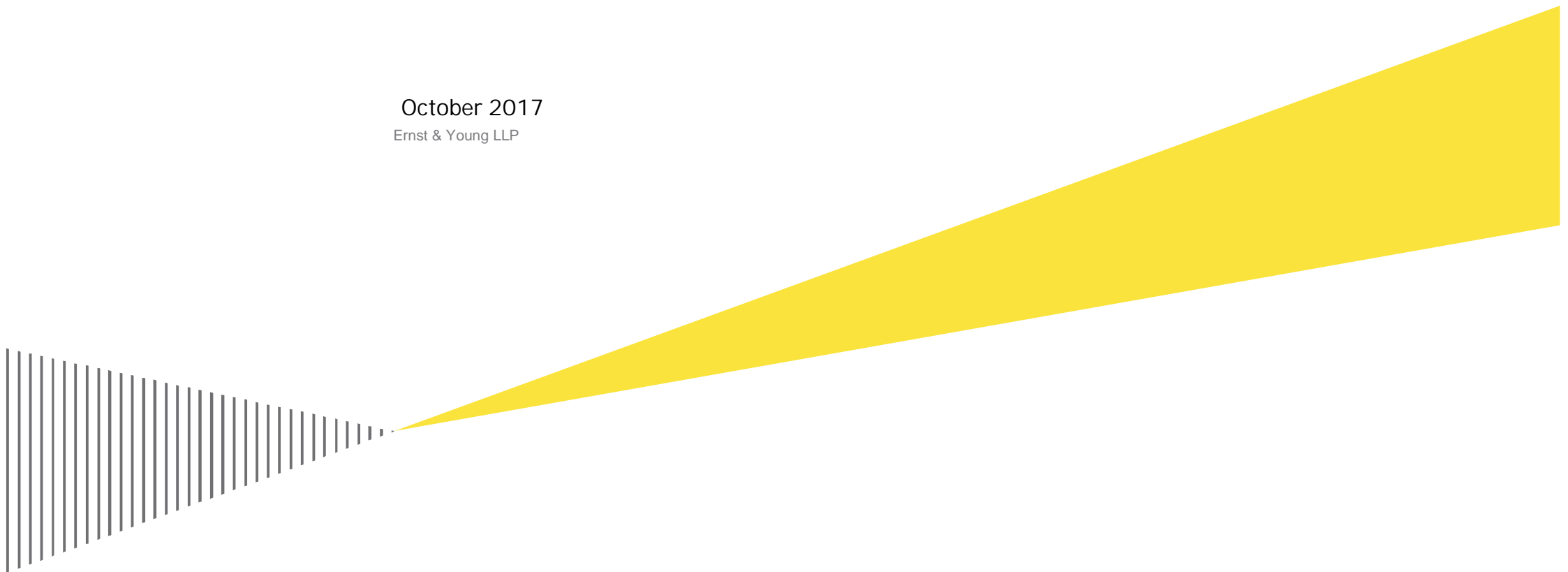


Central Bedfordshire Council

Annual Audit Letter for the year ended 31 March 2017

October 2017

Ernst & Young LLP



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Public Sector Audit Appointments Ltd (PSAA) have issued a “Statement of responsibilities of auditors and audited bodies”. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The “Terms of Appointment (updated 23 February 2017)” issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

A hand with white nail polish is writing on a document with a blue pen. In the background, there is a calculator, a laptop, and a white mug. A yellow rectangular box is overlaid on the left side of the image.

Executive Summary

Executive Summary

We are required to issue an annual audit letter to Central Bedfordshire Council following completion of our audit procedures for the year ended 31 March 2017.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's ► Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2017 and of its expenditure and income for the year then ended
► Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources

Area of Work	Conclusion
Reports by exception:	
► Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council
► Public interest report	We had no matters to report in the public interest.
► Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
► Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
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Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We had no matters to report
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As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 27 September 2017
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	We issued the audit certificate at the same time as the audit opinion on 27 September 2017

In January 2018 we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Neil Harris

Executive Director
For and on behalf of Ernst & Young LLP

Purpose



Purpose

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our Audit Results Report on 27 September 2017 to the Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.



Responsibilities

Responsibilities

Responsibilities of the Appointed Auditor

Our 2017 audit work has been undertaken in accordance with the Audit Plan presented on 9 January 2017 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 2016/17 financial statements; and
 - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
 - ▶ Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
 - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the NAO.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The background is a blurred office scene. In the foreground, there are several clear glass tumblers filled with water on a wooden desk. Behind them, a laptop screen displays a financial chart. To the left, a pen and some papers are visible. The overall lighting is bright and natural, suggesting a window in the background.

