

Central  
Bedfordshire  
Council  
Priory House  
Monks Walk  
Chicksands,  
Shefford SG17 5TQ



**TO ALL MEMBERS OF THE AUDIT COMMITTEE**

15 September 2014

Dear Councillor

**AUDIT COMMITTEE – MONDAY, 22 SEPTEMBER 2014**

Further to the agenda and papers for the above meeting, previously circulated, please find attached the following report which was marked to follow:-

**8. Audit Results Report 2013/14**

To consider a report from Ernst & Young LLP which sets out the results of its 2013/14 audit.

Should you have any queries regarding the above please contact me.

Yours sincerely

Leslie Manning  
Committee Services Officer

email: [name@centralbedfordshire.gov.uk](mailto:name@centralbedfordshire.gov.uk)  
telephone: 0300 300 5132

This page is intentionally left blank

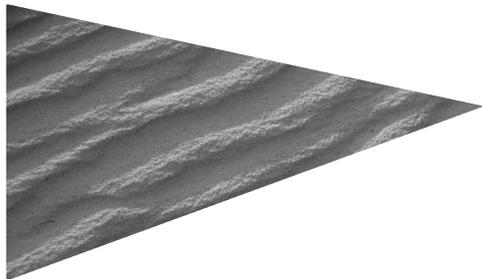
# Central Bedfordshire Council

## Audit Committee Summary

For the year ended 31 March 2014

Audit Results Report – ISA (UK & Ireland) 260

22 September 2014



■ Mick West, Director  
■ [mwest@uk.ey.com](mailto:mwest@uk.ey.com)

■ Cathy O'Carroll, Manager  
■ [co'carroll@uk.ey.com](mailto:co'carroll@uk.ey.com)

# Contents

- ▶ Executive summary
- ▶ Extent and progress of our work
- ▶ Addressing audit risk
- ▶ Financial statements audit – issues and findings
- ▶ Arrangements to secure economy, efficiency and effectiveness
- ▶ Independence and audit fees
- ▶ Appendices

---

# Executive summary

## *Key findings*

---

### Audit results and other key matters

The Audit Commission's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Audit Committee - on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified.

This report summarises the findings from the 2013-14 audit which is substantially complete. It includes the messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure value for money in your use of resources.

#### **Financial statements**

- ▶ As of 22 September 2014, we expect to issue an unqualified opinion. Our audit results demonstrate, through the few matters we have to communicate, that the Council has prepared its financial statements adequately.

#### **Value for money**

- ▶ We expect to conclude that you have made appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources.

#### **Whole of Government Accounts**

- ▶ We expect to issue an unqualified confirmation to the National Audit Office (NAO) regarding the Whole of Government Accounts submission.

#### **Audit certificate**

- ▶ The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit Practice have been discharged for the relevant audit year. We expect to issue the audit certificate at the same time as the audit opinion.

---

# Extent and purpose of our work

---

## The Council's responsibilities

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes 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.

## Purpose of our work

Our audit was designed to:

- Express an opinion on the 2013-14 financial statements
- Report on any exception on the governance statement or other information included in the foreword
- Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the value for money conclusion)

In addition, this report contains our findings related to the areas of audit emphasis, our views on the Council's accounting policies and judgments and significant deficiencies in internal control.

As a component auditor, we also follow the group instructions and send to the National Audit Office our group assurance statement.

This report is intended solely for the information and use of the Council. It is not intended to be and should not be used by anyone other than the specified party.

# Addressing audit risks

## Significant audit risks

We identified the following significant audit risk during the planning phase of our audit, as reported in our Audit Plan. Here, we set out how we have gained audit assurance over the issue. A significant risk is an identified assessed risk of material misstatement that, in an auditor’s judgement, requires special audit consideration.

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
Significant audit risks (including fraud risks)		
<p>As identified in ISA (UK &amp; Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> <li>• Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements</li> <li>• Reviewed accounting estimates for evidence of management bias</li> <li>• Evaluated the business rationale for any significant unusual transactions for example material movements on reserves and revaluation adjustments</li> </ul>	<p>We found that:</p> <ul style="list-style-type: none"> <li>• journal entry controls were in place and operating effectively and</li> <li>• our review of accounting estimates did not identify any evidence of management bias.</li> <li>• adequate explanations were provided by management for material adjustments made in preparation of the financial statement.</li> </ul>

# Addressing audit risks

## Other audit risks

We identified the following other audit risk during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over this issue.

