

## CENTRAL BEDFORDSHIRE COUNCIL

At a meeting of the **AUDIT COMMITTEE** held in Room 15, Priory House, Monks Walk, Shefford on Monday, 28 September 2015

### PRESENT

Cllr M C Blair (Chairman)

Cllrs P Downing  
D J Lawrence  
R Morris

Cllrs D Shelvey  
A Zerny

Apologies for Absence: Cllr D Bowater

Substitutes: Cllr N B Costin (In place of D Bowater)

Members in Attendance: Cllrs F Firth  
Mrs J G Lawrence  
R D Wenham

Officers in Attendance: Mr R Gould                      Head of Financial Control  
Mr L Manning                      Committee Services Officer  
Ms K Riches                      Head of Audit  
Mr C Warboys                      Chief Finance Officer

Others In Attendance: Mrs C O'Carroll                      Manager - Ernst & Young LLP  
Mr M West                      Director - Ernst & Young LLP

### AUD/15/14 Minutes

#### RESOLVED

**that the minutes of the meeting of the Audit Committee held on 29 June 2015 be confirmed and signed by the Chairman as a correct record.**

### AUD/15/15 Members' Interests

None.

### AUD/15/16 Chairman's Announcements and Communications

The Chairman reported that he would be changing the running order of business and item 8 (Audit Results Report 2014/15) would now be considered

before item 7 (2014/15 Statement of Accounts) as it would more logical to consider them in that order.

The Chairman next advised the meeting that a Treasury Management Briefing would take place on 27 October 2015. He commented that he had attended a previous briefing and found it very interesting and insightful. He was aware that 25 Members had already registered for the Briefing, and commented that he would expect all members of the Committee to attend.

#### **AUD/15/17 Petitions**

No petitions were received from members of the public in accordance with the Public Participation Procedure as set out in Annex 2 of Part A4 of the Constitution.

#### **AUD/15/18 Questions, Statements or Deputations**

No questions, statements or deputations were received from members of the public in accordance with the Public Participation Procedure as set out in Annex 1 of Part A4 of the Constitution.

#### **AUD/15/19 Audit Results Report 2014/15**

Members considered the Audit Results Report from Ernst & Young LLP. The report informed the Committee of the work carried out by the Company in order to discharge its statutory audit responsibilities together with any governance issues identified. The report summarised the findings from the substantially completed 2014/15 audit and also included the messages arising from the audit of the Council's financial statements and the results of the work Ernst & Young had undertaken to assess the Council's arrangements to secure value for money in the use of its resources. The Ernst & Young Manager explained that the audit of the Cash Flow Statement, Note 28 (Segmental Reporting of Amounts Reported for Resource Allocation Decisions) and Whole of Government Accounts was still in progress.

The Ernst & Young Manager worked through the Audit Results Report highlighting various matters of note.

In response to a Member's query on Section 4 (Financial statements audit – issues and findings) and in particular the item on planning materiality and tolerable error the Ernst & Young Director explained the approach taken to determining this. Following further Member comment regarding the size of the planning materiality figure (£9.8m or 2% of gross expenditure) the Chief Finance Officer assured the Committee that there was definitely not a complacent attitude towards reducing errors but he stressed that the planning materiality figure of £9.8m needed to be seen in the context of total gross expenditure of £490.9m.

In connection with Section 5 (Arrangements to secure economy, efficiency and effectiveness) a Member referred to the impact of changes in staffing. In response, the Chief Finance Officer explained how the departure of the former Financial Controller coupled with sickness and other issues within the Financial Control team had caused additional pressures in producing the Council's Annual Statement of Accounts within the reporting deadline. Nonetheless, the Head of Financial Control and his team had risen to this challenge.

Arising from consideration of Section 6 (Independence and audit fees) the meeting noted the additional audit work undertaken by Ernst & Young on the teachers' pensions return. The Ernst & Young Manager advised that historically this work had been undertaken by the Audit Commission but local authorities were now free to choose who they wished to do it and the Council had appointed Ernst & Young. As it was outside its core work it had been disclosed and charged separately. The Chief Finance Officer advised that the work undertaken was an audit function and not consultancy.

With regard to Section 7, Appendix A, the Ernst & Young Manager drew Members' attention to the misstatements in respect of Council Tax that had not been amended. She explained that officers' reasons for not amending the accounts were set out in the Letter of Representation and the Chief Finance Officer's report accompanying the revised Statement of Accounts (minute AUD/15/20 below refers).

