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

Building a better working world

Contents

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 30th 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 30th 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 1st 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 6th 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
Significant audit risks (including fraud risks)		
Accounting for schools 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. The Code requires the recognition of schools' property, plant and equipment in line with relevant accounting standards. 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.	Having reviewed the arrangements in place at the different categories of school the Council concluded that : • 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; • voluntary aided, voluntary controlled and foundation schools should not be included in the balance sheet. No changes in accounting for schools were required. We have: • had meetings with the Council's finance team to discuss the issues. • Sought an assessment by the Council setting out how they have considered the accounting for the different categories of school . • Reviewed the relevant disclosures in the financial statements.	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.

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
Significant audit risks (including fraud risks)		
Management override 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.	► Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; ► Reviewed accounting estimates for evidence of management bias , specifically provisions which include significant figures : • 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. • 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. ► 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	We found that: • journal entry controls were in place and operating effectively and • 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 . • adequate explanations were provided by management for material adjustments made in preparation of the financial statement.

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	
Planning Materiality and Tolerable error	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 . We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council. 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. 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.
Reporting Threshold	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).

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 ofthe 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 anumber 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 undertaken 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		
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. "	In response to this risk we have considered the following factors: • historic financial performance, including the Council's ability to deliver challenging savings targets • current financial standing • processes for setting the budget, and the nature of the budget assumptions • competency of the Council's finance team • the political stability of the Council	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). The General Fund balance at 31 March 2015 of £15.3m ***(Update - amended accounts £15.2m)*** 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. 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. There is an experienced finance team and senior management are focussed on management of financial position. There have been no significant changes in policies and priorities that would give rise to uncertainty over the Council's financial position.

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
3. Cash Flow	***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.***			
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	***Council tax income and debtors are understated by £2.3m*** - 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	Type	Balance sheet	Comprehensive income and expenditure statement
	Description	F, P, J	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	Type	Balance sheet	Comprehensive income and expenditure statement
	Description	F, P, J	Debit/(credit)	Debit/(credit)
4. CIES net cost of service Taxation and non-specific grants income	***Capital financing misclassified between direct revenue contributions and capital grants and contributions.***	***F***		***Cr £1.1m Dr £1.1m***
MiRS adjustment – capital grants and contributions applied MiRs adjustment – capital expenditure charged against the GF and HRA.				***Cr £1.1m Dr £1.1m***
Capital adjustment account - capital financing applied Capital adjustment account - capital expenditure charged against GF and HRA			***Dr £1.1m Cr £1.1m***	
5. Capital Grants unapplied Capital Adjustment account	***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 .***	***F***	***Dr £1.5m***	***Cr £1.5m***
Cumulative effect of corrected misstatement	***4. Misclassification , no impact on CIES or balance sheet . 5. Reduces the capital financing requirement by £1.5m.***			

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)
6. CIES net cost of service MiRS adjustments	***Errors made in accounting for monies received in respect of the Sundon landfill site.***	***F***		***Cr 0.569m Dr 0.569m***
Capital Grants receipts in advance Earmarked reserves CAA			***Dr 0.569m Cr 0.441m Cr 0.128m***	
7. Cash flow statement	***Subsequent to our report to the Audit Committee there were a number of amendments to the Cash Flow statement.*** ***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***	***F***	***0***	***0***
Cumulative effect of corrected misstatement	***6. Increase in earmarked reserves of £0.441m, and reduction in the capital financing requirement of £0.128m.*** ***7. These changes had no impact on the Balance Sheet or CIES.***			

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
There have been a number of changes to disclosure notes, the most significant are reported here.	
1. Note 28 –Amounts Reported for Resource Allocation decisions .	In the first table in Note 28, Employee Expenses understated by £2.5m and Other Services Expenses overstated by the same amount. ***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.***
2. The Collection Fund	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.

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ED None

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