



Central Bedfordshire
Council
Audit results report

Year ended 31 March 2017



Private and Confidential

27 September 2017

Dear Audit Committee Members

We have substantially completed our audit of Central Bedfordshire Council (the Authority) for the year ended 31 March 2017.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 03, before the statutory deadline of 30 September 2017. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources

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

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

We look forward to discussing with you any aspects of this report or any other issues arising from our work.

Yours faithfully

Neil Harris

Executive Director

For and on behalf of Ernst & Young LLP

United Kingdom

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk).

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment (updated September 2015)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature..

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

The background of the slide features a close-up, slightly blurred photograph of a person's hands. One hand is holding a white tablet device, and the other hand is visible behind it, suggesting interaction with the device. The overall color palette is warm and professional.

01 Executive Summary



Executive Summary

Overview of the audit

Scope and materiality

In our Audit Plan issued on 7 December 2016, we gave you an overview of how we intended to carry out our responsibilities as your auditor. We carried out our audit in accordance with this plan.

We planned our procedures using a materiality of £11.1 million. We reassessed this using the actual year-end figures, which has increased this amount to £11.7 million. The threshold for reporting audit differences has increased from £558,000 to £585,701. The basis of our assessment of materiality has remained consistent with prior years at 2% of gross revenue expenditure.

We also identified areas where misstatement at a lower level than materiality might influence the reader and developed a specific audit strategy for them. They include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits, where we reviewed a sample of payments, irrespective of value;
- Related party transactions, where we reviewed the Council's processes for identifying and disclosing such transactions; and
- Members' allowances, where we carried out a reasonableness assessment of the amount disclosed.

Status of the audit

We have substantially completed our audit of Central Bedfordshire Council's financial statements for the year ended 31 March 2017 and have performed the procedures outlined in our Audit plan. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 03. However until work is complete, further amendments may arise:

- Clearance of final queries
- Review of the final version of the financial statements
- Completion of subsequent events review
- Receipt of the signed management representation letter



Executive Summary

Executive summary (continued)

Status of the audit (continued)

We expect to issue the audit certificate at the same time as the audit opinion.

Audit differences

There are no unadjusted audit differences arising from our audit.

We have agreed amendments to disclosure notes with management.

Areas of audit focus

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

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

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

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



Executive Summary

Executive summary (continued)

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Plan we identified a significant risk related to the financial pressures facing the Council's medium and longer term plans.

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



Executive Summary

Executive summary (continued)

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. We have no matters to report as a result of this work to date but note we have not yet seen the Head of Internal Audit Opinion. We have performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We had no issues to report.

We have no other matters to report.

Control observations

We have not identified any significant deficiencies in the design of an internal control that might result in a material misstatement in your financial statements and which is unknown to you. We have adopted a fully substantive approach, so have not tested the operation of controls.

We have identified two areas for consideration by the Council. Further detail is in section 07 Assessment of the Control Environment.

- Expenditure and funding analysis - we were able to agree the disclosure per the financial statements at a high level but the Council may wish to consider the link between the EFA and its outturn reporting such that the two are more closely aligned.
- Valuations - the Council currently instructs the valuer to prepare a valuation at the 1 April and an impairment review is then carried out to determine whether there have been any material movements in valuation in the period to 31 March. We recommend the Council consider amending their instruction to the valuer to provide the detailed valuation at a date later in the year such that any movement in valuation between the valuation date and the year end is minimised.

Independence

Please refer to Appendix B for our update on Independence.





02

Areas of Audit Focus





Areas of Audit Focus

Audit issues and approach: Key issue: *Revenue and expenditure recognition*

Revenue and Expenditure Recognition

What are our conclusions?

Our testing has not identified any material misstatements from revenue and expenditure recognition.

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

What is the risk?

Risk of fraud in revenue recognition

Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In this public sector this requirement is modified by Practice Note 10, issued by the Financial Reporting council, which states that auditors should also consider the risk that material misstatements may occur by manipulating expenditure recognition.

