

Statement of Auditing Standard 610

Bury Metropolitan Borough Council

Audit 2003/2004

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Reference:	SAS 610 report
Date:	November 2004

Introduction

Statement of Auditing Standard (SAS) 610 requires auditors to report certain matters arising from the audit of the financial statements to 'those charged with governance':

- expected modifications to the audit report
- adjustments to the accounts
- unadjusted non-trifling misstatements
- material weaknesses in accounting and internal control systems
- qualitative aspects of accounting practice and financial reporting
- matters required by other auditing standards to be reported to those charged with governance
- other matters that we wish to draw to your attention.

We have agreed with the Authority that the communications required under SAS 610 would be with the Audit Committee. This report sets out for the Audit Committee's consideration the matters arising from the audit of the financial statements for 2003/2004 that require reporting under SAS 610.

Background

We are satisfied that the financial statements comply with good practice. Bury's accounts were produced a month in advance of the statutory deadline of 31 August. This places the Authority in a good position as the statutory deadline will advance another month next year in line with the Whole of Government Accounts Initiative. We are also pleased to note that the number of issues arising from our audit of the financial statements has reduced this year. The issues that follow should be read within this overall context.

Status of the audit

Our work on the financial statements is now substantially complete. Subject to the satisfactory conclusion of the work outstanding, we anticipate being able to issue an unqualified opinion by the statutory deadline of 30 November 2004 (the draft opinion is attached at Appendix 1).

Should any further matters arise in concluding the outstanding work that require reporting under SAS 610, we will raise them with the Chair of this Committee.

Matters to be reported to those charged with governance

We have the following matters to draw to the Audit Committee's attention:

Amendments to the statement of accounts

Several amendments have been made to the financial statements, which had been previously approved on 29 July 2004. These amendments did not affect either the overall surplus on the Consolidated Revenue Account or the general fund balance carried forward at 31 March 2004.

The main amendments were as follows:

- inclusion of the 2003/2004 cash flow statement figures provided to members by the Director of Finance and E-government on 19th August;
- reinstatement of the Authority's investment in Modesole Ltd so as to ensure consistency with the other Greater Manchester authorities; and
- fixed asset additions and revaluations per consolidated balance sheet (CBS) Note 1. Fixed Assets were amended (increased by £15.409 million and decreased by £15.409 million respectively) to agree with the supporting general ledger records.

Unadjusted misstatements

We are required to report to you all misstatements other than those of a clearly trifling nature. A trifling error is an entirely inconsequential error, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. Any trifling misstatements requiring action by the Authority during the 2003/2004 financial year will be included in our final accounts memorandum.

Our audit identified one non-trifling misstatement in the financial statements:

The net housing benefits liability per the statement of accounts is £0.292m higher than the actual liability per the 2003/2004 housing benefits claim. No adjustment has been made as:

- the liability was estimated using the most up-to-date information available at the time the accounts were prepared;
- the difference has already resolved itself during the 2004/2005 financial year.

SAS 610 requires the Committee to confirm this approach.

Material weaknesses in accounting and internal control systems

From the work undertaken, we have nothing to report regarding material weaknesses in accounting and internal control systems.

Qualitative aspects of accounting practices and financial reporting

We identified the following issues in relation to qualitative aspects of accounting practices or financial reporting during the course of our audit:

- the annual impairment review of fixed assets was based on an overall assessment of the value of assets rather than the category by category review of asset values and lives required by the Statement of Recommended Practice (SORP);
- Bury Learning Disability Partnership Board Pooled Fund Memorandum Account required a separate audit which was qualified, primarily due to the absence of a signed partnership agreement;
- although our testing of the year end bank reconciliation is substantially complete, the Authority is investigating a miscellaneous receipts and payments adjustment of £0.402m which is included within the reconciliation. We do not expect these investigations to result in any further amendments to the statement of accounts;
- feeder system reconciliations were not always performed on a timely basis throughout the year;
- late "month 18" journals were omitted from the CBS spreadsheet used to prepare the statement of accounts due to journals not being notified to the accountant

responsible for preparing the spreadsheet. Amendments in respect of these journals are included in Appendix 2 of this report;

- there are discrepancies between the fixed assets information held by the capital accountant and that held by property services – examples will be included in the final accounts memorandum;
- no review or authorisation procedures are in place for on line journals.

Matters required by other auditing standards to be reported to those charged with governance

Other auditing standards require us to communicate with you in other specific circumstances including where we suspect or detect fraud, in respect of the conclusion that the Authority is a going concern and where there is an inconsistency between the financial statements and other information in documents containing the financial statements.

There are no matters in this respect that we wish to draw to your attention.