Financial Statement Audit

Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 27 September 2017.

Our detailed findings were reported to the Audit Committee on 27 September 2017.

The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July. This provides challenges for both the preparers and the auditors of the financial statements. To prepare for this change the council has taken some steps in 2016/17, including starting to critically amend the closedown process to achieve earlier draft accounts production.

We have agreed with the Council to engage early, following completion of the 2016/17 audit, to facilitate early substantive testing for 2017/18 and also to consider steps the Council can take.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
Management override of controls As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and to prepare fraudulent financial statements by overriding controls that otherwise seem to be operating effectively. We identify and respond to this fraud risk on every audit engagement.	We have not identified any material weaknesses in controls or evidence of material management override. We have not identified any instances of inappropriate judgements being applied. We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business
Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and	We have not identified any material weaknesses in controls or evidence of material management override.

obtaining an understanding of the business rationale for any significant unusual transactions.	<p>We have not identified any instances of inappropriate judgements being applied.</p> <p>We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business</p>
<p>Revenue and expenditure recognition</p> <p>Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In this public sector this requirement is modified by Practice Note 10, issued by the Financial Reporting council, which states that auditors should also consider the risk that material misstatements may occur by manipulating expenditure recognition.</p>	<p>Our testing focussed on the Council's main income/expenditure streams. We also carried out cut-off testing where we examined a sample of receipts and payments after year end to ensure that where the transactions related to 2016/17 that they were properly recorded in the accounts.</p> <p>Our testing has not revealed any material misstatements with respect to revenue and expenditure recognition.</p>
We respond to this risk by reviewing and testing material revenue and expenditure streams and revenue cut-off at the year end.	<p>We identified key accounting estimates most susceptible to management bias. This included estimates related to valuation and depreciation of property, plant and equipment, pension liabilities and the business rates appeals provision. We evaluated the judgments and decisions made by management in making the accounting estimate, including, where relevant, their reliance on specialists. We concluded that the bases of the estimates examined were reasonable.</p> <p>Overall our audit work did not identify any issues or unusual transactions which indicated that there had been any misreporting of the Council's financial position.</p>

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	<p>We determined planning materiality to be £11.7 million (2016: £11.2 million), which is 2% of gross revenue expenditure reported in the accounts of £585 million adjusted for other operating and investment expenditure.</p> <p>We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p>
Reporting threshold	<p>We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.558 million.</p>

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits, where we reviewed a sample of payments, irrespective of value;
- Related party transactions, where we reviewed the Council's processes for identifying and disclosing such transactions; and
- Members' allowances, where we carried out a reasonableness assessment of the amount disclosed

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations. There were no such misstatements.

A close-up, shallow depth-of-field photograph of a stack of old, worn coins. The coins are metallic and show signs of age, with some characters like 'M', 'C', 'Y', 'F', and 'L' visible on their edges. A bright yellow rectangular box is overlaid on the left side of the image, containing the text 'Value for Money' in a black, sans-serif font.

