

# **Report of the External Auditor to the meeting of Governance and Audit Committee to be held on 27 November 2015.**

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**Subject:**

**AA**

**The annual audit letter for the 2014/15 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 2014/15.**

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Dermot Pearson, Interim 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 2014/15 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 the Committee on 25 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 NOT FOR PUBLICATION DOCUMENTS**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 2014/15**

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

October 2015

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City of Bradford Metropolitan District Council  
City Hall  
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October 2015

Dear Members

### **Annual Audit Letter 2015**

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 2014/15 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 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.

2014/2015 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 for the future. 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.

Yours faithfully

Mark Kirkham  
Partner  
Mazars LLP

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Our reports are prepared in the context of the Audit Commission’s ‘Statement of responsibilities of auditors and audited bodies’. 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 2014/15 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 25 September 2015.

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 28 September 2015.

## **Our VFM conclusion**

We carried out sufficient, relevant work, in line with the Audit Commission's guidance, so that we could conclude on whether you had in place, for 2014/15, proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

We were required to consider two specified criteria:

- the Council has proper arrangements in place for securing financial resilience; and
- the Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified VFM conclusion on 28 September 2015.

## **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 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 about the accounts or valid objections in relation to your 2014/15 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 25 September 2015. We issued an audit report, including an unqualified opinion, on the statement of accounts on 28 September 2015.

## 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.

## 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 material errors impacting on the Council's General Fund balance;
- all errors were corrected other than those which were clearly trivial;
- the audit progressed well and there were no significant difficulties encountered. We received the full co-operation of officers; and
- we made one minor recommendation to further enhance the closedown process.

## 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 25 September 2015. 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 one on the grounds that the misstatement 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

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 VFM conclusion for 2014/15. 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 in this area focused on the two criteria specified by the Audit Commission namely:

Criteria	Focus of the criteria
The Council has proper arrangements in place for securing financial resilience.	Systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.	Prioritising resources within tighter budgets, for example, by achieving cost reductions and by improving efficiency and productivity.

As part of our work, we also:

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

Like other public sector bodies, the Council faces a number of challenges and in light of these we reviewed the Council's arrangements for managing financial risks and securing a stable financial position. We included the results of our review of arrangements for securing VFM in a separate report to the Governance and Audit Committee on the 26 June 2015.

## Risk based work

We identified significant audit risks relating to the funding gap in the medium term financial strategy and the implementation of the Better Care Fund both in respect of the financial resilience criterion.

As reported in our Audit Completion Report, we were able to gain sufficient assurance from our work to mitigate the audit risk but 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 2015 and we issued an unqualified VFM conclusion.

# 04 Future challenges

## Financial challenges

The Council has made good progress in addressing its biggest challenges to date and has a proven track record of strong budget management and delivering planned budget reductions. The Council under-spent on its 2014/15 budget by £3.4 million ending the year with usable corporate reserves of £33.6 million to support future budget decisions although £15 million has been committed to support the 2015/16 budget as planned.

The Council faces significant financial pressure from reduced funding and increasing demand for some services. The Council needs to achieve challenging savings plans and to identify further plans to bridge funding gaps for 2016/17 (£19m) and 2017/18 (£59m).

## Other challenges

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

The Council faces a number of other challenges in the coming year which we will consider in planning our audit for 2015/16. These challenges include:

- improving the level of educational attainment;
- the ongoing impact of the Welfare Reform Act;
- responding to pressures on services which face increasing demand such as externally purchased care for adult and community services; and
- joint working with care commissioners and providers and others key partners.

With a financial outlook that is increasingly challenging, to develop locally responsive services that maintain standards of access and quality, the Council will need to continue to:

- carefully forecast and effectively monitor budgets;
- deliver a long term financial strategy that addresses immediate pressure while allowing scope for strategic service change;
- maintain effective arrangements for public engagement; and
- use constructive relationships with partners to safeguard service quality and resilience.

# 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 17 April 2015 and 26 June 2015 respectively, the Audit Commission sets a scale fee for our audit and certification work. The fees applicable to our work in 2014/15 are summarised below.

Element of work	2013/14 Final Fee	2014/15 As previously reported	2014/15 Final Fee
<b>City of Bradford Metropolitan District Council</b>			
Code audit work	£246,359	£247,089	£247,089
Certification work	£22,027	£26,310	£26,310
Non-audit work for certification of grants outside the Audit Commission regime	£5,100	£5,250	£5,250
<b>Total</b>	<b>£273,486</b>	<b>£278,649</b>	<b>£278,649</b>
<b>West Yorkshire Pension Fund</b>			
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 2013/14 (£2,000), Home and Communities Agency grants (£1,500) and Regional Growth Fund grant (£1,750) 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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