



Central Bedfordshire
Council

Audit results report
Year ended 31 March 2018

24 July 2018



EY

Building a better
working world



24 July 2018

Dear Audit Committee Members

We are pleased to attach our Audit Results Report for the forthcoming meeting of the Audit Committee. This report summarises our preliminary audit conclusion in relation to the audit of Central Bedfordshire Council for 2017/18. We will issue our final report after the Audit Committee meeting scheduled for 30 July 2018.

We have substantially completed our audit of Central Bedfordshire Council for the year ended 31 March 2018. Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 4, before the statutory deadline of 31 July 2018. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources

This report is intended solely for the use of the Audit Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 30 July 2018.

Yours faithfully

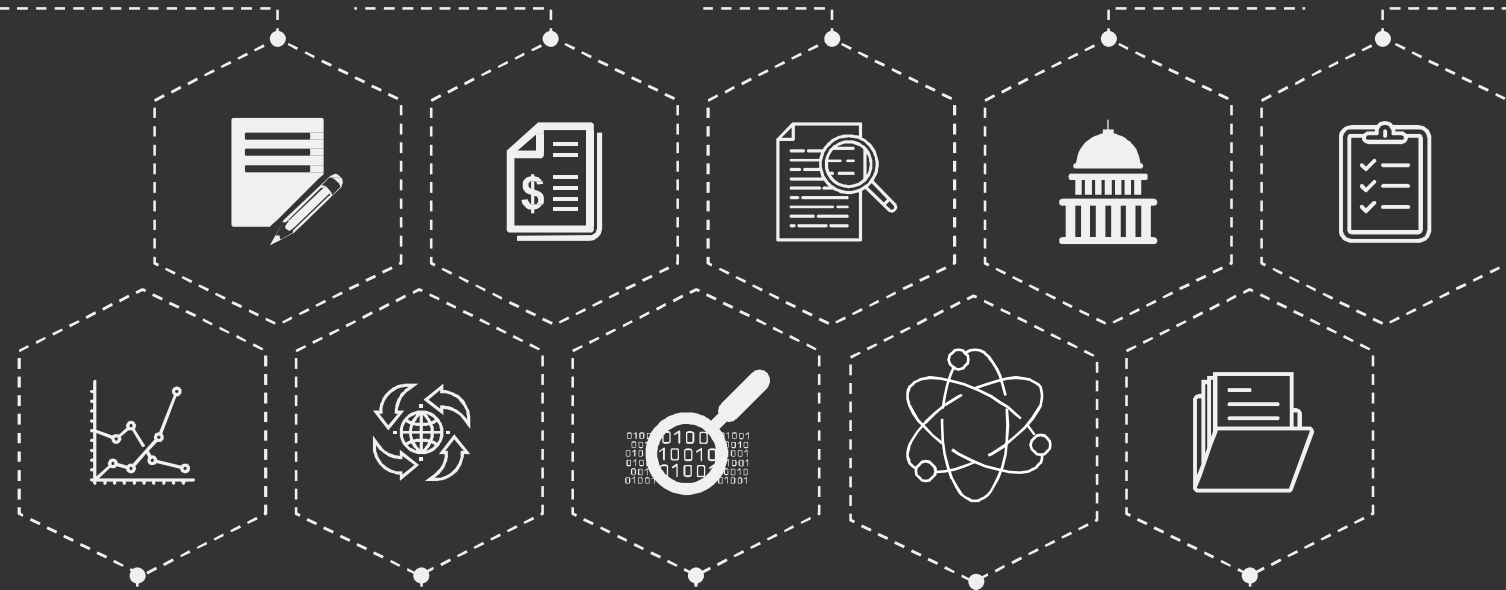
Neil Harris

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the 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 February 2017)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of Central Bedfordshire Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Central Bedfordshire Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Central Bedfordshire Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Executive Summary

Executive Summary

Scope update

In our Audit Planning Report presented at the 8 January 2018 Audit Committee meeting and in the Audit Progress report presented at the 9 April Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan. We have provided an update on our materiality calculation below.

- Changes in materiality: In our Audit Committee Planning Report, we communicated that our audit procedures would be performed using a materiality of £11.5 million. We updated our planning materiality assessment using the draft accounts and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, we have updated our overall materiality assessment to £12 million. This results in updated performance materiality, at 75% of overall materiality, of £9 million, and an updated threshold for reporting misstatements of £0.6 million.