Also with regard to Section 7 (Appendices) and specifically under 'Appendix B – corrected audit misstatements', the Ernst & Young Manager drew Members' attention to the overstated business rates appeals provision following a change in legislation setting a deadline for appeals to be lodged. She then explained that three additional errors had been identified; these being:

- Capital financing misclassified between direct revenue contributions and capital grants and contributions
- Grant income previously recognised in the Comprehensive Income and Expenditure Statement (CIES) as grant income with no conditions had been included in the Capital Grants Unapplied reserve and not applied for a number of years
- Errors made in accounting for monies received in respect of the Sundon landfill site.

The Ernst & Young Manager stressed that none of these errors had an impact on the General Fund bottom line for 2014/15.

In response to a query by the Chairman the Head of Financial Control stated that there was a specific earmarked reserve of £441k to fund future reinstatement costs at Sundon Landfill site rather than, as previously accounted for, as a contribution receipt in advance. In response to a query from a Member the Head of Financial Control confirmed that the funding identified was to meet the costs of future reinstatement works at the Sundon site including removal of the existing temporary road to the site within the next 18 months as was scheduled.

In conclusion the Ernst & Young Director stated that the impact of the various corrections was to improve the Council's overall financial position.

**NOTED**

**the Audit Results Report from Ernst & Young LLP setting out the results of its 2014/15 audit.**

**RESOLVED**

**that an updated version of the Audit Results Report setting out additional information, as reported in the preamble above, be attached to the minutes of the meeting.**

(Note: A copy of the updated Audit Results Report is attached at Appendix A).

**AUD/15/202014/15 Statement of Accounts**

The Committee considered a report by the Chief Finance Officer which presented the 2014/15 Statement of Accounts for approval. A copy of the annual accounts document was attached at Appendix A to the Chief Finance Officer's report.

In addition a table setting out various amendments to the annual accounts document included with the agenda, was circulated at the meeting. The Head of Financial Control informed the meeting that the amendments, which reflected either corrections of typographical errors or instances where some specific numbers in the notes to the accounts had not been updated in line with the changes reported, had no impact on the General Fund balance.

A copy of the table of amendments is attached at Appendix B to these minutes.

The Committee was aware that the annual accounts had to be published with the audit opinion and certificate by no later than 30 September following the end of the financial year. In advance of this the accounts needed to be approved by Members. Approval was, therefore, required at this meeting of the Audit Committee. In addition, auditing standards required an authority's external auditor to obtain appropriate written representation from the council about the financial statements and governance arrangements. As a result the Committee was also asked to approve a draft letter of representation to its external auditor, Ernst & Young LLP. A copy of the letter was attached at Appendix B to the Chief Finance Officer's report.

Members were reminded that, as required by the Accounts and Audit Regulations, the Chief Finance Officer had certified the draft 2014/15 annual accounts on 29 June 2015. A presentation to explain the key figures within the accounts had been made to the Audit Committee and other Members at its meeting on the same day (minute AUD/15/6 refers) followed by a period of public inspection which had closed on 31 July. The annual accounts had also been subject to an external audit validation by Ernst & Young and the resulting

Audit Results Report, which formed item 8 on the agenda, had already been considered (minute AUD/15/19 above refers).

The Head of Financial Control worked through the annual accounts document explaining to Members the background to the corrections made to the misstatements identified through the audit process and outlining why the Collection Fund related misstatements identified within the Audit Results Report had not been corrected in 2014/15. He explained that the corrected misstatements related to the classification of capital financing transactions or the application of historical capital resources or errors made in the presentation of financial information. Corrections made in respect of the application of capital resources had the impact of reducing the Council's borrowing requirement and associated revenue costs from 2015/16.

The Head of Financial Control explained that the uncorrected misstatements related to arrears in respect of Council Tax and associated recovery costs. He explained that it was important to note that the Revenues system for Council tax and business rates had complete and accurate records for all taxpayers and there was no impact on debt recovery activity. The issue identified through the audit process was that the overall value for Council taxpayers arrears was understated in the Council's accounting system. A correction to the position would improve the financial position of the Collection Fund and the General Fund balance. The corrections had not been made in the 2014/15 statements to allow further work to be carried out to confirm the values. It was planned that the impact on the Council and major preceptors of any corrections would be confirmed in time to update forecasts used for 2016/17 budget setting.

In response Members welcomed this action as the increased accuracy which resulted was viewed as producing more effective governance. Following an enquiry from a Member the Head of Financial Control confirmed that all the legacy council issues identified through the audit process had been addressed and that a number of changes to the final accounts process for the current year would assist in further improving levels of assurance. He indicated that he did not know of any identified legacy council issues that had not been addressed.

The Head of Financial Control confirmed that the audit of the Cash Flow Statement, Note 28 (Segmental reporting) and Whole of Government Accounts was still in progress. He expected that both the Cash Flow Statement and Note 28 would be amended to reflect the various changes outlined in the Audit Results Report.