What did we do?

- We reviewed and tested revenue recognition policies;
- We identified key accounting estimates most susceptible to management bias. This included estimates related to valuation and depreciation of property, plant and equipment, pension liabilities and the business rates appeals provision. We evaluated the judgments and decisions made by management in making the accounting estimate, including, where relevant, their reliance on specialists. We concluded that the bases of the estimates examined were reasonable;
- We developed a strategy for testing material revenue and expenditure streams. We tested a sample of revenue and expenditure items to supporting documentation and
- Undertook cut-off procedures around the year-end date to ensure transactions were allocated to the correct financial year.



In Audit Report



Significant Risk



Areas of Audit Focus

Audit issues and approach: Key issue: *Management Override*

Management override

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business

What is the risk?

Risk of management override

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

What did we do?

- We obtained a full list of journals posted to the general ledger during the year, and analysed them to identify any unusual journal types or amounts. We then tested a sample of these journals and tested them to supporting documentation;
- We identified key accounting estimates most susceptible to management bias and concluded that the bases of the estimates examined were reasonable; and
- We did not identify any significant unusual transactions.



In Audit Report



Significant Risk



03 > Audit Report



Audit Report

Draft audit report

Our opinion on the financial statements

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

Opinion on the Authority's financial statements

We have audited the financial statements of Central Bedfordshire Council for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority Comprehensive Income and Expenditure Statement,
- Authority Movement in Reserves Statement,
- Authority Balance Sheet,
- Authority Cash Flow Statement,
- Related notes 1 to 45,
- Housing Revenue Account Income and Expenditure Statement, the Movement on the HRA Statement and related notes HRA 1 to HRA 8; and
- Collection Fund and the related notes.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

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

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities set out on page 21, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.



Audit Report

Draft audit report (continued)

Our opinion on the financial statements (continued)

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2016/17 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Central Bedfordshire Council as at 31 March 2017 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Opinion on other matters

In our opinion, the information given in the Statement of Accounts 2016/17 for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

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

We have nothing to report in these respects



Audit Report

Draft audit report (continued)

Our opinion on the financial statements (continued)

Conclusion on Central Bedfordshire Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2015, as to whether Central Bedfordshire Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Central Bedfordshire Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

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

Conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2015, we are satisfied that, in all significant respects, Central Bedfordshire put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

We certify that we have completed the audit of the accounts of Central Bedfordshire Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.



04 Audit Differences



Audit Differences

Audit differences

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

Summary of adjusted differences

We include all known amounts greater than £8.7 million relating to Central Bedfordshire Council.

We considered the valuation of property, plant and equipment. In doing so, we:

- Reviewed the valuation report and supporting schedules provided by the Council's external valuer
- Reviewed the methodology adopted by the valuer
- Compared the indexation applied to the valuation supplied by the valuer as at 1 April 2016, to adjust for any material market movements to 31 March 2017, to industry valuation trends
- Consulted with EY valuation experts, as required, as to the appropriateness of the indices applied by the Council

Based on these procedures, we discussed with the Council the level of indexation applied to Council dwellings. We agreed the reflection of a 10% indexation would more accurately reflect the movement in the market, based on a range of industry data from both the Council's external valuer and other available industry trends. We also consulted internally with EY valuation experts. This has led to a material change of £40m which is reflected in Note 14 of the financial statements.

