

# Annual governance report

Central Bedfordshire Council

Audit 2011/12



# Contents

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Key messages .....	3
Before I give my opinion and conclusion .....	4
Financial statements .....	6
Value for money .....	15
Fees .....	18
Appendix 1 – Draft independent auditor’s report .....	19
Appendix 2 – Uncorrected errors .....	22
Appendix 3 – Corrected errors .....	23
Appendix 4 – Draft letter of management representation .....	28
Appendix 5 – Glossary .....	31
Appendix 6 – Action plan .....	34

# Key messages

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**This report summarises the findings from the 2011/12 audit. 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.**

## Financial statements

I expect to issue an unqualified audit opinion by 30 September 2012. The accounts were again made available to audit prior to the 30 June statutory deadline. Officers were helpful and quick in responding to audit queries which has enabled the audit to be delivered in a timely way. The working papers provided to support the accounts were of good quality and the number of errors identified during the audit has continued to fall. Officers have agreed to amend the accounts for all but two of the errors identified during the audit.

## Value for money (VFM)

I have concluded that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

## Certificate

I plan to issue my certificate with the audit opinion by 30 September 2012 following completion of my work on your Whole of Government Accounts return.

# Before I give my opinion and conclusion

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**My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit 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.

I am aware of the following relationship that might constitute a threat to independence and that I am required to report to you. I have therefore put in place the following safeguard to reduce the threat.

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Table 1: **Threats and safeguards**

Threat	Safeguard
A member of my staff having previously worked with the Council's Head of Audit and Risk.	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.

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The Audit Commission's Audit Practice has not undertaken any non-audit work for the Authority during 2011/12.

## **I ask the Audit Committee to:**

- take note of the adjustments to the financial statements included in this report (appendices 2 and 3);
- approve the letter of representation (appendix 4), on behalf of the Authority before I issue my opinion and conclusion; and
- agree your response to the proposed action plan (appendix 6).

# Financial statements

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

## **Opinion on the financial statements**

I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

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 2012 and of the financial transactions of the Council in 2011/12. The concept of materiality is defined at appendix 5. For the 2011/12 accounts I have set materiality at £10,394,000. International Auditing Standards (IAS) requires me to set a threshold below which I judge any error to be 'trivial' and do not ask for the accounts to be amended. For 2011/12 any errors less than £103,000 are considered to be trivial, whilst any errors greater than £1,039,400 cannot be considered trivial. For errors between £103,000 and £1,039,400 I have used my professional judgement to determine what is trivial and what is not, depending on the nature and circumstances of the error. Where I identify errors that I consider are not trivial, under auditing standards I must request management to amend the accounts. Where management chooses not to do so, and the Audit Committee agrees, I request a written representation from the Committee as to whether it believes the effects of the uncorrected misstatements are not material individually and in aggregate.

## **Uncorrected errors**

My audit work identified two uncorrected errors, further information is reported in appendix 2 of this report.

## Corrected errors

I identified errors in the financial statements, the primary statements and disclosure notes. None of these errors were material. Following a significant improvement in 2010/11, I am pleased to report that the number of errors found and adjustments made to the accounts has fallen again in 2011/12. In my opinion, the errors are not indicative of management bias nor indicate a particular weakness in your arrangements and do not require detailed consideration by the Committee. However, for completeness and information, I highlight the amendments in appendix 3 and table 4. Officers identified two errors in the accounts presented for audit and brought this to my attention. I have shown these separately in appendix 3.

## Significant and specific risks and my findings

In January 2012 I reported to you in my Audit Plan the significant and specific risks that I identified relevant to my audit of your financial statements. In table 2 I report to you my findings against each of these risks.

Table 2: Risks and findings

Risk	Finding
<b>Significant risks</b>	
<b>Valuation of property, plant and equipment (PPE)</b> The Authority is required to value PPE at fair value (with some exceptions). The valuation is usually an estimate; as such the figures are inherently subjective. In addition, the high monetary value of the assets held mean that even relatively modest changes in the assumptions and variables informing the valuation can have a material impact on the financial statements.	I have reviewed the controls over establishing estimates, including the arrangements for instructing your valuers. I have also carried out my own procedures to enable me to place reliance on the work of the valuer.  I have tested movements in valuations and depreciation calculations to satisfy myself that the valuation and depreciation of property, plant and equipment accounted for by the Authority and disclosed in the financial statements was in line with the requirements of the IAS 16 and the Code. My testing has not identified any significant issues to bring to your attention.

