

Report of the External Auditor to the meeting of Governance and Audit Committee to be held on 21 November 2014.

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Subject:

The annual audit letter for the 2013/14 audits of City of Bradford Metropolitan District Council and West Yorkshire Pension Fund

Summary statement:

The annual audit letter summarises the key findings from our audits for 2013/14.

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Suzan Hemingway, City Solicitor

1. SUMMARY

The annual audit letter summarises the key issues arising from the audits of City of Bradford MDC and West Yorkshire Pension Fund for 2013/14 which have been reported previously to the Committee during the year.

The letter confirms that we gave unqualified audit opinions on the financial statements and the value for money conclusion.

The letter also summarises the key issues detailed in our Audit Completion Reports which we presented to Committee on 19 September.

2. BACKGROUND

Not applicable.

3. OTHER CONSIDERATIONS

None.

4. OPTIONS

Not applicable.

5. FINANCIAL & RESOURCE APPRAISAL

Not applicable.

6. RISK MANAGEMENT AND GOVERNANCE ISSUES

None.

7. LEGAL APPRAISAL

Not applicable.

8. OTHER IMPLICATIONS

8.1 EQUALITY & DIVERSITY

Not applicable.

8.2 SUSTAINABILITY IMPLICATIONS

Not applicable.

8.3 GREENHOUSE GAS EMISSIONS IMPACTS

Not applicable.

8.4 COMMUNITY SAFETY IMPLICATIONS

Not applicable.

8.5 HUMAN RIGHTS ACT

Not applicable.

8.6 TRADE UNION

Not applicable.

8.7 WARD IMPLICATIONS

Not applicable.

9. NOT FOR PUBLICATION DOCUMENTS

None.

10. RECOMMENDATION

That the Governance and Audit Committee considers the annual audit letter.

11. APPENDICES

Annual audit letter

12. BACKGROUND DOCUMENTS

None.

Annual Audit Letter 2013/14

City of Bradford Metropolitan District Council including West Yorkshire Pension Fund



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October 2014

Dear Members

Annual Audit Letter 2014

We are pleased to present to you the City of Bradford Metropolitan Borough Council 2013-14 Annual Audit Letter.

We carried out the audit in accordance with the Code of Audit Practice for Local Government bodies as issued by the Audit Commission and delivered all expected outputs in line with the timetable established by the Accounts and Audit Regulations 2011 and the National Audit Office.

2013/2014 has been another challenging year for the Council in the context of a further reduction in government funding leading to some tough decisions on the Council's spending priorities and plans for the future. We reflect on these matters in the value for money part of this letter. However, we were pleased to issue an unqualified opinion on the statement of accounts and the value for money conclusion.

I would like to express my thanks for the assistance of both the Council's and Pension Fund's finance teams, as well as Senior Officers and the Governance and Audit Committee, during the audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me or my Senior Manager, Steve Appleton on 0191 383 6300.

Yours faithfully

Mark Kirkham
Director
Mazars LLP

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01 Overall messages

Purpose of this letter

Our Annual Audit Letter provides a summary of our work and findings for the 2013/14 audit period for Members and other interested parties of City of Bradford Metropolitan Borough Council ('The Council').

In addition to this letter, we presented our Audit Completion Reports for the Council and West Yorkshire Pension Fund to the Council's Governance and Audit Committee on 19 September 2014, which provide more detail of the work we have undertaken as the Council's external auditor in 2013/14. Our outline plan was set out in the Audit Strategy Memorandums we issued on 7 March 2014 and 20 June 2014 respectively and we updated Members periodically in our regular Audit Progress Reports.

Our audit of the statement of accounts

We issued an audit report including an unqualified opinion on the Council's statement of accounts including the West Yorkshire Pension Fund on 24 September 2014.

Summary of main findings from the audit

We highlight the following key points:

- good quality of the draft financial statements and supporting working papers;
- few errors in the financial statements, either adjusted or unadjusted and no material errors impacting upon the Council's General Fund balance or Earmarked Reserves;
- no significant deficiencies in internal control (noting our work is not intended to express an opinion on the effectiveness of the system of internal control); and
- some minor recommendations raised to further enhance internal controls.

