

# Annual Audit Letter

Central Bedfordshire Council

Audit 2010/11



# Contents

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- Key messages.....3**
  - Audit opinion and financial statements.....3
  - Value for money .....3
  - Questions from a member of the public .....3
- Current and future challenges .....4**
- Financial statements and annual governance statement.....7**
- Value for money.....9**
- Closing remarks .....11**
- Appendix 1 – Fees .....12**
- Appendix 2 – Glossary.....13**

**Traffic light explanation**

Red ■ Amber ◆ Green ●

# Key messages

**This report summarises the findings from my 2010/11 audit. My audit comprises two elements:**

- **the audit of your financial statements; and**
- **my assessment of your arrangements to achieve value for money in your use of resources.**

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

## Audit opinion and financial statements

The arrangements for preparing and submitting the financial statements have improved significantly compared with last year. A complete set of accounts were submitted for audit by the due date of 30 June 2011, supported by much improved working papers. I issued an unqualified opinion and certificate on 29 September 2011.

This improvement was achieved in a year in which the requirements of International Financial Reporting Standards (IFRS) meant 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.

Internal Audit issued limited assurance opinions on the Main Accounting, Payroll and Housing Benefit systems. Having completed my own work I agreed with these findings. In addition I found that one of

the key controls in the in place for processing payments to the independent sector and foster carers (SWIFT) was not in place. The actions that management are taking to address the weaknesses reported are set out in the Action Plan of my Annual Governance Report.

I am in the process of completing my work on certifying the Council's 2010/11 claims and returns.

## Value for money

I issued an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in your use of resources on 29 September 2011.

## Questions from a member of the public

During the audit a member of the public asked questions about the Council's management and use of section 106 funds. Having reviewed the relevant documentation and comments from Council officers, I concluded that the issues raised did not affect my opinion on the financial statements or my value for money conclusion for 2010/11. I will be considering these issues further as part of my 2011/12 audit.

# Current and future challenges

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## **Economic downturn and pressure on the public sector**

The economic downturn is placing increasing pressure on the public sector as a whole. This is reflected in the:

- challenging Comprehensive Spending Review settlement;
- increasing demand for key services; and
- reduced ability of members of the public to pay for services.

In addition there are challenges arising from Housing Revenue Account self-financing; possible boundary changes and the increased level of pension costs arising from the triennial revaluation and changing assumptions regarding pensionable employees. Taken together, these challenges will put increasing pressure on the Council's finances.

Central Bedfordshire is well-placed to meet these challenges. The Council has a positive track record of delivering savings, having achieved the £12 million of savings and efficiencies included in the 2010/11 budget. The Council was also able to increase the General Fund balance from £5.2 million to £7 million during the year. Savings of £19.6 million are included in the 2011/12 budget and the Medium Term Financial Plan (MTFP) estimates that a further £12.3 million will be required in the period 2012/13 to 2014/15. The most recent budget monitoring reports indicate that the Council is on track to meet its 2011/12 budget. The MTFP plans further increases to the General Fund balance, to bring it up to what the Council considers to be a sustainable level of £11 million.

## **Housing Revenue Account self financing**

Under the existing housing subsidy system councils with housing stock are required to prepare a notional Housing Revenue Account using a set of predetermined factors for such items as maintenance costs and rental income to reflect the mix and age of the housing stock. In simple terms, if this notional account is in credit then the surplus is payable to central government. If it is in deficit an equivalent payment is made to the council to support the housing landlord function. The Council's notional Housing Revenue Account is in credit and so it was required to make a contribution of some £8.6 million to central government in 2010/11.

The current year, 2011/12, will be the last year of the existing system. Under a new financing system, councils will be responsible for financing of the Housing Revenue Account, and the existing system of grants and payments will end. To fund this central government will be making payments to certain local authorities and in the case of the Council and other local authorities that currently contribute to the scheme, transferring an allocation of the national debt liability. The debt liability transfer, in the region of £160 million for Central Bedfordshire, is to take place on 28 March 2012. Under the new system the Council will be able to keep all of the rental income from its own housing stock.

