

Annual Audit Letter 2015/16

**City of Bradford Metropolitan District Council including
West Yorkshire Pension Fund**

October 2016

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26 October 2016

Dear Members

Annual Audit Letter 2016

I am delighted to present to you City of Bradford Metropolitan District Council's (the Council's) Annual Audit Letter. The purpose of this document is to summarise the outcome of the audit of the Council's 2015/16 annual accounts and our work on our value for money conclusion.

We carried out the audit in accordance with the Code of Audit Practice for Local Government bodies issued by the National Audit Office and delivered all expected outputs in line with the timetable established by the Accounts and Audit Regulations 2015.

2015/2016 has been another challenging year for the Council and like most other authorities across the country City of Bradford Metropolitan District Council made some tough decisions on its spending priorities and plans. We reflect on these matters in the value for money and future challenges sections of this letter.

Given the difficult circumstances 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 the Council's finance team, as well as senior officers and the Governance and Audit Committee. The continued constructive approach to our audit is appreciated.

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 0113 387 8850.

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Yours faithfully

Mark Kirkham
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Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies 2015-16' issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to Members or officers are prepared for the sole use of the Council and we take no responsibility to any Member or officer in their individual capacity or to any third party.

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01 Key messages

Our Annual Audit Letter provides a summary of our work and findings for the 2015/16 audit period for Members and other interested parties.

We reported the detailed findings from our audit work to the Governance and Audit Committee in our Audit Completion Reports for City of Bradford Metropolitan District Council and West Yorkshire Pension Fund on 29 September 2016. We also confirmed that your Whole of Government Accounts (WGA) return was consistent with the audited financial statements.

The key conclusions for each element are summarised below:

Our audit of the statement of accounts

We issued an audit report including an unqualified opinion on the Council's financial statements including West Yorkshire Pension Fund on 29 September 2016.

Our work on your financial statements aims to provide reasonable assurance that your accounts are free from material misstatement. The assessment of materiality is, therefore, a key part of our work and we specify an overall materiality threshold, based on revenue expenditure in the Council's accounts and benefits payable in the Pension Fund's accounts, together with lower materiality values for accounting entries we consider to be more sensitive, such as officer and Member remuneration.

We consider materiality when planning and performing our work and in assessing the results.

At the planning stage, we make a judgement about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures. We updated our materiality calculations when we received the accounts and set the overall level at £19.5m for the Council's accounts and £47.9m for the Pension Fund's accounts.

In applying our view of materiality we identified the following significant risks:

CBMDC accounts	WYPF accounts
<ul style="list-style-type: none">• management override	<ul style="list-style-type: none">• management override
<ul style="list-style-type: none">• revenue recognition	<ul style="list-style-type: none">• valuation of unquoted investments
<ul style="list-style-type: none">• pension estimates	<ul style="list-style-type: none">• actuary's report disclosure
<ul style="list-style-type: none">• valuation of land and buildings	

We carried out a programme of work to address these risks which included including the testing of journals and transactions. Our work did not identify any issues to report.

Our VFM conclusion

We carried out sufficient, relevant work, in line with the National Audit Office's guidance, so that we could conclude on whether you had in place, for 2015/16, proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

We issued an unqualified VFM conclusion on 29 September 2016.

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 your WGA consolidation pack with the audited statement of accounts. We reported that your consolidation pack was consistent with the audited statement of accounts.

Our other responsibilities

As the Council's appointed external auditor, we have other powers and responsibilities as set out in the Local Audit and Accountability Act 2014. 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 about the accounts or valid objections in relation to your 2015/16 accounts from local electors, nor did we exercise our wider reporting powers.

02 Financial statements

Audit of the financial statements

We audited your financial statements in line with auditing standards and we reported our detailed findings to the meeting of the Governance and Audit Committee on 29 September 2016. We issued an audit report, including an unqualified opinion, on the statement of accounts on 29 September 2016.

Preparation of the accounts

The Council presented us with draft accounts in accordance with the national deadline. Working papers and other supporting evidence were produced on a timely basis throughout the audit. Your arrangements and the responsiveness of officers enabled us to complete our comprehensive procedures efficiently.

Issues arising from the audit of the accounts

We would like to highlight the following key points:

- officers prepared good quality draft financial statements and working papers;
- there were very few errors identified and no errors impacting on the Council's General Fund balance;
- all errors were corrected other than those which were clearly trivial; and
- the audit progressed well and there were no significant difficulties encountered. We received the full co-operation of officers.

Annual Governance Statement (AGS)

The AGS is drafted by the Council to provide assurance to the reader over how it is managed and how it has dealt with risks in the year. We reviewed the AGS to see whether it complied with relevant guidance and whether it was misleading or was inconsistent with what we know about the Council. We found no areas of concern to report.