Other matters that we wish to draw to your attention

The following issue is of national relevance and applies to other local authorities too. We are awaiting further guidance from the Audit Commission and professional bodies, which we will share with the Authority as soon as it becomes available

The accounts include two loan agreements, which have a reduced interest rate in the first two / three years of the agreement and a planned minimum increase in the interest rate after this period. Currently interest is charged to the accounts as it is paid. However, Financial Reporting Standard (FRS) 4 (Capital Instruments) states that “the finance costs of debt should be allocated to periods over the term of the debt at a constant rate on the carrying amount”. Furthermore FRS 5 (Reporting the Substance of Transactions) requires the Council to report the substance of transactions into which it has entered in its financial statements. This means that the commercial effect of transactions is shown and that the accounts do not merely report the legal form of a transaction.

To comply with the requirements of the FRSs, the Council may need to spread all the interest it plans to incur over the life of the loans in equal instalments for each year of the loans. Although not significant to our opinion, the estimated impact in 2003/2004 is £0.287m of interest above the amount charged to the revenue account (£0.176m in 2002/2003). The estimated impact falls to £0.142m in 2004/2005 and £0.41m in 2005/2006.

Next steps

Subject to the Audit Committee’s approval of this report, we will produce an action plan for discussion and agreement with officers. The action plan will address the issues identified above and seek to secure improvements to the Authority’s arrangements for preparation of the financial statements.

Officers will present revised financial statements, containing the adjustments itemised above, for approval by the Audit Committee.

Subsequently, the District Auditor will complete the opinion and certificate to conclude the audit (see Appendix 1).

Status of our reports to the Authority

Our reports are prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Reports are prepared by appointed auditors and addressed to non-Executive Directors or officers. They are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Director or officer in their individual capacity, or to any third party.

Draft Independent Auditor's/Auditors' Report to Bury Metropolitan Borough Council

I have audited the statement of accounts on pages xx to xx which have been prepared in accordance with the accounting policies applicable to local authorities as set out on pages X to Y.

This report is made solely to Bury Metropolitan Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 54 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission.

Respective Responsibilities of the Director of Finance and E- Government and Auditor

As described on page x the Director of Finance and E-Government is responsible for the preparation of the statement of accounts in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2003. My responsibilities, as independent auditor, are established by statute, the Code of Audit Practice issued by the Audit Commission and my profession's ethical guidance.

I report to you my opinion as to whether the statement of accounts present fairly the financial position of the Council and its income and expenditure for the year.

I review whether the statement on internal control on pages x to x reflects compliance with CIPFA's guidance 'The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003' published on 2 April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I/we considered whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the authority's corporate governance procedures or its risk and control procedures. My review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

I read the other information published with the statement of accounts and consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the statement of accounts.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with relevant auditing standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the council's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the statement of accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion, I evaluated the overall adequacy of the presentation of the information in the financial statements.

Opinion

In my opinion the statement of accounts present fairly the financial position of Bury Metropolitan Borough Council as at 31 March 2004 and its income and expenditure for the year then ended.

Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Signature: Date:

Name: Address:

Amendments to the accounts

This section of the report sets out the amendments, excluding minor rounding and typographical amendments, made to the Statement of Accounts approved by the Audit Committee on 29 July 2004. Most of the amendments were made to improve the readability of the accounts and were not necessary on the grounds of materiality.

Item	Original figure £'000	Amended figure £'000	Reason for amendment
Accounting policies – charges to revenue			
Notional rate of interest for assets carried at historical cost amended to the actual rate used when calculating the 2003/2004 capital charges (4.625%).			
Consolidated revenue account (CRA)			
Unapportioned central overheads line deleted and the related income (£32k) and expenditure (£1.251million) included in the non-distributed costs line as required per the Best Value Accounting Code of Practice (BVACOP).			
Discontinued services – probation line deleted and the related expenditure (£5k) included within levies per the net cost of services section of the CRA.			
Pension interest cost, return on assets, pension fund – employers' contributions and movement on pension reserves figures now cross-referenced to the supporting CRA Note (Note 9. Pension Costs).			
Notes to the CRA			
Note 3. AMRA:			
Provision for depreciation	7,367	7,393	Inclusion of plant and equipment depreciation (£26k) omitted from original AMRA disclosure.
Capital charges – general fund	-10,941	-10,967	
Note 4. Reserves:			
Narrative amended to clarify that only the Major Repairs Reserve is a capital reserve.			
Note 5. Trading Services:			
Comparatives amended to agree with the amount disclosed per the CRA statement.			
Note 9. Pension Costs:			
Proportion pensionable pay percentages amended to agree with supporting payroll and teachers' pension return information.			
Cross reference to Statement of Total Movements in Reserves pension costs note added as required per the SORP.			
Note 14. Employees in Higher Earning Bands:			
Line referring to employees earning £40,000 to £49,999 deleted as no longer required per the SORP.			
Note 17. Transactions with Related Parties:			
Narrative expanded to:			
<ul style="list-style-type: none"> include the central government paragraph provided per the SORP guidance notes example disclosure note; and refer to the general involvement of members with charitable and voluntary organisations supported by the Council. 			
Note 19. Disclosure of Audit Costs:			
Figures amended to agree with the supporting analysis provided by external audit.			
Note 20. Bury Learning Disability Partnership Board Pooled Fund Memorandum Account:			
Narrative amended to include reference to the pooled budget statement being qualified.			