A key issue is how the transferred debt will be financed. Recent central government announcements have indicated that authorities that will be having debt transferred will now be able to borrow at preferential rates from the Public Works Loans Board (PWLB) rather than from the money markets by way of loans or bonds. It is expected the availability of these lower rates will lead to the majority of councils funding their debt transfer through the PWLB. The Council's budget proposals for 2012/13 will include the development of a 30-year business plan for the housing stock and a treasury management strategy to finance and repay the transferred debt.

### **Localism Bill**

This Bill is expected to receive Royal Assent in early 2012 to allow the Housing Revenue Account self financing proposals discussed earlier to proceed. However, the Bill has far reaching implications for local authorities including the following.

- Granting of a 'general power of competence', to provide councils with the legal power to do what is not specifically prohibited.
- New rights and powers for communities. These include:
  - 'community right of challenge' – would allow voluntary and community groups to express an interest in taking over and running local authority services; AND
  - 'community right to buy' – local authorities to hold a list of community value assets and if wish to dispose of community groups must be allowed time to put together bids and finance.
- Planning system reforms including changes to the community infrastructure levy with a proportion going to neighbourhoods affected by the developments.

The full implementation of the provisions of the Bill will have significant service provisions and hence budgetary implications for the Council.

### **Welfare reform**

The Welfare Reform Bill was introduced in Parliament in February 2011. The Bill means significant changes to the welfare system. It provides for the introduction of a 'Universal Credit' to replace a range of existing means-tested benefits and tax credits for people of working age, starting from 2013. These include Housing Benefit and Council Tax Benefit, which are administered by councils. The Bill follows the November 2010 White Paper, 'Universal Credit: welfare that works', which set out the Coalition Government's proposals for reforming welfare to improve work incentives, simplify the benefits system and tackle administrative complexity.

Besides introducing Universal Credit and related measures, the Bill makes other significant changes to the benefits system. The changes that specifically affect councils include:

- restriction of Housing Benefit entitlement for social housing tenants whose accommodation is larger than they need;
- up-rating of Local Housing Allowance rates by the Consumer Price Index; and
- capping of the total amount of benefit that can be paid.

The Government has yet to confirm the detailed timescale over which the full move from the existing Housing Benefit and Council Tax Benefit systems to the Universal Credit will take place. However, it is clear that this will have significant operational and resource implications for the Council. This is identified as a key issue and is being actively monitored.

More recently the Government released a consultation paper on local support for council tax. This stated that council tax support would not form part of Universal Credit and would remain a local authority responsibility. The paper also set out the need for a 10 per cent cut in the existing level of support.

# Financial statements and annual governance statement

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

## **Overall conclusion from the audit**

I issued an unqualified opinion and certificate on 29 September 2011.

The move to IFRS set all councils the difficult task of reviewing their past accounting policies and accounts and restating them in the format required by IFRS, as well as preparing the current year accounts in that format. After falling behind in its preparations for IFRS during 2010 the Council made significant progress in early 2011, with the restated accounts reported to the Audit Committee in April 2011.

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. I did identify some material disclosure errors within notes to the accounts and a number of non material errors and uncertainties. The accounts were amended for all but 12 of the errors. The financial effect of the amendments made is to reduce the net worth of the Council by £0.623 million as at 31 March 2011. The unadjusted errors and uncertainties were set out in detail in my Annual Governance Report.

The arrangements for the preparation and submission of the financial statements had improved significantly from last year. A complete set of accounts were submitted for audit by the due date of 30 June 2011. The draft financial statements were made available to audit prior to 30 June. 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.

## **Significant weaknesses in internal control**

I reported in my Pre Statements Memorandum that Internal Audit had issued limited assurance opinions on the Main Accounting, Payroll and Housing Benefit systems and that having completed my own work I agreed with these findings. In addition I found that one of the key controls in the system in place for processing payments to the independent sector and foster carers (SWIFT) was not in place. As a result I substantively tested the payroll and SWIFT expenditure included in the accounts. My work did not identify any significant errors that would lead to a material misstatement in the accounts. The actions that management are taking to address the weaknesses reported are set out in the Action Plan of my Annual Governance Report.

## Questions from a member of the public

During the course of the audit a member of the public asked questions about the management and use of section 106 monies. Having reviewed the relevant documentation and comments from Council officers, I concluded the issues raised did not affect my opinion on the financial statements or my value for money conclusion for 2010/11. I will be considering these issues further as part of my 2011/12 audit.