Audit Risk identified within our Audit Plan	Audit Procedures performed	Assurance gained and issues arising
Other audit risks: Localisation of National Non Domestic Rates		
<p>There have been changes in how the Council must account for business rates from 2013-14 following the localisation of the scheme. Councils must now account for the provision for unsettled valuation appeals. In addition there are new calculations and presentation of entries including tariffs/top-ups.</p>	<ul style="list-style-type: none"> <li>Review of the controls and staff preparation</li> <li>Review and testing of the calculation of provisions and revised disclosures</li> </ul>	<p>The calculation of the provision for unsettled appeals by business ratepayers was calculated for the current year only and did not include any provision for successful appeals which may be backdated. As a result the Collection Fund provision of £1.3m was understated.</p> <p>The Council has reviewed the position and assessed the additional provision required. As a result the Collection Fund provision has increased to £5.2m. The Council's share of the provision has increased by 1.9m to £2.5m This figure is still subject to audit and we will update the Audit Committee at its meeting on 22 September 2014. Further detail is provided at Appendix 1.</p>

---

# Financial statements audit

## *Issues and misstatements arising from the audit*

---

### Progress of our audit

The following areas of our work programme remain to be completed. We will provide an update of progress at the Audit Committee meeting:

- Receipt of a Letter of Representation
- Satisfactory completion of a number of outstanding audit procedures
- Receipt of revised financial statements and checking the agreed audit adjustments

Subject to the satisfactory resolution of the above items, we propose to issue an unqualified auditor's report on the financial statements.

### Uncorrected misstatements

- There are no errors within the draft financial statements, which management have chosen not to adjust

### Corrected misstatements

Our audit identified a number of further misstatements which our team have highlighted to management for amendment. All of these have been corrected during the course of our work.

We consider one of these misstatements to be significant, the understatement of the provision for appeals by non-domestic ratepayers. The proposed amendments to the financial statements are set out in Appendix 1.

### Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following:

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

We have no matters we wish to report.

---

# Financial statements audit (continued)

## *Internal Control, Written Representations & Whole of Government Accounts*

---

### Internal Control

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.

We have tested the controls of the Council only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.

We have reviewed the Annual Governance Statement and can confirm that:

- ▶ It complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- ▶ It is consistent with other information that we are aware of from our audit of the financial statements.

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.

### Request for written representations

We have requested a management representation letter to gain management's confirmation in relation to a number of matters. In addition to the standard representations, we have requested the following specific representations:

- ▶ Ownership of assets - to supplement audit testing of property, plant and equipment .
- ▶ Reserves - corroborative assurance that reserves are properly recorded or disclosed in the financial statements.
- ▶ Use of the work of an expert - corroborative assurance for year end valuation of assets.

### 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 are specified by the National Audit Office.

We are currently concluding our work in this area and will report any matters that arise to the Audit Committee.

---

# Arrangements to secure economy, efficiency and effectiveness

---

*The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that Central Bedfordshire Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Council's corporate performance management and financial management arrangements, we have regard to the following criteria and focus specified by the Audit Commission.*

## Criteria 1 - Arrangements for securing financial resilience

- ▶ *“Whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future”*
- ▶ We did not identify any significant risks in relation to this criteria.

We have no issues to report in relation to this criteria

## Criteria 2 - Arrangements for securing economy, efficiency and effectiveness

- ▶ *“Whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.”*
- ▶ We did not identify any significant risks in relation to this criteria.

We have no issues to report in relation to this criteria

# Arrangements to secure economy, efficiency and effectiveness – Audit risks

*In our Audit Plan we identified no significant risks that required us to undertake any additional specific risk-based work. The following tables present the findings of our work in response to the other risk areas or areas of focus in our Audit Plan.*

