Council and has seen improvements in service.</p> <p>Efficiencies are driven from the Efficiencies Implementation Group (EIG) which meets monthly. Set up in 2009, the EIG's aim was to achieve the £12m of savings needed to have a balanced budget in 2010/11. The EIG reports quarterly to CMT using a traffic light summary of progress against; the Organisation Plan, Efficiencies, Invest to Save projects, Corporate Improvement and Efficiency Initiatives.</p>

Appendix 1 – Draft audit report

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

Opinion on the Authority accounting statements

I have audited the accounting statements of Central Bedfordshire Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account, the Movement on the Housing Revenue Account Statement and 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 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Chief Finance Officer is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of Central Bedfordshire Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Conclusion on Authority's 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 to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements 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 relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. 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.

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, Central Bedfordshire Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

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

Paul King
Officer of the Audit Commission

Audit Commission,
3rd Floor,
Eastbrook,
Shaftesbury Road,
Cambridge CB2 8BF

September 2011

Appendix 2 – Amendments to the draft financial statements

I identified a total of 30 misstatements during my audit for which management have adjusted the financial statements. Of the 30 misstatements, 15 resulted in amendments to the content of disclosure notes, 6 related to debtors, 3 to creditors, 3 to the Property Plan and Equipment balance, 1 to the PFI scheme, 1 to the HRA and the Cash Flow statement was amended. The financial effect of the amendments made is to reduce the net worth of the Council by £0.623m (from £710,601m to £709,978m) as at 31 March 2011. I have included in this Appendix the more significant non-trivial errors; I bring them to your attention to aid you in fulfilling your governance responsibilities.

		Comprehensive income and expenditure statement		Balance sheet	
Adjusted misstatement	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
1. Note 40 Capital Expenditure and Capital Financing (material amendment)	Note 40 has been amended to agree with the balance sheet and the Capital Financing Requirement recalculated.				
There was a material difference between the balance sheet and the figures reported in Note 40 in respect of the use of capital receipts in 2009/10 and 2010/11.	This has also had an impact (not material) on the calculation of the Minimum Revenue Provision (MRP). See Appendix 3.				

Note 40 reported capital receipts applied in year as £18.132m for 2009/10 and £13.184m for 2010/11. However, the balance sheet reported nil use of capital receipts in 2009/10 and the use of £29.836m in 2010/11.

2. Note 12 Property, plant and equipment PPE (material amendment)

Capital commitments:

- evidence could not be provided to support the £7.772m commitment disclosed in respect of the NHS Campus closure.
- the commitment in respect of Roecroft School of £3.171m was overstated by £0.324m

Note 12 amended

- NHS Campus closure £7.772m removed
- Roecroft school commitment reduced to £2.847m.

This is a disclosure issue and did not have an impact on the CIES or balance sheet.

3. Amounts due from and to Bedford Borough Council

An exercise was carried out by officers to reconcile the amounts disclosed in the Central Bedfordshire and Bedford BC accounts. It found that both the debtors and creditors balances in respect of Bedford BC were understated by £1.7m.

In addition £3.5m of creditors originally recorded as due from Bedford BC were in fact due from other parties.

Debtors and creditors both understated by £1.7m.

This is a disclosure issue and did not have an impact on the CIES or balance sheet.

Cr Creditors
£1.7m

Dr Debtors £1.7m

As a result of this exercise differences remain of £0.211m in respect of payments due to Bedford BC and £1.283m in respect of payments due from Bedford BC. These are reported in Appendix 3 as uncorrected.

4. Note 5 Material items of Income and Expense (material amendment)

Material items in respect of the social housing factor and the credit to the Pension Fund had not been reported in this note.

This note has been amended to include:

- the impairment impact of the reduction in the social housing factor for HRA (some £40m) , and
- the Pension Fund credit, in respect of the negative past service cost, resulting from the move from RPI to CPI (£62.7m).

This is a disclosure issue and did not have an impact on the CIES or balance sheet.

5. Note 28 Segmental Reporting (material amendment)

The table in this note which sets out the "Comparison of net expenditure to budget as reported to management" has been amended. Employee costs were understated by £62m, this error was partly offset by another error of some £20m due to incorrect inclusion of payrolls run by SERCO on behalf of schools for which expenditure had

This note has been amended to include the correct employee costs. The error was in one, of four, department's figures.

This is a disclosure issue and did not have an impact on the CIES or balance sheet.

been accounted for elsewhere.

6. Note 35 Officer Remuneration

The note did not include officers employed on interim contracts. In my view it would be good practice to disclose these payments on the basis of transparency.

The Council has agreed to amend this note to include officers employed by the Council on interim contracts.

This is a disclosure issue and did not have an impact on the CIES or balance sheet.

7. Housing Revenue Account (HRA)
Note 2 (material amendment)

The value of assets at 1 April 2010 of £339.593m was the value at 31 March 2010 and did not reflect the change in valuation resulting from the application of the Social Housing Adjustment Factor, as set by DCLG.