## Grant certification

As the Council's auditor, I am required to certify the Council's claims and returns on the following basis.

- Claims below £125,000 are not subject to certification.
- Claims between £125,000 and £500,000 are subjected to a reduced, light-touch certification.
- Claims over £500,000 are subjected to a certification approach relevant to the auditor's assessment of the control environment and management preparation of claims. A robust control environment leads to a reduced certification approach for these claims.

I am required to certify a total of nine claims. At the time of drafting this letter six of the nine claims have been certified. Work on the Housing Benefits, Teachers Pensions and Housing Subsidy claims is in progress. Three of the six claims that have been certified required amendments. The Sure Start claim was subject to a qualification letter. I will report the full findings from my audit of 2010/11 claims in my Certification of Claims Annual Report, which will be issued in February 2012.

The Department of Work and Pensions (DWP) have requested that both the Council, and my team, carry out additional work on some of the issues raised in the qualification report on the 2009/10 Housing Benefit claim. The DWP require a response by 30 November 2011. The fee for this work has been included in the revised estimate of £90,000 for 2009/10 claims.

My indicative fee letter for 2010/11 issued in March 2010 estimated the fee for auditing 2010/11 claims would be £100,562, the indicative fee for 2009/10 claims was £83,400. I expect the 2010/11 fee will be lower than the indicative fee and will offset the additional fees incurred in auditing the 2009/10 Housing Benefit claim. I therefore estimate the fees for the audit of 2010/11 claims to be £90,000.

## Whole of Government Accounts

The Whole of Government Accounts return for 2010/11 was certified and submitted on 29 September prior to the deadline of 30 September.



# Value for money

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**I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.**

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is that the Council has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusion on each of the two areas is set out below.

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## Value for money criteria and key messages

Criterion	Key messages
<p><b>1. Financial resilience</b></p> <p><b>The organisation has proper arrangements in place to secure financial resilience.</b></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>The Audit Committee 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 out-turn and variances.</p>

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Criterion	Key messages
	<p>The Council was successful in achieving the £12 million of efficiency savings included in the 2010/11 budget. The year-end position was a surplus of £0.328 million. The surplus has remained unchanged from that reported in the financial statements submitted for audit on 30 June 2011.</p>
<p><b>2. Securing economy efficiency and effectiveness</b></p> <p><b>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</b></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>The Council has a positive track record in delivering savings. The 2009/10 budget included efficiency savings of £10 million. The 2010/11 budget included £12 million of savings and efficiencies and in-year savings of £1.5 million in response to Area Based Grant reductions.</p> <p>The Council can show that it prioritises resources 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 £12 million 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>

# Closing remarks

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I have discussed and agreed this letter with the Chief Executive, the Assistant Chief Executive Resources and the Chief Finance Officer. I will present this letter at the Audit Committee on January 2012 and will provide copies to all Council members.

Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Report	Date issued
Audit Opinion Plan	April 2011
Pre Statements Memorandum	June 2011
Annual Governance Report	September 2011

The Council has taken a positive and constructive approach to our audit. I wish to thank the Council staff for their support and co-operation during the audit.

Paul King  
District Auditor  
November 2011

# Appendix 1 – Fees

	Actual	Proposed	Variance
Scale fee	£342,380	£342,380 *	£0
Non-audit work	£5,600	£5,600	£0
Accounts workshop fee. A joint workshop was held at the request of Central Bedfordshire and Bedford Borough Councils. The total fee charged of £5,600 was invoiced to Bedford Borough Council and then an element recharged to Central Bedfordshire Council.			
<b>Total</b>	<b>£347,980</b>	<b>£347,980</b>	<b>£0</b>

During the year 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.

\* Separate to the audit fee of £342,380 noted above the Council received two rebates totalling £30,090 directly from the Audit Commission. This total rebate comprised £19,000 in respect of the transitional costs of the introduction of IFRS and £11,090 for a reduction in work on the Use of Resources assessment.

# Appendix 2 – Glossary

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## **Annual governance statement**

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

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

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

## **Audit opinion**

On completion of the audit of the 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.

## **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.

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.

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