

Central Bedfordshire Council

Annual Audit Letter for the year ended 31 March 2015

October 2015

Ernst & Young LLP



The Members
Central Bedfordshire Council
Priory House
Monks Walk
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SG17 5TQ

19 October 2015

Dear Members

Annual Audit Letter 2014/15

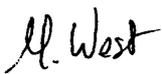
The purpose of this annual audit letter is to communicate the key issues arising from our work to the Members and external stakeholders, including members of the public.

We have already reported the detailed findings from our audit work in our 2014/15 Annual Results Report to the 28th September 2015 Audit Committee, representing those charged with governance. We do not repeat them here.

The matters reported here are those we consider most significant for the Council.

We would like to take this opportunity to thank officers for their assistance during the course of our work.

Yours faithfully



Mick West
Director
For and behalf of Ernst & Young LLP
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Relevant parts of the Audit Commission Act 1998 are transitionally saved by the Local Audit and Accountability Act 2014 (Commencement No. 7, Transitional Provisions and Savings) Order 2015 for 2014/15 audits.

The Audit Commission's 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the accountable officer 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 Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

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

1. Executive summary

Our 2014/15 audit work was undertaken in accordance with the Audit Plan issued in March 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by an Annual Governance Statement (AGS). In the AGS the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period. The Council is also responsible for having proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- forming an opinion on the financial statements, and on the consistency of other information published with them
- reviewing and reporting by exception on the Council's AGS
- forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources
- undertaking any other work specified by the Audit Commission and the Code of Audit Practice.

Summarised below are the results of our work across all these areas:

| Area of work | Result |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Audit of the financial statement of Central Bedfordshire Council for the financial year ended 31 March 2015 in accordance with International Standards on Auditing (UK & Ireland) | On 30 th September 2015 we issued an unqualified audit opinion on the Council's financial statements |
| Form a conclusion on the arrangements the Council has made for securing economy, efficiency and effectiveness in its use of resources | On 30 th September 2015 we issued an unqualified value for money conclusion. |
| Report to the National Audit Office on the accuracy of the consolidation pack the Council needs to prepare for the Whole of Government Accounts | We reported our findings to the National Audit Office on 1 st October 2015 |
| Consider the completeness of disclosures on the Council's AGS, identify any inconsistencies with other information which we know about from our work and consider whether it complies with CIPFA/ SOLACE guidance | No issues to report |
| Consider whether we should make a report in the public interest on any matter coming to our notice in the course of the audit | No issues to report |
| Determine whether we need to take any other action in relation to our responsibilities under the Audit Commission Act | No issues to report |
| <i>As a result of the above we have also:</i> | |
| Issued a report to those charged with governance of the Council with the significant findings from our audit. | Our Audit Results Report was issued on 28 th September 2015 to the Audit Committee. The Audit Results Report was subsequently updated to reflect the work completed prior to sign off of the accounts on 30 th September 2015 and circulated to members of the Audit Committee. |

Issued a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.

The certificate was issued on 6th October 2015 following completion of our work on Whole of Government Accounts (WGA).

In January 2016 we will also issue a report to those charged with governance of the Council summarising the certification of grant claims and returns work we have undertaken.

2. Key findings

2.1 Financial statement audit

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

We audited the Council's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and issued an unqualified audit report on 30 September 2015.

Our detailed findings were reported to the 28th September 2015 Audit Committee.

The main issues identified as part of our audit were:

Significant risk 1: Risk of misstatement due to fraud and error as a result of management override

This is a general risk we consider for the public sector bodies we audit. We obtained assurance that the risk of material misstatement due to fraud and error had been mitigated.

Significant risk 2: Accounting for schools

Following guidance issued by CIPFA in LAAP Bulletin 101 'Accounting for Non-Current Assets Used by Local Authority Maintained Schools', issued in December 2014, the Council reviewed its policy for accounting for schools. Having reviewed the arrangements in place at the different categories of school in Central Bedfordshire the Council concluded that no changes in accounting for schools were required. 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.

Other key findings:

The Audit Results Report reported that there were three misstatements in the audited financial statements which management had chosen not to amend. Two of these misstatements related to council tax, resulting in the Council's share of council tax income and debtors being understated by £2.3m. The council tax arrears figure on which recovery action is based is correct. 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.

In addition the Cash Flow Statement included an unreconciled balance of £2.4m. This unreconciled item does not impact on the outturn or the net worth of the Council as at 31 March 2015.

2.2 Value for money conclusion

As part of our work we must also conclude whether the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This is known as our value for money conclusion.

In accordance with guidance issued by the Audit Commission, our 2014-15 value for money conclusion was based on two criteria. We consider whether the Council had proper arrangements in place for:

- ▶ securing financial resilience, and
- ▶ challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 30 September 2015

Along with other public sector bodies, Central Bedfordshire is experiencing a reduction in its funding and increases in the demands for its services. The Council has medium term plans to keep its year on year spending in line with the reducing funding. Against this background, we assessed the Council's management of its finances as a significant risk for our value for money conclusion. We increased our focus on the Council's financial management.