The Note has been amended. The value of HRA operational assets has been amended to £299.123m.

This is a disclosure issue and did not have an impact on the HRA Income and Statement or the Council's balance sheet.

Appendix 3 – Unadjusted misstatements to the financial statements

I identified the following misstatements during my audit, including uncorrected misstatements from earlier years, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities and ask you to correct these misstatements.

If you decide not to amend, please tell me why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

		Comprehensive income and expenditure statement		Balance sheet	
Unadjusted misstatement	Nature of required adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
1. Capital financing - MRP	.				
The amendment to Note 40 and the calculation of the CFR has had an impact on the calculation of the Minimum Revenue Provision (MRP). Officers have recalculated the MRP and the revised figure is £5.361m,	The MRP is potentially overstated by £0.209m.				

some £0.209m less than the MRP originally provided for of £5.570m.

2. Amounts due from and to Bedford Borough Council

As noted in Appendix 2 an exercise was carried out by officers to reconcile the amounts disclosed in the Central Bedfordshire accounts compared with the Bedford BC accounts. As a result of this exercise differences remain between the two sets of accounts as follows: £0.211m in respect of payments due to Bedford BC and £1.283m in respect of payments due to Central Bedfordshire from Bedford BC.

Debtors overstated by £1.283m

Creditors understated by £0.211m

Income overstated by £1.494m

Dr Income

£1.494m

CR Debtors

£1.283m

CR Creditors

£0.211m

3. Collection Fund Adjustment Account (CFAA)

The deficit as at 31 March 2010 of £0.786m (includes opening balance at 1/4/2009 of £0.037m) was not included in the CFAA but remained in the debtors balance for 2009/10.

Corrections have been made in 2010/11 and the balance of the Collection Fund Adjustment Account as at 31 March 2011 is correct. The comparatives for 2009/10 have not been amended and include the above

09/10 Debtors overstated by £0.786m

09/10 CFAA balance understated by £0.786m

09/10 CIES income overstated by £0.749m.

Dr 09/10

Council Tax
income
£0.749m

Dr 09/10 CFAA
£0.786m

Cr 09/10 Debtors
£0.786m

error.

4. Pension Fund

The auditor of the Bedfordshire Pension Fund has reported an increase in the valuation of the fund between the date the fund was valued by the actuary, December 2010 and the balance sheet date of 31 March 2011. This results in an estimated understatement of £4.173m in the pension fund's assets as at 31 March 2011, as disclosed in Note 46.

The Liability Related to Defined Benefit Pension Scheme and the Pension Reserve, as disclosed in the Balance Sheet of £197.182m, are therefore both understated by £4.173m.

The Council's financial statements were prepared on a reasonable basis using the information available from the Actuary at the time.

Dr Pension
Reserve
£4.173m

Cr Liability to
Defined Benefit
Pension Scheme
£4.173m

5. Note 30 Trading Operations

The surpluses on the Building Control function have been added to the General Fund. ,

The surpluses, which total £0.226m, should have been transferred to a separate useable reserve which has restrictions.

Dr Building
control income
£0.226m

Cr Usable
reserves
£0.226m

6. Cut off testing

Evidence could not be found to support one of the items in our cut off testing, value £0.003m. The papers provided to CBC are in dispute with the originator with regards to the balance and CBC maintains that the correct figure is included in the accounts.

Relates to an amount accounted for as a rent overpayment in CBC accounts. Debtors and income are potentially overstated. Extrapolated uncertainty of £0.100m

Dr Income
£0.1m

Cr Debtors £0.1m

Comprehensive income and expenditure statement

Balance sheet

7. Debtors

The Housing benefit grant claim provided for audit shows a lower amount due from the DWP than the estimate used in the accounts.

Debtor due from the DWP in respect of Housing Benefit subsidy is overstated by £0.328m.

Housing Benefit grant income as disclosed in Note 38 is overstated by £0.328m.

Dr Benefits Income
£0.328m

Cr Debtors
£0.328m

8. NNDR

The NNDR 3 claim has been audited and amendments agreed, As a result of the amendments agreed to the claim the payment to the national pool is now £68.175m some £0.714m less than the Collection Fund figure of £68.889m. This means that:

- the debtor is overstated by this amount.
- the contribution to the national pool is overstated by £0.714m.

The NNDR debtor is overstated by £0.714m.

The payment to the national pool in the Collection Fund and the Collection Fund deficit are both overstated by £0.714m

The Council's accounts were prepared on a reasonable basis using the information available in respect of this claim at the time.

Dr NNDR income
£0.714m

Collection Fund Statement
Cr Payment to national pool
£0.714m

Cr Debtors
£0.714m

Cr CFFA
£0.714m

9. Cash and bank

Items totalling £0.156m are included on the bank statement but not processed in the cash book as at 31 March 2011 as follows.