## **RESOLVED**

- 1 that the 2014/15 Statement of Accounts for Central Bedfordshire Council, as set out at Appendix A to the report of the Chief Finance Officer and incorporating those amendments set out in the table circulated at the meeting by the Head of Financial Control, be approved;**
- 2 that the Chairman be authorised to approve and sign a revised version of the 2014/15 Statement of Accounts and Letter of Representation if changes were required following the completion**

**of the audit to the Cash Flow Statement with its associated notes and Note 28 – Amounts Reported for Resource Allocation Decisions;**

- 3 that the Annual Governance Statement for 2014/15, previously approved at the meeting of the Audit Committee on 29 June 2015, be included with the published 2014/15 Statement of Accounts;**
- 4 that the draft Letter of Representation, as set out at Appendix B to the report of the Chief Finance Officer, be approved for submission to the Council's external auditor, Ernst & Young LLP, and that the Chairman of the Audit Committee and the Chief Finance Officer be authorised to sign it.**

### **AUD/15/21 External Audit Progress Report**

Members considered a report from Ernst & Young LLP which provided an update on the progress made by the company in carrying out the Council's 2014/15 audit. The report also included, as appendices, two briefing documents which covered issues which might have an impact on the Council, the local government sector and audits undertaken by Ernst & Young.

The Ernst & Young Manager introduced the report before turning to the local government audit committee briefing documents. The Ernst & Young Manager worked through the June briefing document highlighting the changes to the management of transport infrastructure assets (TIAs) and the major accounting and auditing implications for all highway and some non highway authorities. The meeting noted that TIAs within local government were to be valued on a Depreciated Replacement Cost (DRC) basis with effect from 1 April 2016 though the change was to be applied retrospectively and thus required valuations as at 1 April 2015 and comparative values for 2015/16. The Head of Financial Control stated that the Council's current highways contractor had already been undertaking valuation work for this purpose.

A Member queried whether any long term liability would arise on TIAs but the Ernst & Young Manager explained that this would not occur as the recommended value was only being recorded on local authority balance sheets.

The Ernst & Young Manager introduced the September briefing document, again highlighting matters of interest.

### **NOTED**

- 1 the report on the progress of External Audit work on the 2014/15 audit;**
- 2 the local government audit committee briefings for June and September 2015.**

## **AUD/15/22 Internal Audit Progress Report**

The Committee considered a report outlining the progress made on Internal Audit work against the 2015/16 Audit Plan up to the end of August 2015.

Amongst the matters considered were the following:

- Background
- Fundamental System Audits
- Other Audit Work
- National Fraud Initiative (NFI)
- Fraud and Special Investigations
- Schools
- Public Sector Internal Audit Standards Update
- Performance Management

The Head of Internal Audit and Risk introduced the report. With regard to the National Fraud Initiative (NFI) she reported that the review of the Single Person's Council Tax Discount had now resulted in an extra £300k in Council Tax collectable receipts. The Head of Financial Control added that there were plans to maintain the review as an ongoing exercise.

The Head of Internal Audit and Risk reported that there was currently a vacancy in her small team for one Audit Manager and this had impacted on productivity levels. However, she was also able to report that a replacement officer had been appointed and he was due to start in November.

### **NOTED**

**the progress made against the 2015/16 Internal Audit Plan.**

## **AUD/15/23 Risk Update Report**

The Committee considered a report which provided an overview of the Council's risk position as at September 2015.

The Head of Internal Audit and Risk introduced the report, including the Risk Register Dashboard attached at Appendix A to the report. She drew Members' attention to the key revisions relating to the following:

- strategic risks
- operational risks
- emerging risks

The Committee was advised that, although risks had been regularly reviewed and updated, a fundamental review and refresh of the strategic risk register had not taken place since July 2013. In view of the probability of continuing funding reductions, changes in government policy and changes in service provision another fundamental review had been scheduled following the next

financial settlement in December. A report on the outcome of the review would be submitted to the Committee at its meeting on 4 April 2016.

The Executive Member for Corporate Resources referred positively to the progress made in the adoption of a Community Infrastructure Levy (CIL) (STR0027) given the significant financial risk of a loss of income from s106 receipts. However, he queried whether this risk was adequately reflected in the scoring. In response the Chairman stated that the query would be considered further by the officers.

A brief discussion took place during which a Member commented on the importance of reputational risk and how this stood separately from financial risk.

**NOTED**

**the strategic and operational risks facing Central Bedfordshire Council as set out in the Risk Register Dashboard attached at Appendix A to the report of the Chief Finance Officer and Head of Internal Audit and Risk.**

**AUD/15/24.Tracking of Internal Audit Recommendations**

The Committee considered a report which summarised the high priority recommendations arising from Internal Audit Reports and the progress made in implementing them.