## Risk

### Schools

There may be a risk that the Authority has materially misstated its PPE due to the incorrect inclusion or omission of schools in its balance sheet.

A significant number of Central Bedfordshire schools have gained Academy status in 2011/12. These schools will need to be removed from the Authority's balance sheet in the 2011/12 accounts.

The Authority currently includes voluntary controlled school buildings in its balance sheet at nil value on the basis that they are owned by the Diocese. While the 2011 Code is not explicit in how different types of schools should be accounted for the Audit Commission's view is that Authorities should review schools on a case by case basis and justify their treatment with reference to IAS 16 and recognise them in the balance sheet where:

- (a) it is probable that future economic benefits associated with the item will flow to the entity; and
- (b) the cost of the item can be measured reliably.

### HRA reform

The government plans to reform local authority housing finance by adopting a self-financing model from 1 April 2012. This will be through a one-off settlement payment to or from central government on or before 28 March 2012. This will adjust the HRA debt of the Authority. Payments from government will in most cases be used to redeem an equal percentage of all PWLB debt held by the Authority. Due to the complexity, magnitude and timing of the HRA reform there is risk that the financial statements will be materially misstated.

## Finding

During the year 17 schools with a value of £130,591,000 achieved Academy status. All were correctly removed from the Authority's Balance Sheet.

Having reviewed its accounting policy for schools the Authority has concluded that its current treatment of Voluntary Controlled (VC) school buildings and land is correct. Accounting for schools has been the subject of debate for local government accountants for a number of years and CIPFA hoped to update and clarify its 2011/12 Accounting Code of Practice to clarify the accounting practice for schools, but this was delayed. CIPFA intends to clarify the position for 2012/13. I therefore accept the Authority's treatment of VC schools however the position should be reviewed when CIPFA issues its guidance.

I have evaluated management's oversight of HRA reforms and the transactions required by the Authority. I have agreed the detail on the settlement payment to the DCLG notification.

My testing has not identified any significant issues to bring to your attention.



## Risk

## Finding

**Specific risks (a risk that may not lead to a material misstatement in the accounts but does require me to carry out some focussed audit work in that area)**

### Section 106 agreements

During the 2010/11 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.

As reported in my Pre Statements Memorandum, my work in 2011/12 has confirmed that there are adequate arrangements in place to ensure that Section 106 monies are spent in accordance with the relevant agreements. In that report I made recommendations to improve the arrangements in place to monitor and report Section 106 monies.

In respect to a specific issue raised with me that the Council had spent section 106 monies on an un-adopted road I have concluded that it is reasonable to assume that the road in question was lawfully adopted by the former Bedfordshire County Council. This reflects a legal 'presumption of regularity' which presumes that in certain circumstances a public authority has acted lawfully unless it can be shown that it has not. Given the passage of time, in the absence of evidence that the Council did not comply with the process for adopting the relevant road and there being some evidence suggesting that it did, it is reasonable to rely on the presumption and presume that the Council did adopt the road properly.

## Recommendation

**R1** Re-visit the accounting treatment of schools once CIPFA issues its update to the Accounting Code of Practice, expected for 2012/13.

## Significant weaknesses in internal control

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Authority only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control.

I have not identified any significant weaknesses in internal control that I need to bring to your attention.

I reported in my Pre Statements Memorandum, to the June Audit Committee, that Internal Audit (IA) had issued a limited opinion on the Payroll system based on their phase 1 work. IA found that some key controls had not been operating effectively in the payroll system for the whole of the financial year. To gain sufficient assurance over the payroll expenditure in the accounts I carried out substantive testing on payroll expenditure again this year. My testing did not identify any issues that I need to bring to your attention.

My review of the Annual Governance Statement (AGS) found that it did not include the key concerns which had been reported in the Internal Audit Annual Audit Opinion report as being included in the AGS. Nor did it include reference to the following, which are included in the good practice example AGS included in the CIPFA / SOLACE publication Delivering Good Governance in Local Government.

- The purpose of the system of internal control and how it is designed to manage risk to a reasonable level rather than to eliminate risk of failure to achieve the organisation's policies, aims and objectives.
- A confirmation that the system of internal control was in place for the duration of the financial year and remained so until the date of approval of the annual accounts.

