

Governance and Audit Committee  
City of Bradford Metropolitan District Council  
City Hall  
Bradford  
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19 May 2023

Dear Audit Committee Members

**City of Bradford Metropolitan District Council**

**Follow-up Letter to our Audit Completion Report in relation to the 2021/22 Audit**

As required by International Standards on Auditing (UK), this letter communicates an update on progress on concluding upon those matters that were marked as outstanding within our Audit Completion Report, which was presented to the Governance and Audit Committee on 23 March 2023.

This letter therefore includes:

- Appendix A - draft audit report.
- Appendix B - summary of further misstatements.
- Appendix C - control deficiencies and internal control recommendations.

**Update on matters previously reported as outstanding**

The following matters have now been resolved.

Audit area	Status	Findings
Property, Plant and Equipment (Valuations)	COMPLETED	<p><b>Council dwellings:</b> We identified that an incorrect Social Housing Factor had been used in the valuation of Council dwellings. The Council had incorrectly deducted 41% from the gross book value, instead of using 41% as the calculated Existing Use Value. When revisiting the valuations of Council dwellings, officers also updated the valuation to 31 March 2022 (as opposed to 1 April 2021 as had originally been used by the Council).</p> <p>The cumulative impact of these errors in the Council's valuation methodology resulted in a total overstatement of the valuation of Council dwellings of £6.1m.</p> <p>For one asset selected for testing, the valuation methodology was updated by the Council during the audit. This resulted in the valuation of the asset of £8.6m in the draft accounts submitted for audit being amended to £4.4m in the final version of the accounts. The actual valuation should be £10.8m (this includes an update in the valuation to 31 March 2022). Therefore, there is an unadjusted understatement of the asset of £6.4m. The error in the revised methodology arose as the Council incorrectly applied the social housing factor to this asset.</p> <p>The Council has also revisited the application of the social housing factor in 2020/21 and identified that this was also incorrect. The value of the misstatement is an overstatement of £4.6m. Officers are not proposing to amend the accounts for this error. Therefore, we have reported this as an unadjusted misstatement.</p> <p><b>Other land and buildings:</b> For Primary School assets we identified an incorrect formula had been used when calculating the Modern Equivalent Area for these schools. This resulted in the valuation of each primary school being overstated. Furthermore, for assets valued at depreciated replacement cost, we identified that no costs for external works had been included within the valuation. This resulted in valuations for these schools being understated. When revisiting the Depreciated Replacement Cost valuations, officers also updated the valuation to 31 March 2022 (as opposed to 1 April 2021 as had originally been used by the Council).</p> <p>Where there was a difference in Net Book Value in excess of £1m as a result of all the errors above, the Council has amended the valuation of the accounts. This resulted in an amendment of £54.8m. For all other assets, an unadjusted misstatement of £4.6m has been identified. Officers are not proposing to amend the accounts for this error. Therefore, we have reported this as an unadjusted misstatement.</p> <p>For schools, developed land areas had been overstated by £2.5m due to an incorrect methodology being applied by the Council's valuer. The methodology has now been updated to calculate developed land areas in accordance with the Department for Education guidance.</p>

Audit area	Status	Findings
<b>Property, Plant and Equipment (Valuations)</b> (continued)	COMPLETED	<b>Investment properties:</b> For two investment properties sampled, our testing highlighted that incorrect yields had been used in the valuation which led to a total overstatement of £1.3m. In addition, when we extrapolated this error across the Council's portfolio of investment properties, there was a potential further £3m overstatement of the value. Officers are not proposing to amend the accounts for this error. Therefore, we have reported this as an unadjusted misstatement.
<b>Infrastructure Assets</b>	COMPLETED	We have concluded our work in this area and we are satisfied that infrastructure assets are materially accurate, and that the Council has applied CIPFA's "Update to the Code and Specifications for Future Codes for Infrastructure Assets (Code update)", including any required changes to accounting policies and disclosures.  Page 3 of this letter provides more details about our findings.
<b>Whole of Government Accounts</b>	In progress	We have not completed our 2021/22 work in this area. The National Audit Office issued its Group Instructions in February 2023. We will work with management to complete this work as soon as possible.
<b>Audit completion and post balance sheet events</b>	In progress	We have substantially completed our closure procedures, including review of the amended accounts. We will discuss subsequent events with management and review available post balance sheet information at the point we are due to sign the audit opinion. We will also review the management representation letter when it is received – a copy of the letter is included as an appendix to our Audit Completion Report.  If any matters arise from this which we need to report to you, we will issue a further letter.

### Significant matters discussed with management – Infrastructure Accounting

As part of our review of the Council's application of CIPFA's "Update to the Code and Specifications for Future Codes for Infrastructure Assets (Code update)", we considered the Council's asset lives per accounting policy xvii and Note 9 (property, plant, and equipment) for infrastructure assets.

We considered CIPFA Bulletin 12, which includes a commentary on the useful lives of the components of the highways network by the "UK Roads Leadership Group Asset Management Board". The guidance includes a range of "reasonable useful lives" for different parts of the highways network which we compared to those applied by the Council.