**NOTED**

**the report setting out the high priority recommendations arising from Internal Audit reports and the progress made in implementing the recommendations to date.**

**AUD/15/25.Work Programme**

Members considered a report which set out the Committee's proposed work programme for the 2015/16 municipal year.

**RESOLVED**

**that the proposed Audit Committee work programme for the remainder of the 2015/16 municipal year, as attached at Appendix A of the report of the Committee Services Manager and Committee Services Officer be approved.**

(Note: The meeting commenced at 10.00 a.m. and concluded at 11.50 a.m.)

Chairman .....

Dated .....

# Central Bedfordshire Council

APPENDIX A

## Audit Committee Summary

For the year ended 31 March 2015

Audit Results Report – ISA (UK and Ireland) 260

September 2015

*Updated following the 28 September 2015 Audit Committee*

***ALL UPDATES ARE SHOWN IN BOLD ITALICS***



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Section 1

# Executive summary

# Executive summary – key findings

*We have revised the report presented to the 28 September 2015 Audit Committee with the updated information we provided at the meeting and with the results on the work outstanding at 28 September 2015. These are shown in bold italics throughout the report*

## 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 2014/15 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

- ▶ We expect to issue an unqualified opinion on the financial statements. Our audit results demonstrate, through the few matters we have to communicate, that the Council has prepared its financial statements adequately. ***Update - we issued an unqualified opinion on 30<sup>th</sup> September 2015.***

### Value for money

- ▶ We expect to conclude that you have made appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources. ***Update - we issued an unqualified value for money conclusion on 30<sup>th</sup> September 2015***

### Whole of Government Accounts

- ▶ We do not expect to have to report any significant matters to the National Audit Office (NAO) regarding the Whole of Government Accounts submission. ***Update - we reported our findings to the National Audit Office on 1<sup>st</sup> October 2015.***

### 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. ***Update – the audit certificate was issued on 6<sup>th</sup> October 2015, following the completion of our work on Whole of Government Accounts.***

Section 2

# Extent and purpose of our work

# 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 2014/15 financial statements and the consistency of other information published with them
  - ▶ Report on an exception basis on the Annual Governance Statement
  - ▶ 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)
  - ▶ Discharge the powers and duties set out in the Audit Commission Act 1998 and the Code of Audit Practice

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

As a component auditor, we also follow the NAO group instructions and report the results on completion of the WGA work through the Assurance Statement to the NAO and to the Council..

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.

Section 3

# Addressing audit risks

# Addressing audit risks – significant audit risks

We identified the following audit risks 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 those issues.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a high likelihood of occurrence and a high magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

Audit risk identified within our audit plan	Audit procedures performed	Assurance gained and issues arising
<p>Significant audit risks (including fraud risks)</p> <p>Accounting for schools</p> <p>CIPFA has set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2014-15 Appendix E its view on this issue. This is that, based on the indicators of control within IFRS 10, the balance of control lies with local authorities for all maintained schools. The definition of maintained schools includes community voluntary controlled, voluntary aided, foundation, community special, foundation special and nursery schools.</p> <p>The Code requires the recognition of schools' property, plant and equipment in line with relevant accounting standards.</p> <p>CIPFA has subsequently issued in December 2014 LAAP Bulletin 101 'Accounting for Non-Current Assets Used by Local Authority Maintained Schools'. This suggests that where religious bodies provide buildings to voluntary aided and voluntary controlled schools, and these bodies are able to withdraw the buildings at any point, the buildings would not be an asset of the school. In this case they would therefore not be included in the Council's balance sheet.</p>	<p>Having reviewed the arrangements in place at the different categories of school the Council concluded that :</p> <ul style="list-style-type: none"> <li>for community schools ownership of all land and buildings (with the exception of some playing fields) lies with the Council and these schools should continue to be included in the balance sheet;</li> <li>voluntary aided, voluntary controlled and foundation schools should not be included in the balance sheet.</li> </ul> <p>No changes in accounting for schools were required.</p> <p>We have:</p> <ul style="list-style-type: none"> <li>had meetings with the Council's finance team to discuss the issues.</li> <li>Sought an assessment by the Council setting out how they have considered the accounting for the different categories of school .</li> <li>Reviewed the relevant disclosures in the financial statements.</li> </ul>	<p>We have reviewed the Council's assessment which sets out the judgements made and we are satisfied that schools have been accounted for correctly in the statement of accounts.</p>

# Addressing audit risks – significant audit risks (cont'd)

- ▶ We identified the following audit risks 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 those issues.