Significant risk: Securing financial resilience

In response to this risk we considered a range of factors which mitigate this risk, such as the Council's current financial position, its performance in the past, budget processes, the competency of the finance team and the political stability of the Council.

We found no issues to report and issued our unqualified value for money conclusion.

2.3 Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. We reported that the pack was consistent with the audited financial statements and drew attention to the uncorrected misstatements noted above.

2.4 Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's AGS, identify any inconsistencies with the other information which we know about from our work, and consider whether it complies with relevant guidance. We completed this work and did not identify any areas of concern.

2.5 Objections received

We did not receive any objections to the 2014/15 financial statements from members of the public.

2.6 Other powers and duties

We identified no issues during our audit that required us to use powers under the Audit Commission Act 1998, including reporting in the public interest.

2.7 Independence

We communicated our assessment of independence to the Audit Committee on 28th September 2015. In our professional judgement the firm is independent and the objectivity of the director and audit staff has not been compromised within the meaning of regulatory and professional requirements.

2.8 Certification of grant claims and returns

We will issue the Annual Certification report for 2014/15 in January 2016.

3. Control themes and observations

As part of our work, we obtained enough understanding of internal control to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we must tell the Council about any significant deficiencies in internal control we find during our audit.

We did not identify any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in the Council's financial statements.

4. Looking ahead

| Description | Impact |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Earlier deadline for production and audit of the financial statements from 2017/18</p> <p>The Accounts and Audit Regulations 2015 were laid before Parliament in February 2015. A key change in the regulations is that from the 2017/18 financial year the timetable for the preparation and approval of accounts will be brought forward.</p> <p>As a result, the Council will need to produce draft accounts by 31 May and these accounts will need to be audited by 31 July.</p> | <p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>The Council is aware of this challenge and the need to start planning for the impact of these changes. This will necessarily include review of the processes for the production and audit of the accounts, including areas such as the production of estimates, particularly in relation to pensions and the valuation of assets, and the year end closure processes.</p> <p>The 2014/15 accounts were prepared earlier than in previous years in anticipation of the reduction in the time allowed to both complete and audit the financial statements from 2017/18, This should prove valuable in identifying improvements and process changes necessary to meet the new deadline.</p> |
| <p>Highways Network Assets (formerly Transport Infrastructure Assets):</p> <p>The Invitation to comment on the Code of Accounting Practice for 2016/17 sets out the requirements to account for Highways Network Assets under depreciated replacement cost from the existing depreciated historic cost. This is to be effective from 1 April 2016.</p> <p>This will be a material change of accounting policy for the Council. It will also require changes to existing asset management systems and valuation procedures.</p> <p>Relevant assets may also be held outside of the highways department, for example within the Housing Revenue Account, which will also have to be valued on the revised basis.</p> <p>Nationally, latest estimates are that this will add £1,100 billion to the net worth of authorities.</p> | <p>CIPFA has produced <i>LAAP bulletin 100</i>, which provides a suggested timetable for actions to prepare for this change. This has been supplemented by the issue of the <i>Code of Practice on Transport Infrastructure Guidance Notes (May 2015)</i> and <i>ITC (July 2015)</i>.</p> <p>This change will have major implications for highway authorities like Central Bedfordshire Council. This is a fundamental change in approach which will require new accounting and estimation approaches as well as amendments to existing systems, or implementation of new systems design and operation.</p> |
| <p>Better Care Fund</p> <p>The Better Care Fund (BCF) is a major policy initiative between local authorities, clinical commissioning groups (CCGs) and NHS providers with a primary aim of driving closer integration and improving outcomes for patients, service users and carers. From the 1 April 2015 BCFs have been set up as pooled budgets between local government and NHS partners using powers available under pre-existing legislation. The partners use the pooled funds to jointly commission or deliver health and social care services at a local level.</p> <p>Although local authorities, CCGs and NHS providers have experience of pooled budgets and established joint commissioning arrangements, pooled arrangements under BCF are likely to be on a much larger scale. Nationally the fund comprises a number</p> | <p>Local BCF arrangements may be complex and varied, involving a number of different commissioning, governance and accounting arrangements that raise risks of misunderstanding, inconsistencies and confusion between the partners. There are also structural, cultural and regulatory differences between local government and the NHS, and it is important that these are understood and considered by all of the partners in the operation of the pool.</p> <p>In October 2014 HFMA/CIPFA produced "<i>Pooled Budgets and the Better Care Fund</i>" which provides more detailed guidance on the governance and finance issues underpinning the operation of a pooled budget and the associated risks and challenges faced by local government and NHS partners.</p> |

| Description | Impact |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>of existing funding streams and will involve a minimum NHS spend of £3.8 billion together with other grant funding streams historically administered by local authorities.</p> <p>The detailed form of local pooled arrangements is not prescribed and is agreed between the partners.</p> | <p>In December 2014 NHS England approved the Better Care Fund Plan for Central Bedfordshire. The Plan was drawn up by the Council and Bedfordshire Clinical Commissioning Group and will create a minimum pooled fund of £15.3m in 2015/16 to support the delivery of integrated care with additional funding of £3.4m from the Adult Social Care budgets making a total of £18.7m.</p> |

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