We completed a sensitivity analysis to estimate the impact on in-year depreciation using the Council's existing asset lives compared to the reasonable asset lives provided in the CIPFA guidance. This test was completed to gain assurance that depreciation in 2021/22 is materially accurate when compared to depreciation calculated using CIPFA's reasonable useful lives. Our analysis provided sufficient and appropriate audit evidence that there is no material error and the key information is as follows:

Depreciation – useful life applied	Value (£'000)	Variance to actual depreciation charged (£'000)
Depreciation in note 9a (infrastructure assets)	£13,242	n/a
Depreciation – Mazars estimate using lowest CIPFA life in range (max value)	£20,204	£6,962
Depreciation – Mazars estimate using highest CIPFA life (min value)	£12,730	(£512)

This analysis shows that the depreciation value reported in the Council's accounts is within the range we calculated using CIPFA's reasonable useful lives and does not highlight an estimation error above our performance materiality level of £19.5m for any of the variables used. Based upon our analysis we have sufficient audit assurance that infrastructure depreciation in the 2021/22 financial statements is not materially misstated.

#### Value for money (VFM) arrangements

We are yet to complete our work in respect of the Council's arrangements for the year ended 31 March 2022. Our commentary on the arrangements will be provided in the Auditor's Annual Report within three months of completing our audit of the financial statements.

In addition to the recommendation reported in the Audit Completion Report in March 2023 in relation to Governance, we have identified a risk of significant weakness in relation to financial sustainability.

Risk of significant weakness in arrangements	Criteria	Planned procedures
There is a risk that the Council's financial plans are unsustainable given the heavy reliance on reserves to fund budget pressures in 2022/23 and to balance the budget in 2023/24 and future years.	Financial sustainability	We will review the Council's financial position and the plans it has in place to ensure financial sustainability in the short and longer term. We will consider the Medium Term Financial Plan, the annual budget setting and consider savings plans, as well as hold discussions with officers.

We will report the results of our work on this risk in the Auditor's Annual Report.

If you wish to discuss these or any other points raised on this report then please do not hesitate to contact me.

Yours sincerely

**Cameron Waddell**  
Key Audit Partner



**Appendix A – Draft Audit Report Wording**

To follow

## Appendix B - Unadjusted misstatements

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr Debtors Cr Expenditure		1,216	1,216
	Being the over provision of the impairment for bad debts of £1.2m, reducing the bad debt provision and increasing the overall value of debtors.			
2	Dr Financing and Investment Income Cr Investment Property	4,258		4,258
	Being the overstatement of two investment properties where the valuation has been revisited to adjust for the yields and the extrapolated error across the remaining population.			
3	Dr Property, Plant and Equipment Cr Surplus/Deficit on Provision of services		4,559	
	Being the understatement of assets with errors of less than £1m as a result of the change in BCIS index, addition of external works and the primary school MEA calculation.			
4	Dr Surplus/Deficit on Provision of services Cr PPE – other land and buildings	2,542		2,542
	Being the overstatement of schools due to the methodology being updated to calculate developed land areas in accordance with the Department for Education guidance.			
5	Dr PPE – Council Dwellings Cr Surplus/Deficit on Provision of services		6,373	
	Being the understatement in the revised accounts of one asset classified as Council Dwellings.			

## Unadjusted misstatements – prior year

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr Surplus/Deficit on provision of services Cr PPE – Council Dwellings	4,645		4,645
	Being the error in 2020/21 due to the incorrect social housing factor being used for Council Dwellings.			

## Appendix B - Adjusted misstatements

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr Fair value of plan assets Cr Return on plan assets		26,091	26,091
	Being the adjustment in the updated actuary report in received in October 2022 which resulted in an increase in the Council's share of plan assets by £26,091k, reducing the pension fund liability and increasing the pension fund reserve by this amount.			
2	Dr Property, Plant and Equipment Cr Surplus/Deficit on provision of services Cr Revaluation Reserve	27,935	54,762	26,827
	Being the understatement of assets with errors greater than £1m as a result of the change in BCIS index, addition of external works and the primary school MEA calculation.			
3	Dr Surplus/Deficit on provision of services Dr Revaluation Reserve Cr PPE – Council Dwellings	5,871	6,168	297
	As at 31/3/22 the council dwellings balance is overstated by £6,168k as the social housing factor of 41% was not applied correctly. This amendment also includes the movement in valuation as they have been updated to 31 March 2022.			

## Appendix C - Control Deficiencies

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	Number of issues
<b>1 (high)</b>	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	-
<b>2 (medium)</b>	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	1
<b>3 (low)</b>	In our view, internal control should be strengthened in these additional areas when practicable.	1

### Description of deficiency – Valuations – Level 2 (medium)

#### Description of deficiency

There have been a number of significant errors identified during the course of the audit in relation to the valuation of council dwellings, land, buildings and investment properties.

Errors have also been identified and reported in previous years.

#### Potential effects

Asset values are materially mis-stated.

#### Recommendation

The Council should review its processes and controls over its valuations to ensure the correct methodology is being applied.

#### Management response

The Council will review asset valuation methodologies and controls to ensure compliance with accounting policies and guidance.



## **Description of deficiency –Valuation Report –Level 3 (low)**

### **Description of deficiency**

The Council valuer does not provide a valuation report in line with RICS professional standards.

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### **Potential effects**

RICS professional standards are not complied with

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### **Recommendation**

A valuation report is provided by the valuer to accompany the valuations

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### **Management response**

The completion of a valuation report will be considered by the Council valuer as part of the 2022-24 statement of accounts closedown process.

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