



Annual Audit Letter

City of Bradford Metropolitan District Council
Year ending 31 March 2018





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1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for City of Bradford Metropolitan District Council (the Council) for the year ended 31 March 2018. Although this letter is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Summary
Audit of the financial statements	<p>Our report, issued on the 31 July 2018, included our opinion that the financial statements:</p> <ul style="list-style-type: none">• give a true and fair view of the Council's financial position as at 31 March 2018 and of its expenditure and income for the year then ended; and• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
Other information published alongside the audited financial statements	<p>Our report included our opinion that: the other information in the Statement of Accounts is consistent with the audited financial statements.</p>
Value for money conclusion	<p>Our report concluded that we are satisfied that in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.</p>
Reporting to the group auditor	<p>In line with group audit instructions issued by the NAO, on 9 August 2018 we reported to the group auditor in line with the requirements applicable to the Council's WGA return.</p>
Statutory reporting	<p>Our report confirmed that we did not use our powers under section 24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Council.</p> <p>The report also confirmed that we did not exercise any other special powers of the auditor under sections 28, 29 or 31 of the 2014 Act.</p>
Audit of financial statements included in the Pension Fund Annual Report	<p>On 31 July 2018 we issued our opinion that the Pension Fund financial statements within the Pension Fund Annual Report are consistent with the Council's Statement of Accounts.</p>

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2. AUDIT OF THE FINANCIAL STATEMENTS – CITY OF BRADFORD MDC

Opinion on the financial statements

Unqualified

The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2018 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Governance and Audit Committee. We call this our trivial threshold.

The table below provides details of the overall materiality levels applied for the year ended 31 March 2018:

Financial statement materiality	Our financial statement materiality is based on 1.6% of gross revenue expenditure.	£18m
Trivial threshold	Our trivial threshold is based on 2.5% of financial statement materiality.	£450k

2. AUDIT OF THE FINANCIAL STATEMENTS – CITY OF BRADFORD MDC

Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Council's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Governance and Audit Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
<p>Management override of controls Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	<p>We addressed this risk through performing audit work in the following areas:</p> <ul style="list-style-type: none"> • accounting estimates impacting on amounts included in the financial statements; • consideration of identified significant transactions outside the normal course of business; and • journals recorded in the general ledger and other adjustments made in preparation of the financial statements. 	<p>Our audit work provided the assurance we sought and did not highlighted any indication of management override of controls.</p>
<p>Revenue recognition – fees and charges In accordance with international standards on auditing (ISA 240) we presume there is a risk of fraud in respect of the recognition of revenue because of the potential for inappropriate recording of transactions in the wrong period. ISA 240 allows the presumption to be rebutted and we have done this in relation to the Council's most significant sources of income - taxation and grant income. We decided that there is sufficient scope for rebuttal for fees and charges so we identified those income streams as the key areas for testing. This does not imply that we suspect actual or intended manipulation but that we continue to deliver our audit work with appropriate professional scepticism.</p>	<p>We evaluated the design and implementation of controls to mitigate the risk of income being recognised in the wrong period. In addition we undertook a range of substantive procedures including:</p> <ul style="list-style-type: none"> • testing receipts in March, April and May 2018 to ensure they were recognised in the right year; • testing material year end receivables; • testing adjustment journals; and • obtaining direct confirmation of year-end bank balances and testing the reconciliations to the ledger. 	<p>Our audit work provided the assurance we sought and did not identify any indication of revenue being recognised in the wrong year.</p>

2. AUDIT OF THE FINANCIAL STATEMENTS – CITY OF BRADFORD MDC

Our response to significant risks (continued)

Identified significant risk	Our response	Our findings and conclusions
<p>Property, plant and equipment (PPE) valuation</p> <p>The financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Council's holding of PPE. Although the Council employs an internal valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the valuation of PPE due to the significant judgements and number of variables involved in providing valuations. We have therefore identified the valuation of PPE to be an area of risk.</p>	<p>We evaluated the Council's arrangements for ensuring that PPE values are reasonable. We reviewed the scope and terms of the engagement with the Council's in-house valuer and how management used the valuers report to value land and buildings in the financial statements. We also</p> <ul style="list-style-type: none"> assessed the competence, skills and experience of the Council's valuer; considered regional valuation trends (provided by our valuation expert) to assess the reasonableness of the movement in valuations; and where necessary performed further audit procedures on individual assets to ensure that the basis and level of valuation is appropriate. 	<p>There were no significant findings arising from our work on the valuation of PPE.</p>
<p>Defined benefit liability valuation</p> <p>The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p>	<p>We discussed with key contacts any significant changes to the pension estimates prior to the preparation of the financial statements. In addition to our standard programme of work in this area, we:</p> <ul style="list-style-type: none"> evaluated the management controls in place to assess the reasonableness of the figures provided by the Actuary; and considered the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is commissioned annually by the NAO. 	<p>Our audit work provided the assurance we sought and did not identify any indication of material estimation error in respect of the defined benefit liability valuation.</p>

