

Annual Audit Letter

Citizens' Services Partnership

Audits 2004/05, 2006/07 and 2007/08

31 March 2009



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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
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Summary

Key messages

- 1 This Annual Audit Letter summarises the findings from our audits of the Citizens' Services Partnership (CSP) joint committee for 2004/05, 2005/06 and 2006/07, which are now complete.
- 2 Our work on the financial statements is complete and I am proposing to issue a disclaimed opinion on 2004/05, 2005/06 and 2006/07 on the basis that I do not have sufficient evidence available to me to give reasonable assurance that the financial statements are free from material misstatement. I will issue my opinion and certificate once the statutory period for inspection of the accounts has been concluded.
- 3 Our work on the CSP's arrangements to secure economy, efficiency and effectiveness in its use of resources is complete. I am proposing to issue an adverse conclusion on the use of resources for 2005/06 and 2006/07 at the same time as the opinion on the financial statements.
- 4 Under the Code of Audit Practice there is no requirement for me to issue a value for money conclusion in relation to 2004/05. For 2004/05, I am however, required to assess the adequacy of the CSP's arrangement in relation to financial aspects of corporate governance and report any significant issue to those charged with governance. I have assessed the CSP's arrangements in this respect as inadequate and have included further detail of the weaknesses identified in this report.

Purpose, responsibilities and scope

- 5 This Annual Audit Letter (letter) summarises the key issues arising from our work carried out during the year. I have addressed this letter to members as it is the responsibility of the CSP to ensure that arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money.
- 6 The letter also communicates the significant issues to key external stakeholders, including members of the public. I will publish this letter on the Audit Commission website at www.audit-commission.gov.uk.
- 7 I have prepared this letter as required by the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. This is available from www.audit-commission.gov.uk.
- 8 As your appointed auditor, I am responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, I review and report on:
 - the CSP's accounts; and
 - whether the CSP has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 9 This letter summarises the significant issues arising from both these areas of work.

Audit of the accounts

- 10 The CSP's financial statements and Statement on Internal Control are important means by which the CSP accounts for its stewardship of public funds. As CSP members you have final responsibility for the financial statements and Statement on Internal Control.
- 11 In planning our audit we identified specific risks and areas of judgement that we have focused on during our audit. We report to you the findings of our work in those areas.
- 12 In addition, auditing standards require us to report to you:
 - the draft representation letter which we ask management and you to sign;
 - our views about the CSP's accounting practices and financial reporting;
 - errors in the financial statements;
 - any expected modification to our report;
 - weaknesses in internal control; and
 - certain other matters.

Key areas of judgement and audit risk

- 13 In planning our audits we identified key areas of judgement and audit risk that we considered as part of our audits.
- 14 Our findings are set out in Table 1. This table include risks specifically identified in our original planning and our supplementary audit plan that was issued to the Director of Finance.

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
No internal audit coverage of payments and accounts systems	CSP placed reliance on systems operated by Bedfordshire CC (BCC) and these were reviewed by BCC Internal Audit. For 2004/05 Internal Audit reported that the main accounting, purchasing and accounts payable systems were 'unsatisfactory'. For 2005/06, Internal Audit concluded that overall an 'unsatisfactory' level of assurance could be provided in respect of the Council's internal control environment. For 2006/07, the opinions for BCC's main accounting, accounts payable and accounts receivable systems were unqualified.

Issue or risk	Finding
Lack of documented Governance arrangements: Financial Regulations and Standing Orders. Evidence of appointments of suppliers without seeking competitive tenders prior to issue of purchase orders. Uncertainty over authorisation process.	Adequate arrangements to control purchases not in place and the system open to fraud. Consequentially we were unable to gain sufficient assurance that the transactions included in the accounts are bona fide and goods have been received.
No asset register in place or list of committed liabilities resulting in risk that assets are not correctly accounted for.	No fixed assets have been included in the financial statements. Only assets included in the accounts relate to cash and debtors. We have been able to verify these.
Ongoing fraud investigation by Bedfordshire Police.	Bedfordshire police confirmed in 2009 that they would not be progressing their investigations further.
Unable to obtain answers to audit queries due to staff involved in the partnership no longer being employed by the Council or partners.	Adequate documentation to support expenditure was not available due to weaknesses in internal control and governance arrangements. Staff have however been helpful in responding to queries where possible.
Partnership not formally terminated until August 2007. Therefore accounts required for 1 April 2007 to 31 August 2007 (part year accounts)	As a result of the weaknesses in internal control and governance arrangements identified in the previous years a disclaimer opinion will also be issued in relation to the 2006/07 accounts. Further audit work to verify expenditure has therefore not been undertaken.