The AGS has been amended to include the above and I can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

## Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Authority's financial reporting process including the following.

- Qualitative aspects of your accounting practices.
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest.

### Qualitative aspects of your accounting practices

The 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 which enabled my team to start work on the audit early. The quality of the working papers provided to support the accounts has continued to improve and were of a good standard. Officers were helpful and quick in responding to audit queries, which has enabled the audit to be delivered in a timely way.

Last year I reported that there had been differences on the balances for debtors and creditors between Central Bedfordshire Council and Bedford Borough Council. Both councils have continued to work on resolving these differences. I am pleased to report that the position achieved at 31 March 2012 is that the debtor balance in the Central Bedfordshire Council financial statements with Bedford Borough Council was agreed and there was a difference of less than £100,000 on the creditor balance that Central Bedfordshire has with Bedford Borough Council. The early work done on agreeing the position has made the audit more straightforward, both at Central Bedfordshire and Bedford Borough.

I also reported last year that the working papers provided to support the individual debtors and creditors tested were not always adequate. While there have been improvements, I still found errors in my testing of debtors and creditors this year. The errors found were as follows.

- Two creditors classified incorrectly as reported in appendix 3.
- An error in the calculation of an accrual as reported in appendix 3. The error of £187,411 resulted from a formula error in a spreadsheet forming the basis of an Adult Social Care accrual for £250,215. Further examination of the spreadsheet used to calculate ASC accruals found further errors in the formulas used and accruals calculated. It was agreed that it would have taken a significant amount of time to check the entire spreadsheet; however I was able to conclude that the total value of error is uncertain but not material.
- I also found three further errors in my testing, two in respect of creditors and one debtor. I have not reported these errors in detail as their value was trivial.

I have identified weaknesses in the methodology used to allocate support costs and overheads to the services in the Comprehensive Income and Expenditure Statement (CIES). The weaknesses identified do not impact on the net cost of service total but will have affected the allocation of support charges over the service headings in the CIES. I have concluded that the impact of these variances are not material. The weaknesses identified are as follows.

- Actual costs for services have not been calculated and the bases for allocation eg floor area, FTE or gross budget have not been adjusted for changes from the previous year if applicable. It is possible that the allocations would be different if they had taken into account actual expenditure on individual cost centres.
- When allocating pension costs to services in the CIES I would expect the actual costs of pensions (employers contributions, added years and one off contributions to the pension fund) to be reversed out of the CIES and the current cost of service (from the Actuary's report) to be allocated to all cost centres for which there were employee contributions in-year. Instead the net difference between actual costs and cost of service has been allocated to services. Support services and education have not received allocations. This could have distorted the allocation of the cost of service in the CIES.
- The IAS19 adjustment for employer contributions has not included schools in the pro rata allocation. The Authority is not able to identify all of the Local Government Pension Scheme employer contributions made in respect of non teaching staff at schools. Children and Education expenditure has been overstated and other services expenditure has been understated.

I also identified some other areas for improvement and these are set out below, none of which impact on the Balance Sheet or the Comprehensive Income and Expenditure Statement.

Table 3: **Accounting practices, policies, estimates and financial disclosures**

Issue	Finding
Explanatory Foreword	A number of minor amendments were made to the Explanatory Foreword, primarily to ensure that it is consistent with the rest of the statements.
The Code of Practice on Local Authority Accounting sets out expected best practice for the disclosure of financial transactions in an authority's accounts. I reviewed the draft financial statements against the requirements of the Code disclosure checklist.	There were various text amendments to disclosures identified during the audit and the Authority has amended its accounts for these.  The Authority includes all the disclosure notes included in the Code of Practice, some of which are nil disclosures as they are not relevant to Central Bedfordshire. The accounts only need to include those disclosure notes that are relevant to Central Bedfordshire Council.
Note 7 Adjustments between Accounting Basis and Funding Basis under Regulations	In Note 7 the 'other adjustments' line should be nil. Last year I reported that this line included un reconciled differences of £7.985m for 2009/10 and £2.883m for 2010/11. This un reconciled difference has fallen to £468,000 in 2011/12, which is not material.
Note 48 Contingent Liabilities	This note has been amended to remove a legal case that has been settled and therefore should not be reported as a Contingent Liability.
Note 50 Nature and Extent of Risks Arising from Financial Instruments	The final paragraph of the Credit risk section of Note 50 (page 87) referred to the £12.5m customer balances but has been amended to refer to the £17.9m customer balances as detailed in the table included in the same note.
Note 15 Financial instruments	Additional wording has been added to this note to clarify why the Carrying value and Fair Values of Loans and receivables disclosed in the table at page 54 does not agree to the value in the table on page 52 of the note. This is due to the inclusion of the Santander interest bearing overnight deposit account balance of £9,805k, which is included in cash and cash equivalents in the balance sheet, in the Loans and receivables disclosed. This balance is not included in the table on page 52 of the note as it is classed as a cash equivalent.