Status of the audit

We have substantially completed our audit of Central Bedfordshire Council's financial statements for the year ended 31 March 2018 and have performed the procedures outlined in our Audit Planning Report. Subject to satisfactory completion of the following outstanding items, we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 4. However until work is complete, further amendments may arise:

- we are yet to conclude our audit procedures related to payroll and NNDR appeals
- completion of audit manager and associate partner review of the audit work completed
- review of the final version of the financial statements
- completion of subsequent events review
- receipt of the signed management representation letter

We will provide a verbal update on these matters at the Audit Committee meeting.

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack.

Executive Summary

Audit differences

At the time of writing, there is one unadjusted audit difference.

In calculating the scheme assets as at 31 March 2018, the actuary performs a roll forward technique based on asset data submitted to the by the Pension Fund at 31 December 2017. The reporting from the pension fund auditors highlighted a difference between the market value of the pension fund assets at 31 March 2018 was £2,174.6 million. The total difference of £9 million, when apportioned to Central Bedfordshire Council, is a difference of £2 million. Due to the size of the difference, we are not seeking an adjustment to the accounts but are reporting this as an unadjusted misstatement and asking for a representation from management to be included in their letter of representation.

We have identified a small number of disclosure amendments which have been adjusted by management.

At the time of writing, there are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee.

Details can be found in Section 5 Audit Differences.

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of Central Bedfordshire's financial statements This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of those charged with governance.



Executive Summary

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.

In our testing of exit packages, we identified one case where the remuneration package was not authorised by the Service Director or Chief Executive as required by your policies.

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we did not identify any significant risks related to these criteria.

We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result of this work.

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. At the time of writing, we have no other matters to report.

Independence

Please refer to Section 10 for our update on Independence.



03 Areas of Audit Focus





Areas of Audit Focus

Significant risk

Misstatements due to fraud or error/ management override

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

What judgements are we focused on?

We have considered generic risk factors that could indicate how specific risks of management override manifests itself at the Council, such as the financial position and historic performance against budget. We have also considered the specific additional risks of management override as they relate to local government accounts.

Based on our consideration of the key areas susceptible to management override we have concluded that the area that management have the greatest opportunity to override controls is within the following areas:

- non system accruals where judgements and estimates are made
- inappropriate capitalisation of revenue expenditure
- Revenue items incorrectly identified as revenue expenditure funding by capital under statute (REFCUS) thus inappropriately funded from capital

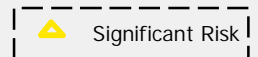
We have added the items related to capital expenditure following a detailed consideration of the management override risk in a local government context and a challenging financial environment. The inappropriate capitalisation of revenue spend is a key way in which expenditure can be manipulated in order to improve the revenue position. We have therefore adjusted our audit approach to address this risk.

We have also performed our mandatory procedures, regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.

What are our conclusions?

- Ø We have not identified any evidence of material management override.
- Ø We have not identified any instances of inappropriate judgements being applied.
- Ø We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business

Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Council's financial position.





Areas of Audit Focus

Significant risk



Further details on procedures/work performed

We adopted a substantive approach. Having identified the areas most susceptible to management override, we developed additional procedures to ensure the appropriate level of audit assurance was obtained. These additional procedures consisted of:

- we increased our additions testing by applying a lower testing threshold to the additions balance to address the risk of inappropriate capitalisation of revenue expenditure.
- we increased our testing by applying a lower testing threshold to the REFCUS balance to address the risk of revenue items being incorrectly identified as REFCUS, thus inappropriately funded from capital,

For non system accruals where judgements and estimates are made, we identified the creditors account and other operating expenditure as the accounts on which additional audit focus was required. For these items we:

- Increased our sample testing of creditors and accruals, understood the reason for the accrual and any judgements made in its calculation and, where possible, agreed subsequent payment;
- Extended our testing of cut-off to cover two months post year end to verify that transactions are completely recorded in the correct period; and
- Increased our sample testing of other operating expenditure, agreeing to underlying documentation and third party evidence, where applicable.