2. AUDIT OF THE FINANCIAL STATEMENTS – CITY OF BRADFORD MDC

Our response to significant risks (continued)

Identified significant risk	Our response	Our findings and conclusions
<p>Revision to Minimum Revenue Provision (MRP) calculation</p> <p>Regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (2003 Regulations), as amended, requires local authorities to set aside a prudent amount of MRP. DCLG has issued Guidance on MRP which sets out the principles and processes to be followed in complying with these regulations and gives four options which are consistent with the Regulations to determine the MRP calculation. Local authorities, under this guidance, have to make an annual statement setting out their MRP policy for the year which is approved by elected Members.</p> <p>We are aware that, relatively late in the year and, in part, due to changes to the MRP guidance, the Council is reviewing its policy in respect of the annual charge for MRP in 2017/18. Changing MRP does not lead to an absolute revenue saving as the change typically reallocates the cost of financing into future years.</p> <p>Local authorities, when revising their MRP, will need to consider the possible consequences such as maintaining a higher Capital Financing Requirement (CFR) and the interest implications of a higher underlying need to borrow.</p> <p>There is a risk that the revisions the Council makes may not be compliant with 2003 Regulations and guidance issued by DCLG. Additionally, to make prudent policies, the Council needs to apply sound judgements and reasonable estimates.</p>	<p>We sought evidence that the Council has:</p> <ul style="list-style-type: none"> considered all the options available and their wider impact on CFR and underlying borrowing; determined that the change in policy is appropriate and prudent; demonstrated that the proposed revised MRP policy complies with Regulations and guidance issued by DCLG (including taking legal advice where appropriate); and recorded proper approval of the change in policy; <p>We also:</p> <ul style="list-style-type: none"> critically assessed the revised MRP calculations for accuracy, completeness and correct accounting treatment in the year end financial statements (including the treatment of any theoretical overpayments); tested the reasonableness of estimates and judgements made by the Council in arriving at the revised MRP calculation. 	<p>Our audit work provided the assurance we sought and did not identify any material issues to bring to your attention.</p>

2. AUDIT OF THE FINANCIAL STATEMENTS – CITY OF BRADFORD MDC

Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. We identified the following deficiencies in internal control as part of our audit.

Priority ranking	Description	Number of issues
1 (high)	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.	None
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	One
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	One

Deficiencies in internal control – Level 2

Description of deficiency	Declarations of interest from management were not sought in a timely manner to support the preparation of the related party note (Note 41) within the statement of accounts.
Potential effects	There is a risk that related party transactions are not identified and monitored appropriately in year. There is also a risk that the disclosure in the statement of accounts is not complete or based on up to date information.
Recommendation	The Council should ensure that declarations of interests are sought on a timely basis both throughout the year and in advance of preparation of the statement of accounts..
Management response	The Council will review related party transactions earlier in future years.

Deficiencies in internal control – Level 3

Description of deficiency	As part of the audit, we identified a significant number of journals containing no narrative description.
Potential effects	The exclusion of a narrative description makes it more difficult to determine the reason for a journal posting and potentially increases the risk for fraudulent activity being undetected.
Recommendation	The Council should both remind staff of the need to include an appropriate narrative description on all journals and regularly review journals to ensure that journal descriptions have been appropriately included for all posted entries.
Management response	The Council will review the input of journals with no narrative description, to identify whether those identified by external audit were exceptional and whether controls can be strengthened.

2. AUDIT OF THE FINANCIAL STATEMENTS – WEST YORKSHIRE PENSION FUND

Opinion on the financial statements

Unqualified

The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Pension Fund and whether they give a true and fair view of the Pension Fund's financial position as at 31 March 2018 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Pension Fund's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Governance and Audit Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied for the year ended 31 March 2018:

Financial statement materiality	Our financial statement materiality is based on 1% of net assets available to pay benefits.	£135.6m
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£4m
Specific materiality	We have applied a lower level of materiality to the following areas of the accounts: - Fund Account (using a benchmark of 10% of contributions receivable)	£50.8m