Issue	Finding
HRA Note 2	The vacant possession values disclosed have been amended to reflect the values, as at 1 April 2011 and 1 April 2012 as required by the Code. The draft accounts reported the values as at 31 March each year and included sheltered housing which should be excluded.
Related Party Transactions	In compiling the RPT note 4 Councillors who were not re-elected in May 2011 but were Councillors for the first 5 weeks in 2011/12 were excluded.
Cash Flow	Amendments have been made to the Cash Flow statement to ensure consistency with Notes elsewhere in the financial statements.
Note 35 Officers' Remuneration	There have been a small number of amendments to this note, the most significant being the separate disclosure of the remuneration paid to the Interim Assistant Chief Executive during the year.

There are no matters specifically required by other auditing standards to be communicated to those charged with governance, or other matters of governance interest, that I need to report to you.

## Recommendations

**R2** The allocation of support service costs in 2012/13 should:

- be based on the actual costs of support services in the year and include a review the bases on which support service costs are allocated on in line with the CIPFA Service Reporting Code of Practice (SeRCoP);
- ensure that pension costs are allocated accurately across all service headings including education and support services; and
- review the practicality of obtaining details of employers contributions made in respect of LGPS employees at schools not paid through the CBC payroll to enable these costs to be accurately reflected in the CIES.

**R3** When compiling the 2012/13 financial statements include only those disclosure notes that are relevant to the Authority.

**R4** In compiling the data to include in the Related Party Transactions disclosure ensure that all Councillors who have been members of the Council during the year have been included.

**R5** Continue to improve the working papers provided to support the debtors and creditors included in the accounts.

## Whole of Government Accounts

Alongside my work on the financial statements I am also required to audit and report to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report are specified by the National Audit Office. I plan to complete my work and report to the National Audit Office by 30 September 2012.

# Value for money

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

I assess your arrangements against the two criteria specified by the Commission. In my January 2012 Audit Plan I reported to you that I had not identified any significant risks, other than those noted in table 2 above, that were relevant to my conclusion. I have set out below my conclusion on the two criteria.

In my Pre Statements Memorandum I reported my provisional conclusion that the Authority had proper arrangements to secure value for money and that I would revisit this conclusion once the final outturn position for 2011/12 was known. The financial statements report an under spend of £0.494 million against budget, within 0.3 per cent of net expenditure. The Authority has also been able to increase its General Fund balance to £10.9 million.

I intend to issue an unqualified conclusion stating that the Authority has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in appendix 1.

Table 4: **Value for money conclusion criteria and my findings**

Criteria	Findings
<p><b>1. Financial resilience</b></p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2011/12:</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>A key element of our conclusion this year is the way in which the Council has approached the issue of Housing Revenue Account (HRA) self financing. The debt liability transfer for Central Bedfordshire is £164.995million and the transfer took place on 1 April 2012. The additional debt has roughly doubled the Council's existing debt portfolio, which is entirely General Fund (GF) debt. The Executive in February 2012 considered the risks and changes associated with HRA self financing and their impact on the Council's HRA Business Plan, medium-term financial planning, and Treasury Management strategy for 2011/12. The Council has revised its prudential indicators for 2011/12, to allow for the additional borrowing required.</p>

## Criteria

## Findings

As reported in my Pre Statements Memorandum the Council was considering whether or not to adopt a one or two loans pool approach to managing the additional HRA debt. These issues were discussed with officers and the Council decided to adopt a two pool approach to account for the loan debt in 2012/13.

The Council's Executive and Corporate Management Team (CMT) understands the significant and financial management challenges and risks facing the organisation and is taking appropriate action to secure a stable financial position. The Council considered the risks and impact of the proposed spending cuts by the coalition government in setting the 2011/12 budget. Key cost drivers and pressures were identified in the budget of 2011/12. The CMT, Executive and Overview and Scrutiny committees scrutinized the proposals in draft before they agreed the final budget. CMT, the Executive and Overview and Scrutiny Committees continue to review the quarterly budget monitoring reports. They discuss items in the budget which are not on track and consider options to address any potential overspends.