West Yorkshire Pension Fund

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 29 September 2016. We noted the following key points:

- officers prepared good quality draft financial statements and working papers;
- there were very few misstatements and disclosure errors identified;
- all errors were corrected except three on the grounds that the misstatements did not have a material impact on the financial statements;
- the audit progressed well and there were no significant difficulties encountered. We received the full co-operation of officers; and
- we did not identify any significant deficiencies in internal controls during the course of the audit (noting our work is not intended to express an opinion on the effectiveness of the system of internal control).

03 VFM conclusion

For 2015/16, we are required to satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We performed our work in this area in accordance with guidance set out by the NAO in Auditor Guidance Note 3. This required us to consider one overall criterion as set out below.

Overall criterion: *in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.*

Our work in this area focused on the three sub-criteria specified by the National Audit Office namely:

Sub-criteria	Focus of the sub-criteria
Informed decision-making	<ul style="list-style-type: none">• Acting in the public interest, through demonstrating and applying the principles and values of sound governance.• Understanding and using appropriate and reliable financial and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management.• Reliable and timely financial reporting that supports the delivery of strategic priorities.• Managing risks effectively and maintaining a sound system of internal control.
Sustainable resource deployment	<ul style="list-style-type: none">• Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.• Managing and utilising assets effectively to support the delivery of strategic priorities.• Planning, organising and developing the workforce effectively to deliver strategic priorities.
Working with partners and other third parties	<ul style="list-style-type: none">• Working with third parties effectively to deliver strategic priorities.• Commissioning services effectively to support the delivery of strategic priorities.• Procuring supplies and services effectively to support the delivery of strategic priorities.

As part of our work, we also:

- reviewed your Annual Governance Statement;
- considered the work of other relevant regulatory bodies or inspectorates to the extent the results of the work have an impact on our responsibilities; and
- carried out risk-based work we determined to be appropriate.

Risk based work

We identified significant audit risks relating to sustainable resource deployment reflecting the significant financial pressure from reduced funding and increasing demand for some services. We reported the detailed findings of our review of the Council's arrangements in a separate report to the Governance and Audit Committee on 29 September 2016.

We were able to gain sufficient assurance from our work to mitigate the audit risk although we note that the scale of the financial 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.

Overall conclusion

We satisfied ourselves that, in all significant respects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016 and we issued an unqualified VFM conclusion.

04 Future challenges

Financial challenges

The main challenge we see for the Council, along with others and the wider public sector, is the continued pressure on finances and the need to plan for further reductions in spending power which will make it increasingly difficult to maintain the existing level service provision. We have noted how the Council has dealt with this challenge so far and expect there to be a need for difficult decisions to spending is kept within available resources.

The Council has made good progress in addressing this challenge to date and has a proven track record of strong budget management and delivering planned budget reductions. The Council under-spent on its 2015/16 budget by £0.8 million ending the year with usable corporate reserves of £19.9 million to support future budget decisions although £6.1 million has been committed to support the 2016/17 budget as planned.

As well as reduced funding the Council also faces increasing demand for some services. The Council is working to achieve challenging savings plans for 2016/17 and to identify further plans to bridge funding gaps for 2017/18 (£11.5m) and 2018/19 (£32m) as set out in the Council's Medium Term Financial Strategy.

Other challenges

The difficulty in maintaining good service performance levels at the same time as finding savings is recognised by the Council. Performance assessment arrangements are in place and outcomes are regularly reported to and monitored by Members.

These challenges include:

- improving educational attainment;
- safeguarding vulnerable children; and
- ensuring an effective integrated system of health and social care.

With a financial outlook that is increasingly challenging the Council will need to agree an operating and financial plan that balances the needs and expectations of citizens and service users and the statutory framework with available resources.

Next year's audit

We will focus our work on the risks that your challenges present to your financial statements and your ability to maintain proper arrangements for securing value for money.

We will also share with you relevant insights that we have as a national and international accounting and advisory firm with experience of working with other public sector and commercial service providers.

In terms of the technical challenges that officers face around the production of the statement of accounts, we will continue to work with them to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise. A key area in this respect includes working with officers as they make preparations for transport infrastructure on a fair value accounting basis as required by the accounting Code. This will require significant changes in the 2016/17 statements and we are already working with officers to ensure the required systems are in place.

05 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 15 April 2016, Public Sector Audit Appointments Ltd (PSAA) sets a scale fee for our audit and certification work. The fees applicable to our work in 2015/16 are summarised below.

Element of work	2014/15 Final Fee	2015/16 As previously reported	2015/16 Final Fee
City of Bradford Metropolitan District Council			
Code audit work	£247,089	£185,317	£185,317
Certification work	£26,310	£16,520	£16,520
Non-audit work for certification of grants outside the PSAA regime	£5,250	£2,900	£2,900
Total	£278,649	£204,737	£204,737
West Yorkshire Pension Fund			
Code audit work	£48,545	£48,545	£48,545

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.

Non-audit work during the year relates to our work certifying the Teachers' Pensions return 2014/15 (£2,100) and European Regional Development Fund grant (£800) for which fees were agreed separately with officers.

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

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