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2. AUDIT OF THE FINANCIAL STATEMENTS – WEST YORKSHIRE PENSION FUND

Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Pension Fund's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Governance and Audit Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
<p>Management override of controls In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p>	<p>We addressed this risk by performing audit work in the following areas:</p> <ul style="list-style-type: none"> • accounting estimates impacting on amounts included in the financial statements; • consideration of identified significant transactions outside the normal course of business; and • journals recorded in the general ledger and other adjustments made in preparation of the financial statements. 	<p>Our audit work provided the assurance we sought and did not highlight any indication of management override of controls.</p>
<p>Valuation of unquoted investments for which a market price is not readily available As at 31 March 2018, the fair value of investments which were not quoted on an active market was £1.9bn, which accounted for 13.6% of the Fund's net investment assets. As prices for these investments are not quoted in active markets, the values used in the accounts are those provided by fund managers. This is mostly based on Net Asset Value statements. This results in an increased risk of material misstatement.</p>	<p>In addition to our standard programme of work in this area we have:</p> <ul style="list-style-type: none"> • agreed the valuation to supporting documentation including investment manager valuation statements and cash flows for any adjustments made to the investment manager valuation; • agreed the investment manager valuation to audited accounts. Where these were not available, we agreed the investment manager valuation to other independent supporting documentation; • where audited accounts were available, we checked that they were supported by a clear opinion; and • where available, we reviewed any independent control assurance reports and confirm that they do not highlight any risks of material misstatement 	<p>Our audit work provided the assurance we sought and did not identify any indication of material estimation error in respect of unquoted investments valuation.</p>

3. VALUE FOR MONEY CONCLUSION

Value for money conclusion

Unqualified

Our audit approach

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

Our auditor's report, issued to the Council on 31 July 2018, stated 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 ended 31 March 2018.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	<p>The Council has a Constitution in place which is reviewed annually and provides the framework within which the Executive take decisions in exercise of Council functions.</p> <p>During the year the senior management structure has been refreshed to ensure it remains appropriate to respond to the Council's future plans and challenges.</p> <p>The Council has adopted a Risk Management Strategy and maintains both corporate and service risk registers which identify actions required to mitigate the identified risks.</p> <p>The Council uses corporate and departmental service level performance measures to report and manage service delivery. The Quarterly Financial Monitoring Reports and associated in year and outturn Finance and Performance Reports, present to the Executive and Corporate Overview & Scrutiny the current and forecast position on performance and finance in relation to the Council's activities.</p> <p>A set of corporate indicators is in place that focuses on key Council priorities. Performance is monitored through Departmental Management Teams, Corporate Management Team with reporting to the Executive and Overview and Scrutiny Committees.</p>	Yes
Sustainable resource deployment	<p>The Council delivered a small budget underspend of £0.3 million for 2017/18 and delivered recurrent savings of £23.4m.</p> <p>Whilst the Council has a good track record of achieving savings, having managed to reduce spending by £233 million over the past 7 years, £22.6m of the £46m of planned savings for 2017/18 were not delivered as intended. The underachievement against the savings plan was significantly higher than prior years (£7.9m in 2016-17 and £4.3m in 2015/16) and was due, in the main, to increased demand for adult and children's services, the increased difficulty in delivering savings as the Council reduces in size and as lower priority areas have already been cut.</p> <p style="text-align: right;"><i>(continued overleaf)</i></p>	Yes

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3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment (continued)	<p>The Council recognises that having high levels of underachieved savings has a detrimental impact on the financial health of the Council as savings not delivered in year compound the difficulty in delivering future years' additional savings unless addressed.</p> <p>In response, the Council has:</p> <ul style="list-style-type: none"> • set a balanced budget for 2018/19 which is underpinned by detailed savings plans; • refreshed its Medium Term Financial Plan (MTFP) to recognise that some of the underachieved savings highlighted above will require a longer delivery period and others may not be deliverable given current service demand pressures; • enhanced its monitoring and reporting arrangements to more quickly identify and tackle emerging financial issues and / or develop compensatory savings; • commissioned external support to help the identification and delivery of required savings and transformation; and • developed a better alignment between budget processes and its purposes, priorities and ambitions as set out in the Council Plan. <p>The Council approved a medium-term financial strategy for 2019/20 to 2021/22 and beyond which is a key part of the Council's planning and performance framework. The financial outlook remains highly challenging requiring the delivery of significant savings of £28.2m in 2018/19 and £26.8m in 2019/20 and identification of further savings of £30.6 million for 2021/22.</p>	Yes
Working with partners and other third parties	<p>The District Plan has been developed with key partners and partnerships setting out long-term ambitions for the District and outlines priorities for action. A review of Bradford District Partnerships arrangements has established clear leads for each of the agreed outcomes that form the Council and District's vision.</p> <p>The Council is an active member of a number of strategic delivery partnerships. Through the Health and Wellbeing Board, for example, the Council is a lead member of the Bradford District and Craven Sustainability and Transformation Plan (STP) and the wider West Yorkshire and Harrogate STP – working to create a strategic health and care economy that supports people to be healthy, well and independent.</p> <p>The Council continues to work with partners and other third parties to explore scope for alternative delivery models with some already in place and others being considered.</p>	Yes



3. VALUE FOR MONEY CONCLUSION

Significant audit risks

The NAO’s guidance requires us to carry out work to identify whether or not a risk to our conclusion exists. Risk, in the context of our work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. In our Audit Strategy Memorandum, we reported that we had identified one significant risks. The work we carried out in relation to the significant risk is outlined below.