In addition, to address the residual risk of management override we performed specific procedures which included:

- Using our analytics tools to analyse 100% of your journals data and to undertake focussed testing based on a detailed consideration of the risks and how these could manifest themselves within the journals population. We assessed the selected journal entries for evidence of management bias and evaluated for business rationale.
- identifying your most significant accounting estimates for evidence of management bias. The key estimates identified were property valuations, assessment of pension liabilities and the provision for NNDR appeals.
- Considering audit evidence of any significant unusual transactions and understanding the business rationale for these. We did not identify any significant unusual transactions as part of our audit work.



Areas of Audit Focus

Significant risk

Risk of fraud in revenue and expenditure recognition

Gross Income: £592m

Gross Expenditure: £621m

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the 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 the manipulation of expenditure recognition.

This risk is focused around those items of income and expenditure which are non-routine and involve more management estimation and judgment such as year-end income and expenditure accruals and provisions

What judgements are we focused on?

We have carefully considered the revenue and expenditure streams of the Council and considered each against the risk of fraud in revenue and expenditure recognition. In making this assessment, we have considered:

- Our assessment of the control environment at Central Bedfordshire Council relevant to opportunities and incentives to commit revenue recognition fraud
- The statutory framework in place to regulate local government finance
- The nature of the financial regime established in local government
- The nature of the financial transactions undertaken by Central Bedfordshire Council, and whether these present both the opportunity and incentive to engage in material revenue manipulation

We concluded that the risk of material misstatement arising from inappropriate revenue and expenditure recognition manifests itself in 'other service expenses'. Expenditure of £349 million was reported under this heading in 2017/18. It comprises a range of transactions, for example supplies and services and payments to contractors for services such as refuse collection but also items that are individually small and subject to individual invoice arrangements on a short term credit basis. Given the range of transactions included, we have concluded that there is a potential risk of manipulation in terms of recognition of expenditure and have tailored our audit testing to address this risk.



Areas of Audit Focus

Significant risk



Further details on procedures/work performed

To address this risk, we:

- Disaggregated 'other service expenses' into material expenditure streams and obtained an understanding of the streams to direct testing.
- Increased our testing of expenditure through to underlying documentation for reasonableness and business purpose.
- Tested the completeness and valuation of expenditure accruals, to gain assurance that there have been no material amounts of expenditure omitted from the financial statements.
- Tested expenditure cut-off through our unrecorded liabilities testing to gain assurance that there has been no material amounts of expenditure omitted from the financial statements and that expenditure has been accounted for in the correct period.
- Completed our journal entry testing within specific parameters to focus this testing on key risk area.

What are our conclusions?

Our audit work has not identified any material issues to indicate any misreporting of the Council's financial position.



Areas of Audit Focus

Significant Risk

Pension liability valuation £430m

What is the risk?

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body. The Council's current pension fund deficit is a highly material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary. As with other councils, accounting for this scheme involves significant estimation and judgement and due to the nature, volume and size of the transactions we consider this to be a higher inherent risk.

What judgements are we focused on?

In our Audit Planning Report, we designated the pension liability valuation as an 'other area of audit focus'. However, following a consideration of the complexity and range of assumptions that contribute to the pensions liability, and the material nature of the sums involved, we have increased this to a significant risk.

We focused on aspects of the pension liability which could have a material impact on the financial statements, primarily:

- significant changes in assumptions made by the actuary; and
- the assessments of the actuary undertaken by PWC and the EY actuarial team.

What did we do?

- Liaised with the auditors of the Bedfordshire Pension Fund to obtain assurances over the information supplied to the actuary in relation to Central Bedfordshire Council;
- Assessed the work of the Pension Fund actuary, Hymans Robertson, including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by NAO for all Local Government sector auditors, and considering the review of this work undertaken by the EY actuarial team; and
- Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

What are our conclusions?

In calculating the scheme assets as at 31 March 2018, the actuary performs a roll forward technique based on asset data submitted to the by the Pension Fund at 31 December 2017.

The reporting from the pension fund auditors highlighted a difference between the market value of the pension fund assets at 31 March 2018 was £2,174.6 million. The total difference of £9 million, when apportioned to Central Bedfordshire Council, is a difference of £2 million.