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
<p>Significant audit risks (including fraud risks)</p> <p><b>Management override</b> As identified in ISA (UK and 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 , specifically provisions which include significant figures :               <ul style="list-style-type: none"> <li>• Non domestic rates (NDR) appeals provision (£5.7m) - ,we have reviewed the basis for the provision, the underlying calculations and confirmed data to the Valuation Office Agency website.</li> <li>• Provision for retirement benefits (£380m) - , we agreed the provision back to supporting information from the Council’s actuary. We have also obtained the report by PWC commissioned by the Audit Commission which reviews the work of all the actuaries who undertake work for local government pension schemes and have considered the findings from this.</li> </ul> </li> <li>▶ Evaluated the business rationale for any significant unusual transactions . We used our analytics data tool to review general ledger information and test transactions, We do not have anything to report as a result of this testing</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>• we identified that the NDR provision was overstated by £1.5m (£0.7m in respect of CBC share of 49%) but 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>

Section 4

# Financial statements audit – issues and findings

# 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 ,  
***Update - work on Note 28 Segmental Reporting, the Cash Flow statement and WGA was outstanding at the date of the Audit Committee.***
- ▶ 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 audit report on the financial statements.

## Uncorrected misstatements

- ▶ ***Update - We reported to the Audit Committee on 28 September two misstatements within the draft financial statements in respect of council tax debtors, which management had chosen not to adjust at this point in time. Having completed our work we need to report a further uncorrected misstatement in respect of the Cash Flow statement which management has chosen not to adjust.***
- ▶ We ask the Audit Committee to consider approving management's rationale as to why the correction has not been made and, if approved, include this in the Letter of Representation.  
***Update - A revised Letter of Representation, including the additional uncorrected misstatement in respect of the Cash flow statement was agreed with the Chairman of the Audit Committee prior to signing the revised accounts on 30 September 2015.***
- ▶ ***Update - Appendix A to this report sets out the uncorrected misstatements. This Appendix has been updated to reflect additional errors reported at the Audit Committee and the findings from the conclusion of our work on Note 28 Segmental Reporting and the Cash Flow statement.***

## Corrected misstatements

Our audit identified a number of misstatements which our team have highlighted to management for amendment. These have been corrected during the course of our work . Further details of the most significant amendments are provided at Appendix B.

## 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 Authority'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; and
- ▶ Other audit matters of governance interest.

We have no matters we wish to report.

# Financial statements audit – application of materiality

## 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	
<p>Planning Materiality and Tolerable error</p>	<p>We determined planning materiality to be £9.8 million (2013/14: £9.4 million), which is 2 % of gross expenditure reported in the accounts of £490.9 million .</p> <p>We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p> <p>We set a tolerable error for the audit. Tolerable error is the application of planning materiality at the individual account or balance level. It is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds planning materiality. The level of tolerable error drives the extent of detailed audit testing required to support our opinion.</p> <p>We have set tolerable error at the upper level of the available range because there were no corrected significant errors in the Council’s 2013/14 financial statements and no uncorrected errors.</p>
<p>Reporting Threshold</p>	<p>We agreed with the Audit Committee that we would report to the Committee all uncorrected audit differences in excess of £0.5m million (2014: £0.5 million).</p>

# Financial statements audit – internal control, written representations and 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.

Section 5

# Arrangements to secure economy, efficiency and effectiveness

# 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 Authority 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'

- ▶ Our Audit Plan presented to the Audit Committee on 30 March 2015 identified "Managing Finances" as a risk but did not highlight it as significant. After our Audit Plan was issued we re-considered whether financial resilience is a significant risk at our audited bodies. This was in response to discussions with our regulator, Public Sector Audit Appointments. EY has taken the view that where a council's savings plans, whether identified or not, are above our planning materiality (£9.8m at Central Bedfordshire Council), then the audit team should consider if there is a significant risk. We decided that we should recognise a significant risk for Central Bedfordshire Council as the savings required in the three years to 31 March 2018 are above our planning materiality.
- ▶ In response to this risk we have considered a range of factors which mitigate this risk, such as the Council's current financial position, its performance in the past and budget processes. Following this work we have concluded that we can give an unqualified conclusion on the value for money conclusion.
- ▶ We have no issues to report in relation to this criteria.

## Criteria 2 – arrangements for securing economy, efficiency and effectiveness

'Whether the Authority 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 .

Our work did not identify any other matters relating to aspects of your corporate performance and financial management framework which are not covered by the scope of the two specified criteria above.