- P11D pay over on 19 July 2010 of £31,685. This was cleared from the bank reconciliation to the

Expenditure understated by £0.032m and cash book overstated.

Dr CIES expenditure
£0.032m

Dr Short term creditors
£0.104m

Dr VAT holding account
£0.015m

Cr Cash and cash equivalents
£0.150m

creditor (vendor) account in 12 May 2011. Expenditure understated by £0.032m and cash book overstated.

- Various Southern Electricity Direct Debits had not been processed as the department had not coded the transactions. An accrual for £0.104m was processed between expenditure and sundry creditors. As these amounts had already been paid, creditors have been overstated. .
- This left an unallocated balance of £0.015m in respect of VAT on the bank account which should have been shown within the VAT holding account.

Creditors overstated by £0.104m and cash book overstated.

VAT control account understated by £0.015m and cash book overstated.

The remaining balance of £0.006m was not tested.

10. Property Plan and Equipment (PPE)

My testing of fixed assets in 2009/10 found that "call recording system hardware" valued at £8,445 was no longer in use. This asset is still in the Fixed Asset Register therefore the extrapolated uncertainty reported in 2009/10 is still relevant. Our audit approach requires me to extrapolate

PPE balance overstated in the balance sheet by £8,445. The extrapolated uncertainty is £2.229m.

Cr PPE £2.229m

the impact of the items I was unable to
test

It has been agreed that this asset will
be written out in 2011/12.

11. Note 7 Adjustments between
Accounting Basis and Funding Basis
under Regulations

The amended note includes an "other
adjustments" line for both 2009/10 and
2010/11. The amounts included in this
line are (£0.594m) for 2009/10 and
£0.535m for 2010/11.

The entries in both cases should be nil.
The differences relate to items that have
gone through the Capital Adjustment
Account but the corresponding entries in
the either the General Fund or HRA have
not been identified for the purposes of
this reconciliation.

12. Disclosure notes

1 April 2009 balances for items such
as debtors and creditors have been
omitted from the relevant disclosure
notes.

Disclosure notes should include 1 April
2009 balances.

Appendix 4 – Glossary

Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my 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; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the

addressees of the auditor's report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects'.

The term 'materiality' applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

'Significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

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 resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

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

- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

Appendix 5 – Draft Letter of Representation

To:
Paul King
District Auditor
Audit Commission,
3rd Floor,
Eastbrook,
Shaftesbury Road,
Cambridge CB2 8BF

Central Bedfordshire Council - Audit for the year ended 31 March 2011

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Central Bedfordshire Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2011. All representations cover the Council's accounts included within the financial statements.

Compliance with the statutory authorities

I have fulfilled 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 and International Financial Reporting Standards, which give a true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements

The effects of uncorrected financial statements misstatements summarised 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
- reason 2 etc;

Supporting records

All relevant information and access to persons within the entity has 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 financial statements.

Irregularities

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

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;
- 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; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. 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.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

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.

Related party transactions

I confirm that I have disclosed the identity of Central Bedfordshire Council related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

Subsequent events

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Signed on behalf of Central Bedfordshire Council

I confirm that the this letter has been discussed and agreed by the Council on 26 September 2011.

Signed

Name

Position

Date

Appendix 6 – Action Plan

Recommendations

Recommendation 1

Within the overall operations of controls in the main accounting system throughout 2011/12 ensure that in particular the following operate effectively:

- the controls to provide assurance the Council's suspense and control accounts are reviewed and cleared regularly, ,and
- that bank reconciliations are reconciled on a timely basis and appropriately reviewed

Responsibility

Priority

Date

Comments

Recommendation 2

Ensure that the weaknesses in payroll controls identified by IA are addressed to ensure that adequate controls are in place for 2011/12

Responsibility

Priority

Date

Comments

Recommendation 3

Ensure that payment schedules sent to providers are returned to BSU and any amendments made to SWIFT as appropriate

Responsibility

Priority

Date

Recommendations

Comments

Recommendation 4

Ensure that the weaknesses in the housing benefits controls identified by IA are addressed to ensure that adequate controls are in place for 2011/12.

Responsibility

Priority

Date

Comments

Recommendation 5

Ensure that officers are reminded of the importance of agreeing payments to supporting documentation prior to authorisation.

Responsibility

Priority

Date

Comments

Recommendation 6

Ensure that responsible officers are reminded of the importance of maintaining adequate evidence to support the debtors and creditors included in the accounts.

Responsibility

Priority

Date

Comments

Recommendations

Recommendation 7

Reconcile the “other adjustments” line in Note 7.

Responsibility

Priority

Date

Comments

Recommendation 8

Ensure that supporting documentation is retained to evidence the different elements of the Area Based Grant received and to confirm that income has been spent in accordance with any conditions attached to the grant.

Responsibility

Priority

Date

Comments

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0844 798 7070

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