Due to the size of the difference, we are not seeking an adjustment to the accounts but are reporting this as an unadjusted misstatement and asking for a representation from management to be included in their letter of representation.

There are no other findings from our work.



Areas of Audit Focus

Other Areas of Audit Focus

Property, plant and equipment (£1.3bn)

What is the risk?

Property, plant and equipment (PPE) represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and/or depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end PPE balances held in the balance sheet. As the Council's asset base is significant, and the outputs from the valuer are subject to estimation, there is a higher inherent risk PPE may be under/overstated or the associated accounting entries incorrectly posted. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying estimates.

What judgements are we focused on?

We focused on aspects of the dwellings (£431 million) and land and buildings (£504 million) valuations which could have a material impact on the financial statements, primarily:

- significant changes in the asset base;
- the assumptions and estimates used to calculate the valuation; and
- changes to the basis for valuing the assets.

What did we do?

To address this area of focus, we:

- Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample tested key asset information used by the valuers in performing their valuation;
- Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Reviewed assets not subject to valuation in 2017/18 to confirm that the remaining asset base is not materially misstated;
- Considered changes to useful economic lives as a result of the most recent valuation; and
- Tested accounting entries have been correctly processed in the financial statements,



Areas of Audit Focus

Other Areas of Audit Focus (PPE - continued)



Further details on procedures/work performed

Other procedures performed:

- We have also considered a range of trigger events that may lead us to undertake further work in specific areas related to the year-end valuation. As a result of this consideration we have obtained additional audit evidence to support the valuation of Dunstable Leisure Centre which has been undergoing significant redevelopment/refurbishment.

What are our conclusions?

Our audit work has not identified any material issues to indicate any misreporting of the Council's financial position.



Areas of Audit Focus

Other Areas of Audit Focus

Earlier deadline for production and audit of the financial statements from 2017/18

What is the risk?

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.

These changes provide challenges for both the preparers and the auditors of the financial statements.

What did we do?

- Held discussions on the Council's proposals to bring forward the closedown timetable; and
- Engaged early with the Council to facilitate early substantive testing for 2017/18 and to explore further areas of audit work that can be brought forward to our interim visit.

What are our conclusions?

The Council has been well placed to meet the demands of the earlier deadline, having produced their financial statements in line with the statutory deadline in previous years.

There are areas where the Council can look to improve its arrangements to ensure the audit is completed in a shorter timeframe:

- Identifying additional areas for early substantive testing prior to the final audit visit;
- Reviewing how some working papers are presented for audit to facilitate a more efficient execution of audit procedures; and
- Reviewing how the team is used to respond to queries so that query response times can be improved.



Areas of Audit Focus

Other matters

IFRS 15 Revenue from Customers with Contracts: The applicable accounting framework is CIPFA's annual Code of Practice on Local Authority Accounting in the United Kingdom (which is IFRS based as adapted for Local Authorities). The 2018/19 Code will apply to accounting periods starting on or after 1 April 2018 but has not yet been published. The 2018/19 Code will determine how IFRS 15 Revenue from Customers with Contracts will be adopted by local government bodies.

Given the nature of the Council's income streams, it is unlikely that the future implementation of IFRS 15 will have a material impact on the financial statements of the Council. The vast majority of the Council's income streams are taxation or grant based, and are therefore outside the scope of IFRS15.

The following income streams which are within the scope of IFRS 15 may be considered material by the Council in making its assessment of the impact on IFRS 15 in its 2018/19 accounts:

- fees and charges for services under statutory requirements;
- sale of goods provided by the authority; and
- charges for services provided by a local authority

IFRS 9 Financial Instruments: The 2018/19 Code of Practice on Local Authority Accounting for the United Kingdom introduces IFRS 9 on financial instruments. The Council's view is that the impact of this standard on the Authority's financial statements will be immaterial. The Council will need to keep this standard under continued focus during 2018/19 because statutory overrides may be introduced by Central Government.



04 Audit Report



Audit Report

Draft audit report

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CENTRAL BEDFORDSHIRE COUNCIL

Opinion

We have audited the financial statements of Central Bedfordshire Council for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority Movement in Reserves Statement,
- Authority Comprehensive Income and Expenditure Statement,
- Authority Balance Sheet,
- Authority Cash Flow Statement,
- Related notes 1 to 45,
- Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and related notes HRA 1 to HRA 7; and
- Collection Fund and the related note

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 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of Central Bedfordshire Council as at 31 March 2018 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 2017/18.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters, in relation to which the ISAs (UK) require us to report to you where:

- the Director of Resources use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.