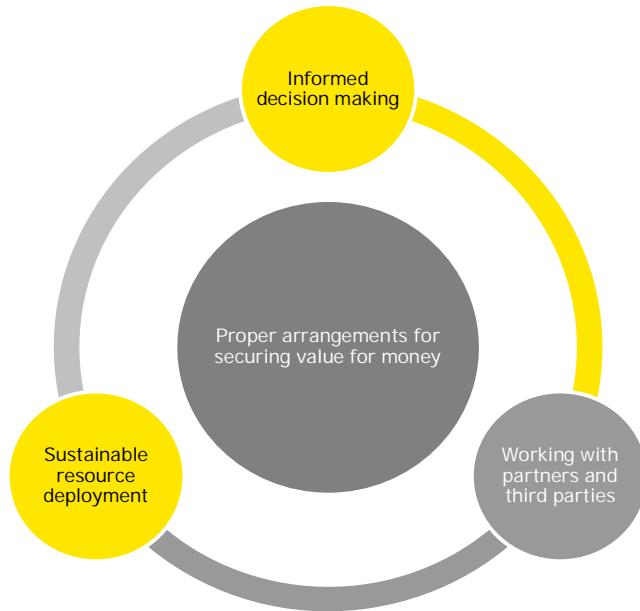
There were no other uncorrected misstatements.



05 Value for Money



Value for Money



Overall conclusion

We identified one significant risk around these arrangements. The table below present our findings in response to the risks in our Audit Plan.

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

Economy, efficiency and effectiveness

We must consider whether you have 'proper arrangements' to secure economy, efficiency and effectiveness in your use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- take informed decisions;
- deploy resources in a sustainable manner; and
- work with partners and other third parties.

In considering your proper arrangements, we use the CIPFA/SOLACE framework for local government to ensure that our assessment is made against an already existing mandatory framework which you use in documents such as your Annual Governance Statement.



Value for Money

VFM risks

We are only required to determine whether there is any risk that we consider significant within the Code of Audit Practice, where risk is defined as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks areas in our Audit Plan.

What is the significant VFM risk?	What arrangements did this affect?	What are our findings?
<p>Sustainability and Transformation Plans (STPs) give local NHS organisations and councils the opportunity to work together to improve the way health and social care is designed and delivered. The Bedford, Luton and Milton Keynes (BLMK) footprint encompasses 16 partners; and covers almost 1 million people with hugely diverse populations across areas. The partners have focussed on refining BLMK's 5 STP priorities, including planning and resourcing how changes will be implemented. The Plan recognises that there will be system-wide demand and financial pressures over the next five years, resulting in a consolidated BLMK deficit in 2020/21 of £311m. It also notes that:</p> <ul style="list-style-type: none">• BLMK's recurrent annual NHS deficit rises to £203m per annum by 2020/21.• A further recurrent deficit, estimated at £108m per annum, would need to be added as a result of unavoidable cost pressures surfacing in Council health and social care budgets which are not recovered.	Deploying resources in a sustainable manner	<p>We are satisfied that the Council had sound arrangements in place for working with its STP partners to develop governance arrangements and that it has engaged fully with the STP process. The Council, with the STP, is now finalising the governance arrangements that will allow it to move to a delivery model and demonstrate how the STP can contribute to the financial sustainability of the Council in the context of the STP footprint. BLMK is one of the eight STPs in the first wave Accountable Care Systems. As it moves to a delivery model, the STP is continuing to review how the governance structures will work in practice and how they will need to evolve.</p> <p>A key challenge for STPs is the need to foster good working relationships between partners and evidence from the Council is that improving relationships have allowed opportunities for chief executives, finance and governance leads to more effectively share good practices. The Chief Executive Group has been pivotal in allowing the STP partners to engage with each other and to promote this engagement throughout their organisations, and this is now permeating down to the Director of Finance group and to Chairs/Political leaders. The STP has also agreed a dedicated resource for clinical engagement. Increasing this collaboration with all stakeholders will facilitate management of the whole system. Difficult discussions and decisions will be required in the future; and the Council is working with its partners to develop robust governance arrangements to support this.</p> <p>The Council and its BLMK partners, as with other STPs, have further challenges to overcome in terms of the conflict between organisational and STP accountability; how to address the financial challenges presented and reach system wide solutions to these; how they can ensure performance against individual and system wide targets can be accurately reported, with robust data; and ensuring the governance structures agreed facilitate robust and efficient decision making.</p> <p>The Council has not yet included any potential savings from the STP work into its medium term financial plans. The Director of Finance Group is developing a finance reporting package with a first report due in August 2017.</p>



06 Other reporting issues



Other reporting issues

Other reporting issues

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

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2016/17 with the audited financial statements

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

Financial information in the Statement of Accounts 2016/17 and published with the financial statements was consistent with the audited financial statements.

