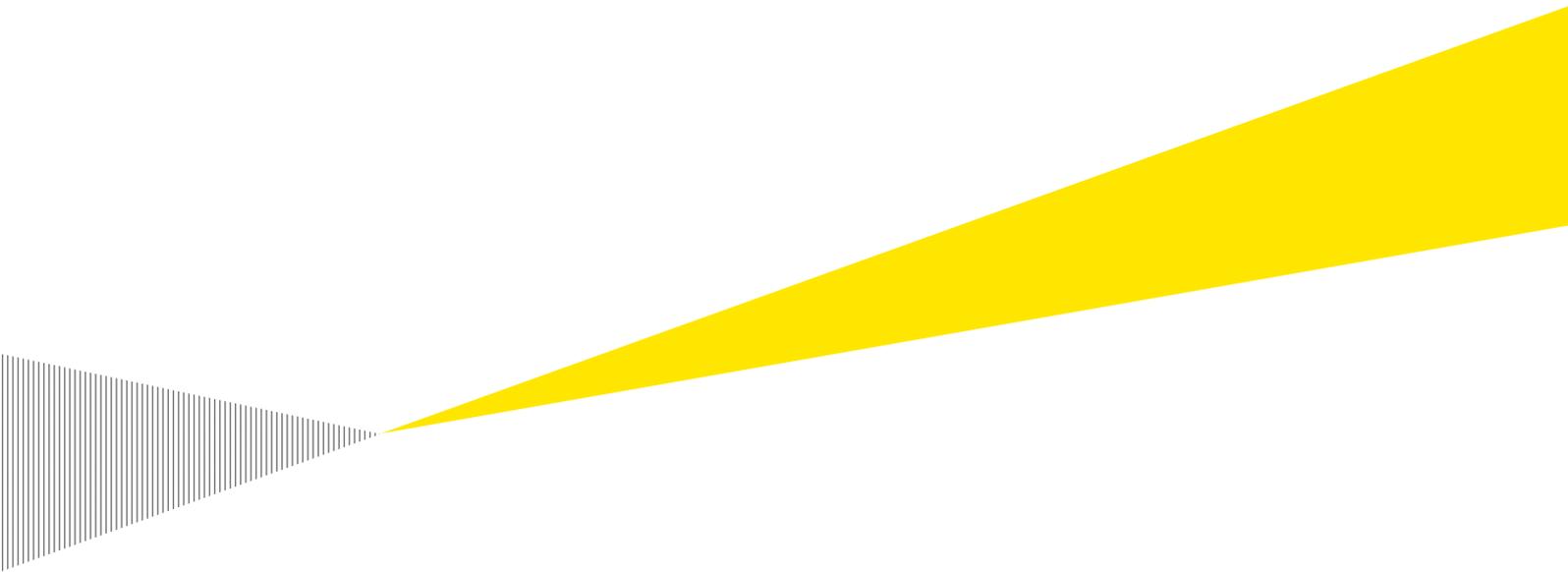


Central Bedfordshire Council

Audit Committee

External Audit Progress Report

14 March 2018



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working world



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14 March 2018

Audit Committee
Central Bedfordshire Council

Dear Committee Member

Audit Progress Report

We are pleased to attach our Audit Progress Report. Its purpose is to provide the Committee with an overview of the progress that we have made with the work that we need to complete during the 2017/18 audit. This report is a key mechanism in ensuring that our audit is aligned with the Committee's service expectations. We will bring a progress report to each Committee except for those where we will bring the Audit Plan or the Audit Results Report.

Our audit is undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, auditing standards and other professional requirements.

We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Neil Harris
Associate Partner
For and behalf of Ernst & Young LLP

Contents

2017/18 audit	1
Timetable.....	1

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 February 2017)" 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 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 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 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 our prior written consent.

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.

2017/18 audit

Audit status

This is our progress report for the 2017/18 audit year. Appendix A is a summary of the key deliverables and progress against these.

Audit Planning

We audit the Council's Statement of Accounts in accordance with the requirements of the National Audit Office's 2015 Code of Audit Practice, auditing standards and other professional requirements.

At the conclusion of our work, we provide an opinion on whether the financial statements give a true and fair view of the financial position of the Council and of its expenditure for the financial year under audit.