The Audit Committee continues to provide effective financial management by challenging on financial matters.

### **2. Securing economy efficiency and effectiveness**

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Focus for 2011/12:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

The Council has a track record of achieving savings. The Council was successful in achieving the £12 million of efficiency savings included in the 2010/11 budget. As noted above the Council achieved a balanced budget again in 2011/12, the budget included savings of £19.3 million.

Efficiencies of £11.3 million are required to achieve a balanced budget in 2012/13 and a further £26.3 million over the next three years. As the Council have noted it is important that savings are sustainable in the future years.



## Criteria

## Findings

The Council has considered the significant social and economic drivers for change in the 2012/13 budget and the MTFP. The key drivers identified for change in the budget for 2012/13 reported to the Executive were:

- 30 per cent increase in population over 75 years old;
- 65 per cent increase in child protection cases between 2009 and 2011;
- school moving to academy status and out of control of Local Authorities; and
- the transfer of Public Health responsibilities to local government in 2013.

The budget and the MTFP reflect the Council's strategic objectives and address the Council's priorities in the next four years.

The Council engaged proactively with a wide range of individuals, organisations and stakeholders on the 2011/12 budget. In setting the 2012/13 budget and MTFP, there has again been extensive consultation with the public to capture stakeholder views on savings and spending priorities. For instance; In the feedback for the consultation with stakeholders for the setting of the 2012/13 budget, some stakeholders expressed concern about the proposals for changing the support for informal carers and bringing respite care charges. As a result of the concerns raised, the Council has decided that the relevant service areas will conduct bespoke consultation with service users and other interested parties as part of the development of the new policies. The Executive will review this proposal later in the year.

There was rigorous monitoring of the Council's budget throughout 2011/12 in order to achieve the required level of savings by the efficiency implementation group (EIG). The EIG continues to meet monthly to review the progress being made to achieve savings.

# Fees

## I reported my planned audit fee in the January 2012 Audit Plan.

I will complete the audit within the planned fee.

Table 5: Fees

	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	308,142	308,142
Claims and returns	85,253	85,253
Non-audit work	0	0
<b>Total</b>	<b>393,395</b>	<b>393,395</b>

My work on claims and return is not yet complete however I expect the 2011/12 fee will be in line with the indicative fee.

The Audit Commission has paid a rebate of some £24,650 to reflect attaining internal efficiency savings, reducing the net amount payable to the Audit Commission to £283,492.

# Appendix 1 – Draft independent auditor’s report

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## INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF CENTRAL BEDFORDSHIRE COUNCIL

### Opinion on the Authority financial statements

I have audited the financial statements of Central Bedfordshire Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

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 Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices 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 financial statements sufficient to give reasonable assurance that the financial 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 Chief Finance Officer; and the overall presentation of the financial statements. In addition, I read all the

financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Opinion on financial statements**

In my opinion the financial statements:

- give a true and fair view of the financial position of Central Bedfordshire Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

### **Opinion on other matters**

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

### **Matters on which I report by exception**

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects

### **Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**

#### **Respective responsibilities of the Authority and the auditor**

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.

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.

### **Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

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 2011, 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 2012.

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 2011, 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 ended 31 March 2012.

### **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  
District Auditor / Officer of the Audit Commission  
Audit Commission,  
3<sup>rd</sup> Floor,  
Eastbrook,  
Shaftesbury Road,  
Cambridge CB2 8BF  
September 2012

# Appendix 2 – Uncorrected errors

I identified the following errors during the audit which management have not addressed in the revised financial statements.

Item of account	Nature of error	Statement of comprehensive income and expenditure		Balance sheet	
		Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Capital Grants Note 40	Government grants and other contributions received in the year are disclosed as £45,613k in Note 40. The value of capital grants, included in this total, of £41,808k should agree to 'Capital Grants and other contributions', reported as £42,111k in Note 38.  There is an unreconciled difference of £303k.				
Note 7 Adjustments between Accounting Basis and Funding Basis under Regulations	In Note 7 the 'other adjustments' line includes an unreconciled difference of £468k. The difference will relate to items that have gone through the Capital Adjustment Account (CAA) but the corresponding entries in the either the General Fund or HRA have not been identified for the purposes of this reconciliation.				

