

Agenda Item: 9

Meeting: Audit Committee

Date: 6 April 2009

Subject: Review of Legacy Authority Governance and Inspection Statements

Report of: Director of Corporate Resources

Summary: The report proposes to provide the Audit Committee with an understanding of the inherent risks of the legacy authorities (**as highlighted by the previous authorities and Audit Commission**) which come together to form Central Bedfordshire.

Contact Officer: Nick Murley, Assistant Director of Audit & Risk

Public/Exempt: Public

Wards Affected: All

Function of: Audit Committee

RECOMMENDATIONS:

1. That the Audit Committee

- (a) Note the identified inherent risks of the former authorities.**
- (b) Agree to hold another meeting on at the end of June 2009 to approve any final amendments to the Annual Governance Statements for the three legacy authorities before signing off the Annual Statement of Accounts of these authorities at the end of July 2009.**

Background

1. Each legacy authority has a responsibility to produce an Annual Governance Statement by the 31st March 2009 under the framework set out by CIPFA/SOLACE "Delivering Good Governance in Local Government: Framework". It sets out how the governance arrangements are provided within the organisation but also requires the authority to set out any significant governance issues that it is aware of in that given year.
2. The Audit Commission has also published an Annual Audit and Inspection Letter for each authority which concentrates on the areas of improvement but also highlights areas where the council has been performing poorly or where external inspections have highlighted weaknesses.

3. Together with the Unitary Transition Cross-Programme Highlight report, all of this information has been used to consolidate the key known high risks that Central Bedfordshire will be facing during 2009/10.

Significant Governance Issues

4. The Annual Governance Statements (AGS) from each authority are attached as appendices A-C. **It is important to emphasise that these only represent the issues highlighted by the predecessor authorities and Central Bedfordshire will need to take a view as to their completeness before we are able to approve the Annual Statement of Accounts at the end of July.** With this in mind we are requesting holding another meeting to reflect on the AGS at the end of June 2009. The significant governance issues highlighted for each authority are set out below:

5. **Bedfordshire County Council**

- 39% of assessed schools throughout Bedfordshire have failed the Financial Management Standard in Schools (toolkit) indicating there is cause for concern. We will review the Central Bedfordshire schools that have failed the assessment and build some time into the 2009/10 audit plan to address those failing.
- 2008/09 review of payroll has identified new concerns relating to access levels which have emerged since the SAP Payroll implementation. These issues will be considered in the first six months of the audit plan as part of the documentation of key systems and the walk through testing of these systems. CBC are aware of these issues and should have addresses the weaknesses set out above. Internal Audit however will be required to seek assurances that these are now dealt with.
- The managed audit reviews for 2008/09 have identified concerns relating to IT security access and authorisations. These issues will be considered in the first six months of the audit plan as part of the documentation of key systems and the walk through testing of these systems. As above the new instance of SAP should have addressed the IT security issues. Internal Audit however will be required to seek assurances that these are now dealt with.

6. **Mid Bedfordshire District Council**

- Further ethical training for all staff needed. We will investigate the actions that have led to BCC meeting this requirement within the Use of Resources Assessment. Any further requirements can then be passed to HR for consideration against the Organisation Development training schedule.
- Training for members of the audit committee in terms of role and responsibility is needed. The committee has considered its terms of reference elsewhere on the agenda. A full training programme for the committee will also be prepared over the coming months.

- Risk Management training is appropriately aimed at all staff. As part of the working practices in support of the Corporate Risk Management Strategy presented elsewhere on this agenda, a schedule of training needs will be arranged and guidance will be issued to employees to address the responsibilities of all staff.
- Governance arrangements to be defined and implemented for the new council. A new constitution has been approved for CBC and further arrangements will be developed during 2009/10.

7. **South Bedfordshire District Council**

- Capital Accounting – non-adherence to the SORP and related working papers. Since the closure of the 2007/08 accounts improvements have been made to the asset registers and a full set of guidance notes have been produced around the year end closure routines. This area of accounting treatment has changed dramatically over the last two years and will continue to do so as we introduce International Financial Reporting Standards (IFRS).
- Management of our asset base. The use of our property assets is already well underway. Further work on developing an Asset Management Strategy including an update to the Capital Strategy will occur during 2009/10.
- Extend the arrangements for the provision of standards of ethical training to officers. As above, we will investigate the actions that have led to BCC passing this KLOE. Any further arrangements can then be passed to HR for consideration against the Organisation Development training schedule.

Annual Audit and Inspection Letter

8. The Annual Audit and Inspection Letter produced by the Audit Commission for each authority are attached as appendices D-F (the final version of appendix F was not available at the time the agenda was produced and will be circulated as soon as it is received) , however the significant issues for each authority are set out below:

9. **Bedfordshire County Council**

- Weaknesses in the operation of key controls in the payroll system (page 3, para 7). As reported in the AGS, this will be addressed as part of the documentation of key systems and the walk through testing of these systems.
- The Commission for Social Care Inspectorate's inspection on Safeguarding Adults, published in May 2008, concluded that Bedfordshire's safeguarding of adults was adequate and that the capacity to improve was uncertain (page 10, para 32). A follow up of this work will be required during 2009/10.