Risks/areas of focus	Impacts arrangements for securing:	Key findings:
<p>The current financial pressure on local authorities and the impact and necessity for continuous focus on financial resilience and use of resources represents a significant challenge over the medium term. In addition changes to the arrangements for funding council tax support and the business rate retention scheme, along with the transfer of responsibility for public health, bring added uncertainty to the medium term financial strategy.</p>	<p>Financial resilience</p> <p>Economy, efficiency and effectiveness</p>	<p>The Council has a good track record of financial management in terms of delivering planned savings and efficiencies and our review of recent budgetary reports confirms that the Council's performance is being maintained</p> <p>The Council achieved a £0.6m underspend against its budget in 2013-14. However there is continued pressure on the Children's Services budget which was £3.5m overspent at the year end. The overspend reflects additional costs of children in care, fostering, adoption services and transport and includes £1.2m set aside to meet pressures in the Medium Term Financial Plan (MTFP) for 2014-15 and 2015-16.</p> <p>The budget for 2014-15 and MTFP 2014 to 2018 were approved by the Executive in February 2014. The Council need to make efficiency savings of £43m over the period, of which £29.9m has already been identified. The Budget Strategy and Medium Term Financial Plan reported to Executive in August 2014 set out the continued uncertainty around local government funding and the need to make further efforts to find savings through service efficiencies in order to avoid service reductions</p> <p>We have assessed the Council's arrangements as adequate.</p>

# Arrangements to secure economy, efficiency and effectiveness – Audit risks

*In our Audit Plan we identified no significant risks that required us to undertake any additional specific risk-based work. The table below presents the findings of our work in response to the risk areas or areas of focus in our Audit Plan.*

Risks/areas of focus	Impacts arrangements for securing:	Key findings:
<p>Given the pressure on the Council's finances the delivery of value for money through its expenditure becomes ever more important. The Audit Commission's value for money profiles, based on 2012-13 data, place Central Bedfordshire in the highest 10% of its statistical nearest neighbours for the average number of days taken to process housing and council tax benefits changes of circumstance</p> <p>Our certification work on the housing and council tax benefit claims in previous years has continued to identify a number of cases where benefits have been assessed incorrectly. We are aware that the Council has provided training and put in place quality assurance processes to address these issues and that there have been improvements in the processing times for new claims.</p>	<p>Economy efficiency and effectiveness</p>	<p>The Council continues to make progress while recognising that there is still scope for improvement.</p> <p>Performance on the speed of processing benefits claims is closely monitored with weekly reporting to the Chief Finance Officer and monthly reports to the Corporate Management Team (CMT). The most recent Customer Accounts Dashboard shows a significant improvement in processing times. Processing times for both new claims and changes in circumstances took an average of 28 days to process in August 2013, this has fallen to 15 days in August 2014.</p> <p>The Council have continued to provide training to benefits staff including some ad-hoc training for staff dealing with some of the more complex claims.</p> <p>We have assessed the Council's arrangements as adequate.</p>

---

# Independence

---

## Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated March 2014.
- ▶ We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code of Audit Practice and Standing Guidance. 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 confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.
- ▶ We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view.
- ▶ If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 22 September 2014.
- ▶ We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK&I) 260. Our communication plan to meet these requirements were set out in our Audit Plan of March 2014.

# Audit fees

## Audit fees

The table below sets out the scale fee and our final proposed audit fees.

	Proposed final fee 2013-14	Scale fee and planned fee 2013-14	Variation comments
Audit fee – Code work	£184,885	£184,885	Not applicable
Certification of claims and returns	Work is in progress	£41,463	Not applicable
Non-audit work	None undertaken		

- ▶ Our actual audit fee is in line with the planned fee and the Audit Commission scale fee at this point in time, subject to the satisfactory clearance of the outstanding audit work.
- ▶ Our fee for certification work is yet to be finalised for 2013-14 and will be reported to the Audit Committee after we complete the programme of work in November 2014.

# Appendix 1 - Corrected audit misstatements

- The following corrected misstatement has been identified during the course of our audit and warrants communicating to you.
- This item have been corrected by management within the revised financial statements.

## Balance Sheet and Statement of Comprehensive Income and Expenditure

Item of Account	Nature	Type	Balance Sheet	Statement of Comprehensive Income & Expenditure
	Description	F, P, J	Debit/(Credit)	Debit/(Credit)
	Understated business rates appeals provision	J		
Provisions			£1.9m Cr	
CIES				£1.9m Dr
General Fund				£1.9m Cr
Collection Fund adjustment account			£1.9m Dr	
The appeals provision in the Collection Fund is understated by £3.9m. This increases the deficit on the Collection Fund by £3.9m. The Council's share of the provision is £1.9m.				
Cumulative effect of uncorrected misstatement			Nil	Nil

### Key

- ▶ F – Factual misstatement
- ▶ P – Projected misstatement based on audit sample error and population extrapolation
- ▶ J – Judgemental misstatement

Ernst & Young LLP

---

© Ernst & Young LLP. Published in the UK.  
All Rights Reserved.

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

ey.com

In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's 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 Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report 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.

---



This page is intentionally left blank