# Addressing audit risks – significant VFM risks

As noted above we have identified a significant risk for the financial resilience criteria. Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the value for money conclusion is the risk that the auditor may issue the wrong value for money conclusion. Where auditors identify a significant value for money conclusion risk they will need to undertake additional audit work to enable them to reach an appropriate conclusion.

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
Financial Resilience	<p>In response to this risk we have considered the following factors:</p> <ul style="list-style-type: none"> <li>• historic financial performance, including the Council's ability to deliver challenging savings targets</li> <li>• current financial standing</li> <li>• processes for setting the budget, and the nature of the budget assumptions</li> <li>• competency of the Council's finance team</li> <li>• the political stability of the Council</li> </ul>	<p>The Council has a good record of identifying and making savings, and meeting its budget. For the period 2011/12 to 2014/15, the Council made cumulative savings of £64.1m while achieving its budget each year. The delivery of efficiencies continue to be monitored by the Efficiencies Implementation Group (EIG) which meets monthly and reports to Corporate Management Team (CMT).</p> <p>The General Fund balance at 31 March 2015 of £15.3m (<b>Update - amended accounts £15.2m</b>) is within the range set by the Chief Finance Officer. In addition the Council has earmarked reserves totalling £31m at 31 March 2015. Monitoring of both general and earmarked reserves takes place monthly to ensure these are correctly identified and are being used appropriately. The Council recognise that reserves cannot and should not be used to bridge the base budget gap in the absence of longer term plans to make the necessary savings.</p> <p>The Council has established an effective processes for setting its budget. The process for 2015/16 built on that adopted in the prior year with a series of "Head of Service Reviews" at an early stage. This process was refined following input from Senior Management across the Council and key stakeholders. The Council has made reasonable assumptions in setting the budget and updating the Medium Term Financial Plan.</p> <p>There is an experienced finance team and senior management are focussed on management of financial position.</p> <p>There have been no significant changes in policies and priorities that would give rise to uncertainty over the Council's financial position.</p>

As set out above we have identified a significant risk for the financial resilience criteria. This follows discussions between Public Sector Audit Appointments, our regulator, and the audit firms that undertake local government external audit regarding the challenging financial environment that our audited bodies face.

EY has decided that where the savings gap, irrespective of whether savings have been identified or not, is more than our planning materiality, we should consider whether there is a significant risk at our clients. Our review of the savings required in the three years to 31 March 2018 at Central Bedfordshire Council suggested that these are approximately £13m.

The Medium Term Financial Plan (MTFP) includes the New Homes Bonus (NHB) at the 2014-15 level of £7m in its estimate of government funding for 2016-17 and 2017-18. The future of this funding is not certain from 2016-17 onwards and potentially adds a further £14m ( 2 years @£7m) to the gap. The Council is satisfied that it has recognised this risk by including funding for future years at the 2014-15 level although the Council expects to receive some £9m in 2015-16. "

Section 6

# Independence and audit fees

# Independence and audit fees

## Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 5 March 2015.
- ▶ We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code 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 28 September 2015.

- ▶ We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements were set out in our Audit Plan of 5 March 2015.

## Audit fees

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

	Proposed final fee 2014/15	Scale fee 2014/15	Variation comments
	£	£	
Audit Fee: Code work	185,955	185,955	n/a
Certification of claims and returns	Work is in progress	33,210	n/a
Non-Audit work - Teachers' Pensions return	15,000	n/a	n/a

- ▶ Our actual fee is in line with the agreed fee at this point in time, subject to the satisfactory clearance of the outstanding audit work.
- ▶ We confirm that we have not undertaken any non-audit work outside of the Audit Commission's Audit Code requirements other than certification of the 2013-14 Teachers' Pensions return .

Section 7

# Appendices

# Appendix A – uncorrected audit misstatements

- ▶ The following misstatements, which are greater than £0.5m, have been identified during the course of our audit and in our professional judgement warrant communicating to you as those charged with governance.
- ▶ These items have not been corrected by management.

## Balance sheet and statement of comprehensive income and expenditure

Item of account	Nature	Type	Balance sheet	Comprehensive income and expenditure statement
	Description	F, P, J	Debit/(credit)	Debit/(credit)
1. Debtors CIES MiRS adjustment Collection Fund Adjustment A/c	Council Tax arrears in the Collection Fund are understated by £1.7m, of which £1.5m relates to Central Bedfordshire Council. The bad debt provision is based on the correct figure.	F	Dr £1.5m  Cr £1.5m	Cr £1.5m Dr £1.5m
2. Debtors CIES	Court costs in respect of Council Tax are understated by £0.8m.	F	Dr £0.8m	Cr £0.8m
<b>3. Cash Flow</b>	<b><i>The “Adjustments to the net surplus on the provision of services for non cash movements” line in the Cash Flow statement includes an unreconciled balance of £2.4m.</i></b>			
1 and 2 - The Council will carry out additional work to confirm the value of the error and identify the impact on the Collection Fund. It is understood that these errors have been carried forward from previous years.				
Cumulative effect of uncorrected misstatement	<b><i>Council tax income and debtors are understated by £2.3m</i></b> - although the gain would not be available until 2016-17.			