Full details are available in our separate Audit Completion Report. We would highlight the positive outcome of the audit and in particular the continued constructive and responsive approach of officers.

We presented the detailed findings from our audit of the West Yorkshire Pension Fund in a separate Audit Completion Report to the Council at the Governance and Audit Committee on 19 September 2014. These findings are summarised as follows:

- We did not identify any significant deficiencies in internal controls during the course of the audit.
- We did not identify any matters to report to those charged with governance in respect of the significant risks we identified and reported to you in our Audit Strategy Memorandum.

Our audit identified a few non-material misstatements and disclosure errors. Management corrected the misstatements except one on the grounds that the error did not have a material impact on the financial statements.

Our Value for Money conclusion

We performed our work in line with the Audit Commission's Code of Audit Practice for Local Government bodies and the Commission's guidance on the Value for Money conclusion for 2013/14. Our audit report included a conclusion that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Our work focused on the two criteria specified by the Audit Commission, namely:

- financial resilience; and
- economy, efficiency and effectiveness in the use of resources.

Work carried out included consideration of a range of evidence in respect of both criteria, including:

- your Annual Governance Statement;
- your Medium-Term Financial Strategy, 2-year Budget Statement and associated savings plans; and
- your draft and final Better Care Fund plans.

Significant risk	Commentary
Significant risk in respect of the financial resilience criterion – gap in savings required	<p>The risk arises from the level of savings the Council needs to make in order to achieve a balanced budget. In February 2014 the Council approved savings of £31M million in 2014/15 and £23M in 2015/16 but the downgrading of initial assumptions about the amount of funding that would flow to the Council from the Better Care Fund has given rise to a funding gap of £13.8m for 2015/16.</p> <p>In addition the Council has revised its medium term financial strategy for 2015/16 to 2017/18 extending the planning horizon to 2020/21 to provide a much longer term view of the significant financial challenge it faces. The scale of the challenge is so significant that fundamental changes to the level and scope of service provision are envisaged to ensure the Council manages within its available resources</p> <p>As reported in our Audit Completion Report, we were able to gain sufficient assurance from work done to mitigate the risk, although the financial challenge facing the Council for the coming period remains significant.</p>
Significant risk in respect of the financial resilience criterion – negotiating a new pooled budget with NHS partners	<p>The Department of Health allocated £37 million to a new pooled budget for NHS and Social Care in Bradford for 2015-16. The Council's budget assumed that £15 million of the Better Care Fund would be used to protect council services, but this has been re-assessed in the light of new guidance from NHS England. As stated above, the new assumption has created a funding gap for 2015/16.</p> <p>However, the Council submitted a Better Care Fund plan on time and is establishing governance arrangements for the new pooled budget, taking into account the latest guidance.</p>

Our work allowed us to satisfy ourselves, against the backdrop of the continued unprecedented change and challenges of recent years, that the Council has maintained proper arrangements for securing value for money in its use of resources during the year. As highlighted in our Audit Completion Report, the Council is well aware of the significant challenges it faces. We comment further on these in section 03.

Whole of Government Accounts (WGA)

We provide assurance to the National Audit Office (NAO), as the auditor of central government departments, in relation to the consistency of the Council's WGA consolidation pack with the audited statement of accounts. We reported that the Council's consolidation pack was consistent with the audited statement of accounts on 24 September 2014.

Our other responsibilities

As the Council's appointed external auditor, we have other powers and responsibilities as set out in the Audit Commission Act 1998. These include responding to questions on the accounts raised by local electors as well as a number of reporting powers such as reporting in the public interest. We did not receive any questions or objections in relation to the Council's 2013/14 accounts from local electors, nor did we exercise our wider reporting powers.

02 Fees

As outlined in our Audit Strategy Memoranda for City of Bradford MDC and West Yorkshire Pension Fund presented to the Governance and Audit Committee on 7 March 2014 and 20 June 2014 respectively, the Audit Commission sets a scale fee for our audit and certification work. The fees applicable to our work in 2013/14 are summarised below.