Risk	Work undertaken	Conclusion
<p>Delivery of a balanced budget and Medium Term Financial Planning</p> <p>Our audit work in previous years has concluded that the Council has appropriate arrangements in place for Medium Term Financial Planning. The Council continues to face financial pressure in the coming years and the Council has recently updated its medium term financial strategy (MTFS).</p> <p>We need to ensure our knowledge of the Council’s MTFS arrangements and its monitoring of the planned delivery of a balanced budget and related savings, remains up to date in order to ensure we give the correct conclusion.</p>	<p>Building on our work in previous years, our work included reviewing:</p> <ul style="list-style-type: none"> the Council’s updated 2018 MTFS to ensure it reflects the latest income projections and funding position from central government; and. the arrangements the Council has in place to monitor progress in delivering a balanced budget and related savings plans. 	<p>The Council has revised its medium-term financial strategy for 2019/20 to 2021/22 to ensure it is based on appropriate assumptions (income projections, central government funding, pay and non-pay inflation) and recognises the risks associated with these assumptions.</p> <p>The Council delivered a balanced budget for 2017/18 – delivering a small budget underspend of £0.3m and recurrent savings of £23.4m.</p> <p>The underachievement against the 2017/18 savings plan was significantly higher than prior years (£7.9m in 2016-17 and £4.3m in 2015-16) and was due, in the main, to increased demand for adult and children’s services. The Council recognised these demand pressures early in the financial year and, through it’s routine monitoring and reporting arrangements, put compensating arrangements in place sufficient to deliver a balanced budget.</p> <p>As highlighted above, the financial outlook remains highly challenging and in response, the Council has further enhanced its MTFS arrangements and its budget monitoring and reporting arrangements.</p>



4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
Completion of group audit reporting requirements	Consistent
Other information published alongside the audited financial statements	Consistent

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Council's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

Matters which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data. We submitted this information to the NAO on 9 August 2018.

Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Council. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.

5. OUR FEES

Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Governance and Audit Committee in March 2018.

Having completed our work for the 2017/18 financial year, we can confirm that our final fees are as follows:

Area of work	2017/18 proposed fee	2017/18 final fee
Delivery of audit work under the NAO Code of Audit Practice	£185,317	£185,317
Certification of Housing Benefit Subsidy Claim*	£16,520	£16,520

Fees for other work

We confirm that we have not undertaken any non-audit services for the Council in the year.

* Our work on the Housing Benefit Subsidy Claim is not yet completed and consequently the final fee quoted above is still on an estimated basis.

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6. FORWARD LOOK

Financial outlook

Perhaps the most significant challenge 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 of service provision. We have noted how the Council has dealt with this challenge so far and expect there will be a need for difficult decisions to keep spending within available resources.

The Council has appropriately addressed 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 2017/18 budget by £0.3 million ending the year with unallocated corporate reserves of £14.5 million as a contingency to meet unexpected costs.

As well as reduced funding the Council also faces increasing demand for some services particularly adult and children's social care. The Council is working to achieve challenging savings plans of £28.2m in 2018/19 and £26.8m in 2019/20 as set out in the Council's Medium Term Financial Strategy. Looking forward to 2020/21, the Council is facing major uncertainties in relation to business rates retention and the fair funding review.

Operational challenges

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

Key challenges include:

- 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 ensure operational and financial plans deliver statutory duties and consider the needs and expectations of citizens and service users within available resources.

Next year's audit and how we will work with the Council

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.

In the coming year we will continue to support the Council by:

- continued liaison with the Council's Internal Auditors to minimise duplication of work;
- attending Governance and Audit Committee meetings and presenting an Audit Progress Report including updates on regional and national developments; and
- hosting events for staff, such as our Local Government Accounts workshop.

We will meet with the Council to identify any learning from the 2017/18 audit and will continue to share our insights from across local government and relevant knowledge from the wider public and private sector.

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 focus in the coming year will be the adoption of IFRS 9 Financial Instruments, a new standard for 2018/19, which changes the approach to financial assets and accounting for impairment.

Looking further ahead, IFRS 16 Leases is a new standard to be adopted from 2019/20, which establishes a new model for lessees and removes existing lease classifications. It is anticipated that the impact on the accounts of this could be material.

The Council has taken a positive and constructive approach to our audit and we wish to thank Members officers for their support and co-operation during our audit.

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CONTACT

Mark Kirkham

Partner

Phone: 0113 387 8850

Mobile: 07747 764529

Email: mark.kirkham@mazars.co.uk

Mark Dalton

Senior Manager

Phone: 0113 387 8735

Mobile: 0779 550 6766

Email: mark.dalton@mazars.co.uk