# Appendix 3 – Corrected errors

I identified the following errors during the audit which management have addressed in the revised financial statements.

Item of account	Nature of error	Statement of comprehensive income and expenditure		Balance sheet	
		Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
<b>Identified by CBC before accounts given to audit</b> Depreciation	Accumulated Depreciation write off for properties which had been revalued and disposed of in-year had been double counted.			2796	
	Dr Fixed assets Cr CIES		2796		
	Dr Adjustments between Accounting Basis and Funding Basis under regulations (Note7) Cr Capital Adjustment Account	2796			2796
<b>Identified by CBC before accounts given to audit</b> Disposals	King Street Depot was disposed of in April 2011 but this was not reflected on the asset register or the accounts.				330
	Cr Fixed assets	330			
	Dr CIES Cr Note 7		330		
	Dr Capital Adjustment Account			330	

Statement of comprehensive income and expenditure

Balance sheet

Note 21 Creditors

DEFRA grant of £149k incorrectly of classified in Note 21 as 'other local authorities' creditor should be classified as a 'Central Government' creditor.

This is a reclassification issue and did not amend the CIES or Balance Sheet.

Note 21 Creditors

Amount due from private company of £216k were incorrectly disclosed as a 'Public corporation and trading funds' creditor. It should be disclosed as 'Other entities and individuals'.

This is a reclassification issue and did not amend the CIES or Balance Sheet.

Note 28 Segmental reporting

In the first table of Note 28 'Employees expenses' were overstated and 'Other service expenses' understated by £43,805k.

In the third and fourth tables of Note 28: the value reported for 'Depreciation, amortisation and impairment' was overstated by £2,064k. This has been amended to agree to Note 12.



		Statement of comprehensive income and expenditure		Balance sheet	
	These are amendments within Note 28 and did not amend the CIES or Balance Sheet.				
Cash and cash equivalents	Cash and cash equivalents balance included balances for Academy schools that should have been reported as creditors. Dr Cash Cr Creditors			1096	1096
CIES	2010/11 income and expenditure amended to agree with audited working papers. Culture and related services Environment and Regulatory service	19 512	511 20		
Note 7 Adjustments between accounting basis and Funding Basis under regulations	The HRA self financing payment of £164,949k was reported as 'Other adjustments' but should have been included in 'Adjustments primarily involving the CAA'. 'Adjustments primarily involving the CAA' understated by £164,949 and 'Other adjustments' overstated by £164,949. These are amendments within Note 7 and did not amend the CIES or Balance Sheet				

		Statement of comprehensive income and expenditure	Balance sheet
Minimum Revenue Provision (MRP)	The MRP was overstated by £340k and has been reduced from £5,872k to £5,534k. Cr Note 7 Dr CAA	340	340
Note 7 Adjustments between Accounting Basis and Funding Basis under Regulations	Reversal of items relating to retirement benefit debits/ credits to the CIES as disclosed in Note 7 amended from £14,520k to £15,849k (£1,329k) to agree with Note 47 and the information received from the Actuary. This is an amendment within Note 7 and did not amend the CIES or Balance Sheet		
CIES Adult social care expenditure Creditors	An error in the calculation of an accrual has resulted in Creditors and Adult Social Care expenditure being overstated by £187k. Dr Creditors Cr CIES	187	187
CIES Corporate and Democratic Core (CDC)	Corporate and Democtartic Core income and expenditure as disclosed in the CIES included income of £2,412k and expenditure of £402k that should have been re allocated to other service headings in the CIES.		

**Statement of comprehensive income  
and expenditure**

**Balance sheet**

This is an amendment within the CIES. CDC income and expenditure overstated and other service headings understated. No impact on the bottom line of the CIES.

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# Appendix 4 – Draft letter of management representation

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Dear Paul

## **Central Bedfordshire Council – Audit for the year ended 31 March 2012**

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 2012. All representations cover the Council's accounts included within the financial statements.

### **Compliance with 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;

#### **(i) Capital Grant Income**

This misstatement will not be corrected in the accounts due to the immaterial nature of the item.

#### **(ii) Note 7 – Other Adjustments**

This misstatement will not be amended within the accounts due to the immaterial nature of the item.

### **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 (as included last year)**

There are no material onerous contracts that should be provided for under IAS37 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.