Element of work	2012/13 Final Fee	2013/14 As previously reported	2013/14 Final Fee
City of Bradford Metropolitan District Council			
Code audit work	£245,619	£245,619	£246,359
Certification work	£38,450	£33,700	£22,027
Non-audit work for certification of grants outside the Audit Commission regime	Nil	Nil	£5,100
Total	£284,069	£279,319	£273,486
West Yorkshire Pension Fund			
Code audit work	£48,545	£48,545	£48,545

There has been a very small increase in fees for Code audit work since we reported to you in March 2014. This increase has arisen because the Audit Commission no longer makes certification arrangements for the National Non-Domestic Rates (NNDR 3) return, which previously provided auditors with assurance over the relevant entries in the Council's accounts. As a result for 2013/14 we have undertaken additional audit testing to obtain sufficient assurance over the relevant entries in the Council's accounts. The associated additional audit fee is in line with guidelines provided by the Audit Commission to all local authority auditors, but is awaiting formal Audit Commission approval.

The fee outlined above in relation to certification work is an estimate as we are yet to complete our work on certifying the Council's Housing Benefit claim. We will confirm the final fee charged for certification work when we issue our Certification Report.

The only non-audit work undertaken in 2013/14 relates to the certification of grants outside the Audit Commission regime, for which fees are negotiated with the Council on a case by case basis. The above fee relates to agreements reached for such work at 30 September 2014.

03 Future challenges / other commentary

The Council has made good progress in addressing its biggest challenges in 2013/14 and 2014/15 to date. As highlighted in your Annual Governance Statement, the main challenges facing the Council include:

- continuing reductions in funding;
- increasing demand for social services in response to new legislation and increased safeguarding referrals;
- improving the integration of health and social care; and
- the impact of continued changes as a result of the Welfare Reform Act.

Key areas for the Council to continue to focus on are set out below.

Key area of focus	Commentary
<p>Delivery of the Medium Term Financial Strategy, that takes into account funding reductions and increased demand for social services.</p>	<p>The Council is currently working towards balancing the 2015/16 budget and considering options for closing the £131M funding gap that the Medium Term Financial Strategy is projecting up to 2010/21. Continued robust budget management as well as regular, clear finance reports to the Governance and Audit Committee is vital. We note the annual review of earmarked reserves; this is good practice and helps focus attention on the risks facing the Council and why reserves are held.</p> <p>The Council has a good track record of robust budget management, but as the financial pressures increase, alongside continued reducing capacity, this should not be taken for granted. The financial pressures include:</p> <ul style="list-style-type: none"> • the impact on the changes required as a result of the Welfare Reform Act, the Children's and Families Act and the Care Bill; • the impact of the 25% increase in referrals for safeguarding following a serious case review; and • continuing demographic pressures in Adult Social Care. <p>Against this backdrop, delivering the Council's top priorities such as improving educational attainment becomes more challenging. However, we note that the Council is still investing additional resources in educational attainment.</p>
<p>Improving the integration of Health and Social Care</p>	<p>Management-level governance arrangements have been established to support the new Health and Wellbeing Board in bringing about more integrated forms of health and social care, in line with Government policy.</p> <p>Improved integration is essential if the pressures referred to above effecting social care budgets are to be met whilst delivering on the Council's objective to improve outcomes for the most vulnerable adults, children and families.</p>

Each year undoubtedly becomes harder and the scope for reducing expenditure without affecting service standards becomes more and more difficult. The Council, however, continues to have a strong approach in considering a range of options, including agreeing these plans well ahead of the relevant financial year.

A key risk for the Council is that the success of achieving previous year's savings means stakeholders might perceive the continued achievement of savings can continue to meet the significant spending reductions required without effecting key services. However, as the Council is well aware, some difficult and bold decisions will be required including potentially radical decisions impacting on how the Council works as well as the services it provides given the scale of savings required in coming years.



Should you require any further information on this letter or on any other aspects of our work, please contact:

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