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

Whole of Government Accounts

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

We anticipate having no issues to raise.



Other reporting issues

Other reporting issues

Other powers and duties

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

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

Other matters

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

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

We have no matters to report.



07

Assessment of Control Environment



Assessment of control environment

Financial controls

It is the responsibility of the Authority 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 Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

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

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

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

We have identified the following areas for consideration:

- Expenditure and funding analysis – this was a new disclosure for 2016/17. This note is intended to show how expenditure is used and funded from resources and how it is allocated for decision making purposes within the Council's reporting structure. We were able to agree the disclosure per the financial statements at a high level but the Council may wish to consider the link between the EFA and its outturn reporting such that the two are more closely aligned.
- Valuations - we have had detailed discussions this year related to the valuation as at 31 March 2017 of properties held within the HRA. We have undertaken additional audit procedures to ensure the valuation is within an acceptable range, including benchmarking with available market data and consultation with the EY Estates team. The Council currently instructs the valuer to prepare a valuation at the 1 April and an impairment review is then carried out to determine whether there have been any material movements in valuation in the period to 31 March. We recommend the Council consider amending their instruction to the valuer to provide the detailed valuation at a date later in the year such that any movement in valuation between the valuation date and the year end is minimised.



08 Appendices



Appendix A

Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have done this by:

Required communications	What is reported?	Our Reporting to you
		When and where
Terms of engagement	Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, including any limitations.	Audit Plan
Significant findings from the audit	<ul style="list-style-type: none">• Our view of the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures• Any significant difficulties encountered during the audit• Any significant matters arising from the audit that were discussed with management• Written representations we have requested• Expected modifications to the audit report• Any other matters significant to overseeing the financial reporting process• Findings and issues around the opening balance on initial audits (delete if not an initial audit)	Audit Results Report
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none">▶ Whether the events or conditions constitute a material uncertainty▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements▶ The adequacy of related disclosures in the financial statements	No conditions or events were identified, either individually or together to raise any doubt about Central Bedfordshire Council's ability to continue for the 12 months from the date of our report.
Misstatements	<ul style="list-style-type: none">▶ Uncorrected misstatements and their effect on our audit opinion▶ The effect of uncorrected misstatements related to prior periods▶ A request that any uncorrected misstatement be corrected▶ Significant corrected misstatements, in writing	Audit Results Report



Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Fraud	<ul style="list-style-type: none">▶ Asking the Audit Committee whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority▶ Unless all those charged with governance are involved in managing the entity, any fraud identified or information obtained indicating that a fraud may exist involving:<ul style="list-style-type: none">(a) management;(b) employees with significant roles in internal control; or(c) others where the fraud results in a material misstatement in the financial statements.▶ A discussion of any other matters related to fraud, relevant to Audit Committee responsibility.	We have asked management and those charged with governance about arrangements to prevent or detect fraud. We have not become aware of any fraud or illegal acts during our audit.
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, where applicable:</p> <ul style="list-style-type: none">▶ Non-disclosure by management▶ Inappropriate authorisation and approval of transactions▶ Disagreement over disclosures▶ Non-compliance with laws and/or regulations▶ Difficulty in identifying the party that ultimately controls the entity	We have no matters to report.
Subsequent events	<ul style="list-style-type: none">▶ Where appropriate, asking the Audit Committee whether any subsequent events have occurred that might affect the financial statements.	<p>We have asked management and those charged with governance.</p> <p>Our work on this area is not yet complete and we will consider whether any subsequent events have occurred that might affect the financial statements up to the date that the opinion is signed.</p>
Other information	<ul style="list-style-type: none">▶ Where material inconsistencies are identified in other information included in the document containing the financial statements, but management refuses to make the revision.	<p>Audit Results Report</p> <p>We have no matters to report.</p>
External confirmations	<ul style="list-style-type: none">▶ Management's refusal for us to request confirmations▶ We were unable to obtain relevant and reliable audit evidence from other procedures.	We have received all requested confirmations.