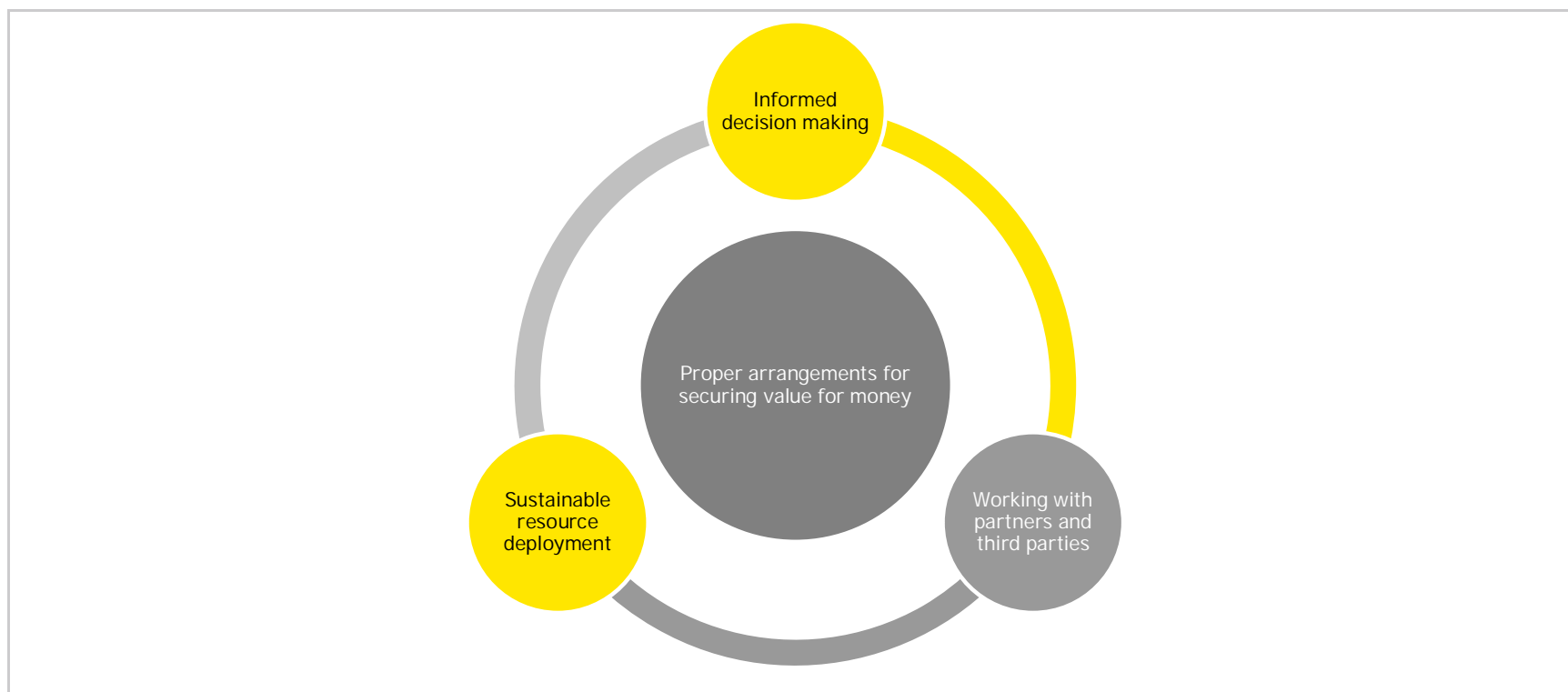
Value for Money

Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.



We have performed the procedures outlined in our audit plan to ensure the Council took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We identified one significant risks in relation to these arrangements. The tables below present the findings of our work in response to the risks identified and any other significant weaknesses or issues to bring to your attention.

Significant Risk	Conclusion
<p>Sustainability and Transformation Plans (STPs) give local NHS organisations and councils the opportunity to work together to improve the way health and social care is designed and delivered. The Bedford, Luton and Milton Keynes (BLMK) footprint encompasses 16 partners; and covers almost 1 million people with hugely diverse populations across areas.</p> <p>The partners have focussed on refining BLMK's 5 STP priorities, including planning and resourcing how changes will be implemented.</p> <p>The Plan recognises that there will be system-wide demand and financial pressures over the next five years, resulting in a consolidated BLMK deficit in 2020/21 of £311m. It also notes that:</p> <ul style="list-style-type: none"> • BLMK's recurrent annual NHS deficit rises to £203m per annum by 2020/21. • A further recurrent deficit, estimated at £108m per annum, would need to be added as a result of unavoidable cost pressures surfacing in Council health and social care budgets which are not recovered. 	<p>We are satisfied that the Council had sound arrangements in place for working with its STP partners to develop governance arrangements and that it has engaged fully with the STP process. The Council, with the STP is now finalising the governance arrangements that will allow it to move to a delivery model and demonstrate how the STP can contribute to the financial sustainability of the Council.</p> <p>A key challenge for STPs is the need to foster good working relationships between partners and evidence from the Council is that improving relationships have allowed opportunities for chief executives, finance and governance leads to more effectively share good practices. The Chief Executive Group has been pivotal in allowing the STP partners to engage with each other and to promote this engagement throughout their organisations, and this is now permeating down to the Director of Finance group and to Chairs/Political leaders. The STP has also agreed a dedicated resource for clinical engagement.</p> <p>Increasing this collaboration with all stakeholders will facilitate management of the whole system. Difficult discussions and decisions will be required in the future; and the Council is working with its partners to develop robust governance arrangements to support this.</p> <p>The Council and its BLMK partners, as with other STPs, have further challenges to overcome in terms of the conflict between organisational and STP accountability; how to address the financial challenges presented and reach system wide solutions to these; how they can ensure performance against individual and system wide targets can be accurately reported, with robust data; and ensuring the governance structures agreed facilitate robust and efficient decision making.</p>



Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. We had no issues to report.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2017 financial statements from member of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 27 September 2017. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

We have not identified any significant deficiencies in the design of an internal control that might result in a material misstatement in your financial statements and which is unknown to you. As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

Our audit did not identify any controls issues to bring to the attention of the Audit Committee.

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ED None

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