Notes to the Housing Revenue Account (HRA)			
Introductory paragraph referring to the introduction of resource accounting deleted as this change occurred in 2001/2002 and no longer requires drawing to the attention of anyone reading the statement of accounts.			
2002/2003 comparatives have been added to the following disclosures:			
Note 1. Housing stock: value of housing stock.			
Note 2. Vacant possession.			
Note 4. Capital expenditure within the HRA.			
Note 5. Cost of capital charge.			
Note 6. Depreciation.			
Note 10. Rent arrears			
Note 1. Housing Stock:			
The numbers of each type of property at 31 March 2004 amended to agree with the supporting asset records.			
Additions and revaluations per the value of the housing stock table were amended to agree with the information disclosed per Note 1 (Fixed Assets) of the Consolidated Balance Sheet.			
Note 6. Depreciation:			
Narrative expanded to explain the use of the Major Repairs Allowance as a proxy for depreciation of council dwellings.			
Note 11. Bad debt provision:			
Comparatives and narrative amended to take account of the transfer of the housing benefits overpayments bad debts provision to the general fund.			
Consolidated balance sheet (CBS)			
Long term investments:			
Ringway Developments Plc line deleted as investment disposed of prior to 31/3/2003.			
Other long term investments	0	1	Investment in Modesole Ltd reinstated to ensure consistency with the financial statements of the other Greater Manchester authorities.
Debtors & advance payments	25,296	25,335	Balances amended to include late month 18 journals omitted from the CBS spreadsheet used to prepare the accounts.
Creditors & advance receipts	31,953	31,959	
Cash overdrawn	5,975	6,015	
Deferred liabilities	10,330	10,333	Debt from ex Probation Service amended to agree with the matching deferred charges balance.
Pension liability	27,635	27,634	Amended to agree with the matching pension reserve balance.
Capital financing reserve	103,676	103,671	Amended to agree with the supporting general ledger balance.
Other balances reserve	11,135	11,134	Modesole reserve reinstated to ensure consistency with the financial statements of the other Greater Manchester authorities.
Notes to the CBS			
Note 1. Fixed Assets:			
Fixed asset additions	5,386	20,795	Figures amended to agree with supporting ledger records.
Fixed asset revaluations	93,341	77,932	
Sentence referring to previous policy of not charging depreciation on assets where regular repair and maintenance carried out deleted as the related accounting policy change occurred prior to the period covered by the statement of accounts.			
Note 3. Capital expenditure:			

Narrative amended to include details of:			
<ul style="list-style-type: none"> • authorised 2004/2005 capital expenditure; • capital investment required for the next two years; • capital commitments as at 31 March 2004; and • the Alliance Leisure Partnership 			
Note 4. Statement of physical assets:			
Social services social education centres deleted and replaced by admin buildings as per the underlying asset records.			
Note 5. Investments:			
Manchester Airport profit before and after tax figures amended to agree with the published Group Accounts.			
Information on Manchester Airport Plc's assets amended to disclose net rather than total assets.			
Table amended to disclose the reinstated investment in Modesole Ltd.			
Narrative expanded to provide details of:			
<ul style="list-style-type: none"> • Bury's shareholding in Modesole Ltd. • the impact of the sale of Modesole's shareholding in the Midland Hotel & Conference Centre • Modesole's most recent financial results 			
Note 10. Provisions:			
Narrative amended to state that the main education provision relates to school improvements.			
Note 11. Reserves:			
Narrative amended to include:			
<ul style="list-style-type: none"> • a brief description of the EDS reserve. • cross reference to the HRA major repairs reserve note. 			
Note 13a. Capital financing reserve:			
Appropriation from General Fund – writing down of in year deferred charges	-5,725	-5,730	Amended to include month 18 journal omitted from the CBS spreadsheet used to prepare the original statement of accounts.
Note 20. Retirement benefits disclosure:			
Narrative expanded to explain that the CBS pension reserve balance represents the sum of the local government pension scheme net pension asset (£10.934 million) and the unfunded teachers' pensions liability (£16.7 million).			
Statement of Total Movement in Reserves			
Figures were amended to reflect changes in the supporting balance sheet disclosures noted above.			
Cash flow statement and notes:			
Amended to include the 2003/2004 figures sent to members on 19 th August as further amended to reflect changes in the supporting balance sheet disclosures noted above.			
Note 4. Analysis of government grants:			
Kosovo Special grant line deleted as no 2003/2004 or 2002/2003 receipts to disclose.			