Appendix A

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Consideration of laws and/or regulations	<ul style="list-style-type: none">▶ Audit findings of non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on "tipping off"▶ Asking the audit committee about possible instances of non-compliance with laws and/or regulations that may have a material effect on the financial statements, and known to the audit committee.	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none">▶ Significant deficiencies in internal controls identified during the audit.	Audit Results Report
Independence	<p>Communication of all significant facts and matters that have a bearing on EY's objectivity and independence.</p> <p>Communicating key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none">▶ The principal threats▶ Safeguards adopted and their effectiveness▶ An overall assessment of threats and safeguards▶ Information on the firm's general policies and processes for maintaining objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity or independence and the appropriateness of safeguards,</p>	Audit Plan Audit Results Report
Fee Reporting	<p>Breakdown of fee information when the audit plan is agreed</p> <p>Breakdown of fee information at the completion of the audit</p> <p>Any non-audit work</p>	Audit Plan Audit Results Report
Certification work	Summary of certification work	The Certification Report will be presented to the Audit Committee in due course.



Appendix B

Independence

We confirm that there are no changes in our assessment of independence since our confirmation in our Audit Planning Board Report dated presented to the Audit Committee on 16 January 2017.

We complied with the APB Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit Committee on 27 September 2017.

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2017.

We confirm that we have undertaken no non-audit work outside the PSAA Code requirements. Non-audit work is work not carried out under the Code.

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

Description	Proposed fee 2016/17 £	Scale fee 2016/17 £
Total Audit Fee - Code work	136,466	136,466
Certification of claims and returns - housing subsidy claim ¹	26,910	26,910
Teachers' Pensions Return ²	10,000	n/a
Pooling of housing capital receipts return ³	4,000	n/a

All fees exclude VAT.

¹ Our fee for the certification of grant claims is based on the indicative scale fee set by the PSAA.

² The Teachers' Pensions return does not form part of the PSAA contract. We are currently finalising the engagement terms for this return.

³ The pooling of housing capital receipts return do not form part of the PSAA contract. We are currently finalising the engagement terms for this return.



Appendix C

Outstanding matters

The following items are outstanding at the date of this report:

Item	Actions to resolve	Responsibility
Clearance of final queries	Receipt and review of all final queries	EY and Management
Review of final version of financial statements	Receipt of final version of financial statements incorporating all agreed amendments and EY check of these	EY and Management
Management representation letter	Receipt of signed management representation letter	Management
Subsequent events review	Completion of subsequent events procedures to the date of signing the audit report.	EY and Management



Appendix D

Accounting and regulatory update

Accounting update

Since the date of our last report to the Audit Committee, new accounting standards and interpretations have been issued. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures	Impact on Central Bedfordshire Council
IFRS 9 Financial Instruments	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none">How financial assets are classified and measuredHow the impairment of financial assets are calculatedFinancial hedge accountingThe disclosure requirements for financial assets. <p>Transitional arrangements are included within the accounting standard, however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be and whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>Although some initial thoughts on the approach to adopting IFRS 9 have been issued by CIPFA, until the Code is issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Council will have to:</p> <ul style="list-style-type: none">Reclassify existing financial instrument assetsRemeasure and recalculate potential impairments of those assets; andPrepare additional disclosure notes for material items <p>The Council is awaiting clarification of the exact requirements before investing time in the above work.</p>



Appendix D

IFRS 15 Revenue from Contracts with Customers

Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:

- Leases;
- Financial instruments;
- Insurance contracts; and
- for local authorities; Council Tax and NDR income.