### Key

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

# Appendix B – corrected audit misstatements

- ▶ The following corrected misstatements, greater than £0.5m, have been identified during the course of our audit and warrant communicating to you.
- ▶ These items have been corrected by management within the revised financial statements.

## Balance sheet and statement of comprehensive income and expenditure

Item of account	Nature Description	Type F, P, J	Comprehensive income and expenditure statement	
			Balance sheet Debit/(credit)	Debit/(credit)
1. Capital grants (receipts in advance) Taxation and non-specific grants income MiRS adjustments Capital adjustment account	Past Section 278 capital grants held as receipts in advance after the conditions for their application have been met.	F	Dr £2.8m   Cr £2.8m	Cr £2.8m  Dr £2.8m
2. Taxation and non-specific grant income and expenditure Provisions MiRS adjustments Unusable reserves	Overstated business rates appeals provision. The provision made included an amount for appeals not yet lodged, however, following a change of legislation setting a deadline for appeals to be lodged, the provision was overstated. (Note that the overall provision is overstated by £1.5m in the Collection Fund – and these entries show the impact on the Council).	F	  Dr £0.7m  Cr £0.7m	Cr £0.7m  Dr £0.7m
3. 2013-14 comparatives within Unusable reserves Revaluation reserve Capital adjustment account (CAA)	Correction of 2013-14 error. Adjustments were not made to write out of the revaluation reserve revaluation balances for sold or scrapped assets.		   Dr £3.5m Cr £3.5m	
Cumulative effect of corrected misstatement	1. Reduces the capital financing requirement by £2.8m 2. Increase business rates income by £0.7m – but the gain will not be recognised until 2016/17			

### Key

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

# Appendix B – corrected audit misstatements continued - *updated following 28 September 2015 Audit Committee*

- ▶ The following corrected misstatements, greater than £0.5m, have been identified during the course of our audit and warrant communicating to you.
- ▶ These items have been corrected by management within the revised financial statements.

## Balance sheet and statement of comprehensive income and expenditure

Item of account	Nature Description	Type F, P, J	Comprehensive income and expenditure statement	
			Balance sheet Debit/(credit)	Debit/(credit)
<b>4. CIES net cost of service Taxation and non-specific grants income</b>	<b>Capital financing misclassified between direct revenue contributions and capital grants and contributions.</b>	<b>F</b>		<b>Cr £1.1m Dr £1.1m</b>
<i>MiRS adjustment – capital grants and contributions applied</i>				<b>Cr £1.1m</b>
<i>MiRs adjustment – capital expenditure charged against the GF and HRA.</i>				<b>Dr £1.1m</b>
<i>Capital adjustment account - capital financing applied</i>			<b>Dr £1.1m</b>	
<i>Capital adjustment account - capital expenditure charged against GF and HRA</i>			<b>Cr £1.1m</b>	
<b>5. Capital Grants unapplied Capital Adjustment account</b>	<b>Grant income previously recognised in the CIES as grant income with no conditions had been included in the Capital Grants Unapplied reserve and not applied for a number of years .</b>	<b>F</b>	<b>Dr £1.5m</b>	<b>Cr £1.5m</b>
<b>Cumulative effect of corrected misstatement</b>	<b>4. Misclassification , no impact on CIES or balance sheet . 5. Reduces the capital financing requirement by £1.5m.</b>			

### Key

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

# Appendix B – corrected audit misstatements continued

- ▶ The following corrected misstatements, greater than £0.5m, have been identified during the course of our audit and warrant communicating to you.
- ▶ These items 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	Comprehensive income and expenditure statement
	Description	F, P, J	Debit/(credit)	Debit/(credit)
<b>6. CIES net cost of service MiRS adjustments</b>	<b>Errors made in accounting for monies received in respect of the Sundon landfill site.</b>	<b>F</b>		<b>Cr 0.569m</b>
			<b>Dr 0.569m</b>	
			<b>Cr 0.441m</b>	
			<b>Cr 0.128m</b>	
<b>7. Cash flow statement</b>	<b>Subsequent to our report to the Audit Committee there were a number of amendments to the Cash Flow statement.</b>	<b>F</b>	<b>0</b>	<b>0</b>
	<b>These changes had no impact on the Balance Sheet or CIES and were agreed with the Chairman of the Audit Committee prior to signing the revised accounts on 30 September 2015</b>			
<b>Cumulative effect of corrected misstatement</b>	<b>6. Increase in earmarked reserves of £0.441m, and reduction in the capital financing requirement of £0.128m.</b>			
	<b>7. These changes had no impact on the Balance Sheet or CIES.</b>			