Audit Report

Our opinion on the financial statements

Other information

The other information comprises the information included in the statement of accounts, other than the financial statements and our auditor's report thereon. The Director of Resources is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the C&AG in November 2017, we are 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 2018.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Authority;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects



Audit Report

Our opinion on the financial statements

Responsibility of the Director of Resources

As explained more fully in the Statement of the Director of Resource's Responsibilities set out on page 23, the Director of Resources 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 2017/18, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Director of Resources is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

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.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether the Central Bedfordshire Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Central Bedfordshire Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Central Bedfordshire Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves 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 National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.



Audit Report

Our opinion on the financial statements

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Delay in certification of completion of the audit [include if due to Whole of Government Accounts]

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Use of our report

This report is made solely to the members of Central Bedfordshire Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

*Neil Harris (senior statutory auditor)
for and on behalf of Ernst & Young LLP, Appointed Auditor
Luton
x July 2018*

The maintenance and integrity of the Central Bedfordshire Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



05 Audit Differences



Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

We will highlight misstatements greater than £9 million which have been corrected by management that were identified during the course of our audit. At the time of writing this report, there are no such corrected misstatements.

There were a small number of disclosure amendments agreed with the Council during the audit. We do not consider these merit the attention of the Audit Committee.



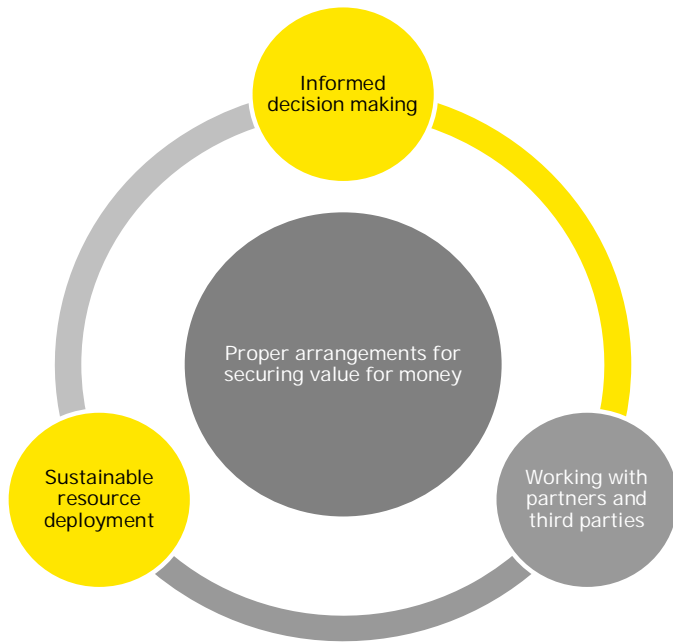
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Value for Money Risks





Value for Money



Background

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.

For 2017/18 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

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.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

Overall conclusion

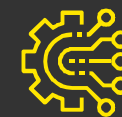
We did not identify any significant risks around these criteria.

We therefore expect having no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.



07

Other reporting issues



Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2017/18 with the audited financial statements

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2017/18 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

Whole of Government Accounts

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

This work is not yet complete. We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack.

Other reporting issues

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council’s financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits

We have no matters to report in these areas.



08

Assessment of Control Environment



Assessment of Control Environment

Financial controls

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

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

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.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

Reliance on internal audit

We have reviewed Internal Audit reports issued to management during the period to March 2018 and considered whether their findings influenced the extent of our audit procedures.



09

Data Analytics



Use of Data Analytics in the Audit

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2017/18, our use of these analysers in the authority's audit included testing journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis

We obtain downloads of all GL financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.



10

Independence

Confirmation



We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report presented to the 8 January 2018 Audit Committee.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. 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 of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit Committee on 30 July 2018.

We confirm we have undertaken non-audit work outside the PSAA Code requirements in relation to our work the certification of the housing benefit subsidy claim. We have adopted the necessary safeguards in our completion of this work.