The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.

- There are transitional arrangements within the standard; however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be.

As with IFRS 9, some initial thoughts on the approach to adopting IFRS 15 have been issued by CIPFA. However, until the Code is issued there remains some uncertainty. However, what is clear is that for all material income sources from customers the Council will have to:

- Disaggregate revenue into appropriate categories
- Identify relevant performance obligations and allocate income to each
- Summarise significant judgements

The Council is awaiting clarification of the exact requirements before investing time in the above work.

IFRS 16 Leases

IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.

Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease in a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.

There are transitional arrangements within the standard, although as the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be or whether any statutory overrides will be introduced.

Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.

However, what is clear is that the Council will need to undertake a detailed exercise to classify all of its leases and therefore must ensure that all lease arrangements are fully documented.

The Council is has yet to commence work in this area due to the timing of implementation.



Appendix D

Accounting and regulatory update (continued)

Progress report on implementation of new standards and regulations

In previous reports to the Audit Committee, we highlighted the issue of new accounting standards and regulatory developments. The following table summarises progress on implementation:

Name	Summary of key measures	Impact on Central Bedfordshire Council
<i>Earlier deadline for production and audit of the financial statements from 2017/18</i>	<ul style="list-style-type: none">The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>To prepare for this change the Council has taken some steps in 2016/17. For example it has started to critically review and amend the closedown process to achieve earlier draft accounts production.</p> <p>As auditors, nationally we have:</p> <ul style="list-style-type: none">Issued a thought piece on early closedownAs part of the strategic Alliance with CIPFA jointly presented accounts closedown workshops across England, Scotland and WalesPresented at CIPFA early closedown events and on the subject at the Local Government Accounting Conferences in July 2017 <p>Locally we have had discussions through the year on the Council's proposals to bring forward the closedown timetable and on potential areas for early work.</p> <p>We have agreed with the Council to engage early, following the completion of the 2016/17 audit, to facilitate early substantive testing for 2017/18 and also to consider steps the Council can take, for example:</p> <ul style="list-style-type: none">Streamlining the Statement of Accounts removing all non-material disclosure notesBringing forward the commissioning and production of key externally provided information such as IAS 19 pension information, asset valuationsProviding training to departmental finance staff regarding the requirements and implications of earlier closedownRe-ordering tasks from year-end to monthly/quarterly timing, reducing year-end pressureEstablishing and agreeing working materiality amounts with the auditors



Appendix E

Management representation letter

Management Representation Letter

[To be prepared on the entity's letterhead]

[Date]

Ernst & Young
400 Capability Green
Luton
LU1 3LU

This letter of representations is provided in connection with your audit of the financial statements of Central Bedfordshire Council ("the Council") for the year ended 31 March 2017. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of Central Bedfordshire Council as of 31 March 2017 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

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

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

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, that are free from material misstatement, whether due to fraud or error.



Appendix E

Management Representation Letter (continued)

5. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, that are free from material misstatement, whether due to fraud or error.

6. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Council's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Council.

C. Compliance with Laws and Regulations

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

1. Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
2. Additional information that you have requested from us for the purpose of the audit; and
3. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

3. We have made available to you all minutes of the meetings of the Council and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: [list date].

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements,



Appendix E

Management Representation Letter (continued)

guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in Note [X] to the financial statements all guarantees that we have given to third parties.
4. The claim by [name of claimant] have been settled for the total sum of XXX which has been properly accrued in the financial statements. No other claims in connection with litigation have been or are expected to be received.

F. Subsequent Events

1. Other than..... described in Note [X] to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises [describe the other information applicable to the entity].
2. We confirm that the content contained within the other information is consistent with the financial statements.

Yours faithfully,

_____ (Chief Finance Officer)
_____ (Chairman of the Audit Committee)

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