### Key

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

# Appendix B – corrected audit misstatements (cont'd)

## Disclosures

Disclosure	Description of misstatement
<p>There have been a number of changes to disclosure notes, the most significant are reported here.</p>	
<p>1. Note 28 –Amounts Reported for Resource Allocation decisions .</p>	<p>In the first table in Note 28, Employee Expenses understated by £2.5m and Other Services Expenses overstated by the same amount.</p> <p><b>Update - Subsequent to our report to the Audit Committee there were further changes to Note 28 disclosures. These changes had no impact on the Balance Sheet or CIES and were agreed with the Chairman of the Audit Committee prior to signing the revised accounts on 30 September 2015.</b></p>
<p>2. The Collection Fund</p>	<p>In addition to the amendment made to the business rates appeals provision there have been a number of changes to the format of the Collection Fund to improve the presentation and to correct errors that are below our reporting threshold.</p>

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				Published Agenda	Corrected		Change
Agenda Item 7 page No	Statement of Accounts Page No	Item		£000	£000	Reason	£000
23	15	Movement in Reserves Statement	Earmarked General Fund Reserves - Balance at 31 March 2015	(31,579)	(31,561)	Typographical - figure not updated in published Committee report	corrected
25	17	Comprehensive Income and Expenditure Statement (CIES)	Total Cost of Services - Total Gross Expenditure	489,302	489,403	Total Casting error Increased expenditure	101
25	17	Comprehensive Income and Expenditure Statement (CIES)	Total Cost of Services - Total Gross Income	(300,125)	(300,227)	Total Casting error increased Income	(102)
26	18	Balance Sheet	Short Term Creditors	43,971	43,977	Typographical line item no change to totals	corrected
57	50	Note 7 - Adjustments between accounting basis and funding basis under regulations	Amount by which NDR income credit to CIES differs from NDR calculation for the year in accordance with statutory provisions. Figure for movement in Unusable reserves - end column.	822	882	Typographical line item no change to totals	corrected
60	52	Note 8 - Transfers to / from Earmarked Reserves	Insurance reserve - transfers in 14/15	667	651	Note not updated for published Committee	(16)

						report	
60	52	Note 8 - Transfers to / from Earmarked Reserves	Insurance reserve - balance at 31/3/15	4,296	4,280	Note not updated for published Committee report	(16)
60	52	Note 8 - Transfers to / from Earmarked Reserves	Total Corporate Reserves - transfers in 14/15	5,966	5,950	Note not updated for published Committee report	(16)
60	52	Note 8 - Transfers to / from Earmarked Reserves	Total Corporate Reserves - balance at 31/3/15	14,808	14,792	Note not updated for published Committee report	(16)
61	53	Note 8 - Transfers to / from Earmarked Reserves	Total General Fund Earmarked Reserves - transfers in 14/15	12,182	12,166	Note not updated for published Committee report	(16)
61	53	Note 8 - Transfers to / from Earmarked Reserves	Total General Fund Earmarked Reserves - balance at 31/3/15	31,579	31,561	Note not updated for published Committee report - rounding difference £2k	(18)

81	73	Note 25 - Operating Activities Cash Flow	Capital grants credited to surplus or deficit on the provision of services	(39,008)	(40,637)	Typographical line item no change to totals	corrected
96	88	Note 35 - Grant Income - Credited to Taxation and Non-specific Grant Income and Expenditure	Council Tax Income	(132,043)	(132,171)	Not updated in line with other notes/statements	corrected
96	88	Note 35 - Grant Income - Credited to Taxation and Non-specific Grant Income and Expenditure	NDR Share of Income	(36,943)	(37,910)	Not updated in line with other notes/statements	corrected
96	88	Note 35 - Grant Income - Credited to Taxation and Non-specific Grant Income and Expenditure	NDR Levy	99	329	Not updated in line with other notes/statements	corrected
96	88	Note 35 - Grant Income - Credited to Taxation and Non-specific Grant Income and Expenditure	RSG and non-ring fenced government grants	36,992	(36,992)	Not updated in line with other notes/statements	corrected
96	88	Note 35 - Grant Income - Credited to Taxation and Non-specific Grant Income and Expenditure	Subtotal	(200,010)	(200,875)	Not updated in line with other notes/statements	corrected
		Explanatory Foreword - various tables updated before publication to reflect the reported changes to the audited statements.					

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