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2017 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Independence

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2018.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements.

We have undertaken non-audit work related to the certification of the housing benefit subsidy claim under the PSAA contract.

	Final Fee 2017/18	Planned Fee 2017/18	Scale Fee 2017/18	Final Fee 2016/17
	£	£	£	£
Total Audit Fee – Code work	139,466	139,466	139,466	139,466
Other non-audit services*:				
Housing benefit subsidy claim	TBC	26,910	26,910	24,908
Teachers' Pensions return	n/a	n/a	n/a	10,000
Pooling of housing capital receipts return	n/a	n/a	n/a	4,000
Total non-audit fees	TBC	26,910	26,910	38,908
Total fees	TBC	TBC	TBC	178,374

We have yet to conclude our 2017/18 audit and are therefore not in a position to conclude on the final fee for 2017/18.

We will update the Audit Committee regarding any other non-audit services provided related to 2017/18 as these are confirmed.







11

Appendices





Appendix A

Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report presented to the 8 January 2018 Audit Committee
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report presented to the 8 January 2018 Audit Committee
Significant findings from the audit	<ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process 	Audit results report presented to the 30 July Audit Committee

Appendix A

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or together to raise any doubt about Central Bedfordshire Council's ability to continue for the 12 months from the date of our report.
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management 	Audit results report presented to the 30 July Audit Committee
Subsequent events	<ul style="list-style-type: none"> • Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	Audit results report presented to the 30 July Audit Committee
Fraud	<ul style="list-style-type: none"> • Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Audit Committee responsibility. 	Audit results report presented to the 30 July Audit Committee

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the Authority 	Audit results report presented to the 30 July Audit Committee
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Audit planning report presented to the 8 January 2018 Audit Committee</p> <p>Audit results report presented to the 30 July Audit Committee</p>
External confirmations	<ul style="list-style-type: none"> • Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures. 	We have received all requested confirmations.
Consideration of laws and regulations	<ul style="list-style-type: none"> • Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur • Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> Significant deficiencies in internal controls identified during the audit. 	Audit results report presented to the 30 July Audit Committee
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> Written representations we are requesting from management and/or those charged with governance 	Audit results report presented to the 30 July Audit Committee
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit results report presented to the 30 July Audit Committee
Auditors report	<ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor's report 	Audit results report presented to the 30 July Audit Committee
Fee Reporting	<ul style="list-style-type: none"> Breakdown of fee information when the audit planning report is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	Audit planning report presented to the 8 January 2018 Audit Committee Audit results report presented to the 30 July Audit Committee
Certification work	<ul style="list-style-type: none"> Summary of certification work 	Certification Report

Management representation letter

Management Rep Letter

[To be prepared on the entity's letterhead]

[Date]

Ernst & Young

This letter of representations is provided in connection with your audit of the Council financial statements Central Bedfordshire Council ("the Council") for the year ended 31 March 2018. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements of Central Bedfordshire Council as of 31 March 2018 give a true and fair view of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the Group and Council CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

We understand that the purpose of your audit of our Council financial statements is to express an opinion thereon and that your audit was conducted in a true and fair view of the Council financial accordance with International Standards on Auditing, which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, for the Group and Council the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the Council financial statements. We believe the Council financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and are free of material misstatements, including omissions. We have approved the Council financial statements.
3. The significant accounting policies adopted in the preparation of the Council financial statements are appropriately described in the Council financial statements.
4. As members of management of the Council, we believe that the Council have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 for the Council that are free from material misstatement, whether due to fraud or error.
5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

Management representation letter

Management Rep Letter

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the and Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the Council financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
 - involving financial statements;
 - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
 - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
 - involving management, or employees who have significant roles in internal controls, or others; or
 - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the Council financial statements.
3. We have made available to you all minutes of the meetings of the Council, and committees for the Cabinet and Audit Committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 30 July.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the Council's financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the Council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

Management representation letter

Management Rep Letter

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the Council financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and confirm there are no guarantees that we have given to third parties.

E. Subsequent Events

1. There have been no events subsequent to period end which require adjustment of or disclosure in the Council financial statements or notes thereto.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report and the Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

Yours faithfully,

Director of Resources

Chair of the Audit Committee

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