We completed our planning for the 2017/18 audit issued our Audit Plan in December 2017. The Audit Plan was presented to the Audit Committee at its meeting on 8 January 2018.

Significant risks

Our Audit Plan set out the significant and other risks we identified as part of planning procedures that influenced our audit strategy. The significant risks identified are:

- Risk of fraud in revenue and expenditure recognition

In our Audit Plan we set out that this risk is focused around those items of income and expenditure which are non-routine and involve more management estimation and judgment such as year-end income and expenditure accruals and provisions. We have carefully considered the revenue and expenditure streams of the Council and considered each against the risk of fraud in revenue and expenditure recognition. In making this assessment, we have considered:

- Our assessment of the control environment at Central Bedfordshire Council relevant to opportunities and incentives to commit revenue recognition fraud
- The statutory framework in place to regulate local government finance
- The nature of the financial regime established in local government
- The nature of the financial transactions undertaken by Central Bedfordshire Council, and whether these present both the opportunity and incentive to engage in material revenue manipulation

Having considered each of the streams, we have concluded that, in view of our understanding of the revenue and expenditure streams, the risk of material misstatement arising from inappropriate revenue recognition has a low likelihood of occurrence and is unlikely to be of a size which would be material to the users of the financial statements in the majority of cases. We have therefore rebutted the risk of fraud in revenue recognition in full. We have also rebutted the risk of fraud in expenditure recognition for all areas of expenditure, with the exception of 'Other service expenses'. Expenditure of £344 million was reported under this heading in 2016/17. It comprises a range of transactions, for example supplies and services and payments to contractors for services such as refuse collection but also items that are individually small and subject to individual invoice arrangements on a short term credit basis. Given the range of transactions included, we have concluded that there is a potential risk of manipulation in terms of recognition of expenditure and will tailor our audit testing to address this risk. We will keep this assessment under review and report to you any changes to this assessment.

- Management override

We have considered generic risk factors that could indicate how specific risks of management override manifests itself at the Council, such as the financial position and historic performance against budget. We have also considered the specific additional risks of management override as they relate to local government accounts. Based on our consideration of the key areas susceptible to management override we have concluded that the area that management have the greatest opportunity to override controls is within non system accruals where judgements and estimates are made.

We will update the Audit Committee with our findings in our Audit Results Report in July 2018.

Other areas of audit focus

As set out in the Audit Plan, we have identified areas that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report. These are:

- Valuation of land and buildings
- Pension liabilities
- Early closedown of accounts

In order to facilitate the earlier statutory deadline for the audit of the financial statements, we agreed with the Council a range of early substantive testing to be undertaken in February. We have completed work in the following areas:

- Month 9 data analytics – the Council provided M9 data analytics for the general ledger and payroll
- Substantive analytical reviews for council tax and non-domestic rates
- Precepts testing
- Expenditure testing – sample has been provided and evidence provided for 70% of the items. The finance team are continuing to add evidence to the shared folder.
- Income testing – sample has been provided and the finance team is gathering the required evidence to support which is being added to the shared folder.
- Grant income – work completed
- Journals – analysis completed to month 9
- Pension disclosures – work started
- Members allowances
- Significant contract review
- Payroll – interim work completed
- Property, plant and equipment – some work completed e.g. schools existence testing, depreciation, disposals
- Some disclosure notes including accounting policies

The audit team and the finance team will continue to work together to bring work forward, reducing pressure on both teams at the year-end audit. Key areas to consider are:

- Property, plant and equipment – additions
- Property, plant and equipment - information to support existence testing
- Property, plant and equipment – information to support valuations testing
- Any additional disclosure notes that can be drafted early

We have completed our walkthroughs of the Council's material financial systems which has confirmed our understanding of the systems in place at the Council.

We will be undertaking our audit of the draft financial statements in June/July 2018 and will report our findings in our Audit Results Report to the July Audit Committee.

Audit Committee Briefing

Our Audit Committee Briefing is one of the ways that we hope to continue to support you and your organisation in an environment that is constantly changing and evolving.

It covers issues which may have an impact on your organisation, the local government sector and the audits that we undertake.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing, as well as some examples of areas where EY can provide support to new and existing local government bodies.

The current briefing was circulated to members outside of the meeting. We hope that you find the briefing informative and should this raise any issues that you would like to discuss further please do contact your local audit team.

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