- A material amendment to the financial statements in relation to the fair value of the Council's borrowings (page 11 para 35). Will be followed up as part of the closure of the 2008/09 Statement of Accounts.

10. **South Bedfordshire District Council**

- Ensure the issues identified from the certification of the housing benefit and council tax benefit return are brought to the attention of the management of the new unitary authority in order they can be addressed in advance of the audit of the 2008/09 audit (page 4, para 11). Working arrangements across the two authorities SBDC and MBDC are being harmonised and all processing will take place on one Benefits and Council Tax system. This should lead to improved performance.
- There was a material error due to the netting of impairment losses and revaluation gains for council housing (as raised in the 2007/08 Annual Governance Report) and the accounts presented for audit did not include the required disclosures in respect of financial instruments (page 13, para 41). As mentioned above since the closure of the 2007/08 accounts improvements have been made to the asset registers and a full set of guidance notes have been produced around the year end closure routines. This area of accounting treatment has changed dramatically over the last two years and will continue to do so as we introduce the effects of the International Financial Reporting Standards (IFRS).

11. **South Bedfordshire District Council**

- Ensure the issues identified from the certification of the housing benefit and council tax benefit return are brought to the attention of the management of the new unitary authority in order they can be addressed in advance of the audit of the 2008/09 audit (page 4, para 11). Working arrangements across the two authorities SBDC and MBDC are being harmonised and all processing will take place on one Benefits and Council Tax system. This should lead to improved performance.
- There was a material error due to the netting of impairment losses and revaluation gains for council housing (as raised in the 2007/08 Annual Governance Report) and the accounts presented for audit did not include the required disclosures in respect of financial instruments (page 13, para 41). As mentioned above since the closure of the 2007/08 accounts improvements have been made to the asset registers and a full set of guidance notes have been produced around the year end closure routines. This area of accounting treatment has changed dramatically over the last two years and will continue to do so as we introduce the effects of the International Financial Reporting Standards (IFRS).

Central Bedfordshire (issues raised in both MBDC and SBDC reports)

- Officers will be under considerable pressure during the first few months of 2009/10 as new structures and systems become embedded. It is therefore vital that adequate resources are allocated and closedown quality assurance arrangements are established in time to ensure that working papers are sufficiently robust to support the financial statements and minimise the impact of the audit on officer's time (page 3, para 4). A detail resource plan/timetable is being prepared to capture potential bottlenecks in the system, so that adequate resources are available to close down the legacy authority accounts.
- A range of Issues around LGR implementation which CBC will address during 2009/10.

Recommendations from Internal Audit Reports

12. When forming the proposed audit plan, set out elsewhere on this agenda, 40 audit days have been set aside the first six months to review the recommendations arising from completed internal audit reports.
13. At the same time a more detailed review will be undertaken to identify the key high priority recommendations, across the three authorities, which will ultimately fall into the remainder of the 2009/10 financial year or on into 2010/11 audit plans. This detailed review will be undertaken and presented to the Audit Committee at the proposed additional meeting at the end of June 2009.

Issues arising from Cross Programme Highlight Report

14. Throughout the transitional year a highlight report has been established to keep track of the business critical activities that need to be in place or resolved by the 1st April 2009. The significant issues still outstanding are set out below:
 - Protocol on disaggregation of assets between Bedford Borough Council and Central Bedfordshire Council not yet agreed.
 - Not all detailed Service Level Agreements will be in place for shared services between Bedford Borough Council and Central Bedfordshire Council by the 1st April 2009.

Conclusion and Next Steps

15. This is the first attempt at identifying the high risks that will be inherited by Central Bedfordshire. Further work will be undertaken during the next three months to carry out a detailed audit needs assessment. This will reflect on the issues set out above as well as further evidence that comes to light during this period especially from a detailed review of risk registers and previous audit reports.

16. A requirement for the approval of the Annual Statement of Accounts, is that the AGS is approved by the Audit Committee before approving the accounts. As such it is requested that a further meeting of the Audit Committee is arranged around the end of June (date to be confirmed at the meeting) to consider if any further amendments need to be made to the respective AGS for each authority up until then. This will demonstrate that the governance arrangements around which the accounts have been prepared are fully understood.

CORPORATE IMPLICATIONS

Council Priorities:

Identifying key risks and issues will all contribute to the council priorities and ensure we have effective risk management and internal control environment.

Financial:

No direct impact resulting from this report although by drawing attention to some of the items captured above should reduce the potential financial consequence if adequate controls are put in place.

Legal:

None

Risk Management:

This report contains a number of inherent risks from the former authorities and will require the appropriate level of attention during 2009/10.

Staffing (including Trades Unions):

None

Equalities/Human Rights:

None

Community Development/Safety:

None

Sustainability:

None

Appendices:

Appendix A – Annual Governance Statement for Bedfordshire County Council

Appendix B – Annual Governance Statement for Mid Bedfordshire District Council

Appendix C – Annual Governance Statement for South Bedfordshire District Council

Appendix D – Annual Audit and Inspection Letter for Bedfordshire County Council

Appendix E – Annual Audit and Inspection Letter for Mid Bedfordshire District Council

Appendix F – Annual Audit and Inspection Letter for South Bedfordshire District Council