I confirm that this letter has been discussed and agreed by the Council's Audit Committee on 24 September 2012.

Signed on behalf of Central Bedfordshire Council

Signed

Name C P Warboys

Position Chief Finance Officer (s.151)

Date

Telephone 0300 300 8000

Email [Charles.Warboys@centralbedfordshire.gov.uk](mailto:Charles.Warboys@centralbedfordshire.gov.uk)

# Appendix 5 – Glossary

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## **Annual Audit Letter**

Letter issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

## **Annual Governance Report**

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

## **Annual Governance Statement**

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

## **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

## **Audited body**

A body to which the Audit Commission is responsible for appointing the external auditor.

## **Auditing Practices Board (APB)**

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

**Auditing standards**

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

**Auditor(s)**

Auditors appointed by the Audit Commission.

**Code (the)**

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

**Commission (the)**

The Audit Commission for Local Authorities and the National Health Service in England.

**Ethical Standards**

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

**Financial statements**

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

**Group accounts**

Consolidated financial statements of an Authority and its subsidiaries, associates and jointly controlled entities.

**Internal control**

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.



## **Materiality**

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative 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**

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

## **Those charged with governance**

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

## **Whole of Government Accounts**

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

# Appendix 6 – Action plan

## Recommendations

### Recommendation 1

Re-visit the accounting treatment of schools once CIPFA issues its update to the Accounting Code of Practice, expected for 2012/13.

<b>Responsibility</b>	Financial Controller
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<b>Priority</b>	High
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<b>Date</b>	March 2013
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<b>Comments</b>	CIPFA has issued consultation on the 2013/14 Code of Practice, which includes proposals for addressing the accounting treatment of schools, an issue which has not been clarified in accounting guidance in the past. The Council will review the way it accounts for schools in consideration of the CIPFA consultation document and any subsequent guidance issued prior to the end of the 2012/13 financial year.
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### Recommendation 2

The allocation of support service costs in 2012/13 should:

- be based on the actual costs of support services in the year and include a review the bases on which support service costs are allocated on in line with the CIPFA Service Reporting Code of Practice (SeRCoP);
- ensure that pension costs are allocated accurately across all service headings including education and support services; and
- review the practicality of obtaining details of employers contributions made in respect of LGPS employees at schools not paid through the CBC payroll to enable these costs to be accurately reflected in the CIES.

## Recommendations

<b>Responsibility</b>	Head of Financial Control
<b>Priority</b>	High
<b>Date</b>	March 2013
<b>Comments</b>	Support service allocations are being reviewed in 2012/13 and a model for implementing a consistent and uniform approach was agreed by the Corporate Management Team (CMT) in August 2012. This includes adherence to the Service Expenditure Recommended Code of Practice (SeRCoP) and will consequently ensure that pension cost charges to services, which are affected by support service allocations, will be distributed with greater accuracy. The Council will also review the practicality of obtaining details of employers contributions for schools not paid through CBC payroll.

### Recommendation 3

When compiling the 2012/13 financial statements include only those disclosure notes that are relevant to the Authority.

<b>Responsibility</b>	Financial Controller
<b>Priority</b>	Low
<b>Date</b>	March 2013
<b>Comments</b>	The statement of accounts and disclosure notes are prepared according to templates issued by CIPFA and included within the Guidance Notes to the CIPFA Code of Practice. Disclosures included in the accounts will be reviewed for relevance.

### Recommendation 4

In compiling the data to include in the Related Party Transactions disclosure ensure that all Councillors who have been members of the Council during the year have been included.

<b>Responsibility</b>	Financial Controller
<b>Priority</b>	Medium
<b>Date</b>	March 2013
<b>Comments</b>	All Councillors who have been Members at any stage during the financial year will be included in the Related Party Transactions disclosure for 2012/13.

## Recommendations

### Recommendation 5

Continue to improve the working papers provided to support the debtors and creditors included in the accounts.

<b>Responsibility</b>	Financial Controller
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<b>Priority</b>	High
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<b>Date</b>	March 2013
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<b>Comments</b>	Significant progress has been made in the quality of debtors and creditors working papers. This will be continued by reviewing guidance notes circulated to finance staff and addressing any training needs during the 2012/13 financial year. Working paper formats will also be reviewed, implementing full electronic working papers for the 2012/13 audit
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- any director/member or officer in their individual capacity; or
- any third party.