Letter of representation

15 Before we issue our opinion, auditing standards require us to obtain from you and management, written representations that:

- you acknowledge your collective responsibility for preparing financial statements in accordance with the applicable financial reporting framework;
- you have approved the financial statements;
- you acknowledge your responsibility for the design and implementation of internal controls to prevent and detect fraud and error;
- you have told me the results of your assessment of the risk that the financial statements might be materially misstated because of fraud;

Audit of the accounts

- you have told me any actual or suspected fraud by management, employees with significant roles in internal control or others (where the fraud could have a material impact on the financial statements);
 - you have told me of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others;
 - you have told me about all known actual or possible non-compliance with laws and regulations whose effects should be considered when preparing financial statements;
 - you have assessed the reasonableness of significant assumptions, including whether they appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Council where relevant to the fair value measurements or disclosures;
 - you are satisfied that all related parties requiring disclosure in the financial statements have been disclosed and that the disclosure is adequate;
 - you are satisfied that the individual or collective impact of errors we have identified, but that you have not corrected, is not material; and
 - cover areas where other sufficient appropriate evidence cannot reasonably be expected to exist, for example the completeness of the disclosure of contingent liabilities.
- 16** Management has declined to provide me with written representations in respect of matters material to the financial statements where I believe that other sufficient appropriate audit evidence does not exist, in particular that:
- all the accounting records, other records and related information have been made available and all the transactions undertaken by the CSP have been properly reflected and recorded in the accounting records, and
 - there have been no irregularities involving management or employees that could have a material effect on the financial statements.
- 17** Bedfordshire County Council's Audit Committee, confirmed, at its meeting of 16 March 2009, that it would not be providing a letter of representation to me.

The audit report

- 18** We expect to issue a modified report including a disclaimed opinion on the CSP's financial statements. The opinion has been disclaimed on the basis of limitation in evidence available to me due to the fact that:
- the Committee did not have an adequate system of internal control. Owing to the nature of the Committee's records and the timing of my audit procedures, I was unable to obtain sufficient appropriate evidence regarding the validity of expenditure included within the Consolidated Revenue Account; and

- management has declined to provide me with written representations in respect of matters material to the financial statements where I believed that other sufficient appropriate audit evidence did not exist.

Material weaknesses in internal control

- 19 Significant weaknesses in the design or operation of an internal control have been identified that might result in a material error in your financial statements. These have been previously brought to your attention in a number of reports issued by Bedfordshire County Council's Internal Audit between March 2004 and July 2008. The key weaknesses are repeated in Table 2 for completeness.

Table 2 Weaknesses in internal control

Internal Audit Findings
Governance and operational arrangements were inadequate and had resulted in delays, lack of co-ordinated effort, and a failure to address the issues of transparency, accountability and probity.
The overall position of the Partnership was assessed as 'Unsound'.
It was not possible to provide reasonable assurance that procurement procedures had not been manipulated to the advantage of favoured suppliers. It was also not possible to fully confirm whether EC Procurement Directives had been complied with.
Appointment procedures did not adhere to the County Council's Contract Standing Orders (competitive tenders were not sought and documentation held was insufficient to demonstrate the veracity of the payments).
The CSP deliverable is not in proportion to the £8.4m spent on the project (the Partnership was formally dissolved in July 2007 and a subsequent evaluation of the potentially usable assets acquired by the partnership valued the assets at approximately £727k).

- 20 We have not provided a comprehensive statement of all weaknesses which may exist in internal control, nor of all improvements which may be made. We have reported only those matters which have come to our attention because of the audit procedures we have performed and the Internal Audit work we have considered.

Value for money

- 21 For 2005/06 and 2006/07 we are required to conclude whether the CSP put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources - the value for money conclusion. We assess your arrangements against criteria specified by the Commission.
- 22 I have assessed the arrangements of the CSP as inadequate in all nine areas that are applicable to the CSP joint committee and therefore propose to issue an adverse conclusion.

Closing remarks

23 I am sending this Letter to all CSP joint committee Members.

24 Table 3 sets out the reports issued to the Committee.

Table 3 **Reports issued**

Report	Date of issue
Report to those charged with governance	March 2009
Annual audit letter	March 2009

Debbie Hanson
District Auditor

March 2009

The Audit Commission

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