

Report on the 2004/05 Financial Statements to the Audit Committee

Bury Metropolitan Borough Council

Audit 2004-2005

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Introduction

- 1 Professional auditing standards require auditors to report certain matters arising from the audit of the financial statements to 'those charged with governance':
 - expected modifications to the audit report;
 - 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; and
 - other matters that we wish to draw to your attention.
- 2 We have agreed with the Authority that the communications required under these auditing standards 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 2004/05.

We would like to thank the Authority's staff for ensuring that the 2004/05 financial statements were prepared on time and for their help in addressing audit queries. However, the issues arising this year indicate that there is scope for improvement to ensure the Authority prepare the 2005/06 financial statements, including for the first time group accounts, a month earlier than in 2004/05. In particular, action needs to be taken to improve the timeliness of reconciliations.

Status of the audit

- 3 Although our work on the financial statements is substantially complete, there are two significant matters arising to be resolved by officers, before we can issue our opinion. These are as follows.

Bank reconciliation

- Officers are preparing an amended bank reconciliation following resolution of the discrepancies identified from the audit review of the original bank reconciliation working papers. This will then need to be tested by audit.

National non domestic rates

- Officers are reviewing the appropriateness of the National Non-Domestic Rating (NNDR) exchequer creditor balance (£4.335 million). Depending on the outcome, this could result material adjustments to the sundry creditors and sundry debtors balances.

- 4 Officers have been urgently working on these items for the last three weeks.
- 5 Any additional matters arising identified when completing the outstanding audit work will be reported to members at the Audit Committee meeting on 20 October 2005.

- 6 Subject to the satisfactory conclusion of the work outstanding, we anticipate being able to issue an unqualified opinion by 31 October 2005 (a draft report is attached at Appendix 1). Should the matters above not be resolved we will delay our opinion until such a time as they are fully explained.

Matters to be reported to those charged with governance

- 7 We have the following matters to draw to the Audit Committee's attention.

Expected modifications to the audit report

- No modifications to the audit report are anticipated provided we are able to resolve the bank reconciliation and Collection Fund issues noted in paragraph 3.

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 which require action by the Authority, during the 2005/06 financial year, will be reported in the final accounts memorandum.
- There is one unadjusted misstatement that we wish to draw your attention.
- This year the Authority has brought £0.611 million of disability equipment onto the balance sheet for the first time resulting in a £0.611 million benefit to the net cost of social services in the consolidated revenue account. Based on testing of the three largest disability equipment stock items, we found this balance to be overstated by £0.237 million, as one of the items was on hire and another was not reusable. No adjustments have been made as:
 - the error identified from audit testing is not material; and
 - it is felt to be more appropriate to wait until internal audit have completed their more wide-ranging review of arrangements at the Seedfield disability equipment store.
- SAS 610 requires the Committee to confirm this approach.
- It should be noted that any amendments to reduce the value of disability equipment stock will require a charge to the consolidated revenue account thus reducing the general fund balance.

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- We are also required to consider reporting adjusted misstatements to you where these are material and are relevant to your governance responsibilities. As the Director of Finance and E-government will ask the Audit Committee to approve the schedule of amendments to financial statements approved by the Committee on 27 July we only wish to draw your attention to the following amendments.
 - Sundry debtors and creditors were amended to exclude balances raised to bring 31 March 2005 short-term investment transactions onto the financial ledger. The amounts involved were £2.1 million (debtors) and £1.4 million (creditors). There was no overall effect on the Authority's net assets as there was a corresponding amendment to the cash overdrawn balance.
 - The spreadsheet used to prepare the CBS had not been updated to reflect the final 2004/05 financial ledger balances. Sundry debtors and creditors were increased by £0.836 million (debtors) and £7.643 million (creditors) to reflect the final authority-wide debtor and creditor balances. There was a corresponding adjustment to the cash overdrawn balance.
 - The net effect of these adjustments was to reduce cash overdrawn by £6.107 million.
 - We have asked the Authority to amend the CBS General Fund disclosure (Note 16) to improve readability.

Material weaknesses in accounting and internal control systems

- We are required to report to you any material weaknesses in systems of accounting and financial control which we identified during our audit.
- There are no material matters which we wish to draw to your attention.

Qualitative aspects of accounting practices and financial reporting

- SAS 610 place specific duties on auditors to report their assessment of qualitative aspects of accounting practice and financial reporting process. The following issues were identified during the course of our audit:

Housing benefits grant claim

- As part of our accounts audit we need to test whether the housing benefits figures within the financial statements are free from material error. A new housing benefits system was implemented from the end of January 2005. The compilation of the 2004/05 housing benefits claim, totalling around £39 million, included estimated figures for the last two months of the year. The estimates were based on the old HBIS system for the first ten months.
 - Council tax benefits assumed to be nil for last two months of the year.
 - Rent rebates £2.3 million as estimated for the last two months.
 - Rent allowances £2.5 million as estimated for the last two months.

- Given the estimated basis, the claim and supporting housing benefits system figures had not been reconciled to the financial ledger. Following work being undertaken by Bury MBC officers and additional audit testing it was confirmed that, the figures in the financial ledger were properly recorded from the housing benefits system.
- Although our testing of the information provided in respect of rent rebate and rent allowance housing benefits claims debtors can not be completed due to the current lack of reliable analysis from the new housing benefit system, our view is that there is unlikely to be any material differences arising from this work.
- As a result, we have been able to reach our audit opinion in respect of housing benefits figures in the financial statements. The Authority is now preparing a new housing benefits claim using the actual figures from the old and new housing benefits systems.

General fund balance available to the Authority at 31 March 2005

- The Committee's attention is drawn to the low level of the general fund balance available to the Authority at 31 March 2005. After excluding school balances (£5.114 million), the available general fund balance is £1.071 million which is £1.778 million less than the £2.849 million minimum balance required to be retained per the CBS Note 16: the General Fund. The Director of Finance and E-government indicated that Members agreed, at the Executive Meeting of the 24 August 2005, to take the following action to bring the general fund balance back up to the minimum level:
 - not carrying forward underspends of £0.301 million from the 2004/05 financial year (as per Minute EX.384); and
 - using the computer reserve to make up the remaining shortfall (£1.477 million). The computer reserve had a balance of £3.523 million on 31 March 2005 (this is not recorded in Minute EX 384).
- As previously stated, the Authority has been asked to amend the format of CBS Note 16 to improve readability.

Reconciliations

- In addition to the year-end bank reconciliation and housing benefit reconciliations noted previously we draw your attention to the following ongoing reconciliation issues.
 - As at 6 September 2005 no bank reconciliations had been completed in respect of the 2005/06 financial year although some of the individual feeder system reconciliations had been completed.
 - The 2004/05 payroll feeder system reconciliations were not performed on a timely basis due to the impact of the long-term staff sickness and preparations for the migration to the new payroll system. Although steps were put in place to resolve this issue there were still significant delays completing the reconciliations thus the July 2004 reconciliation was not completed until April 2005.

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- The year-end housing loan and car loan long-term debtors had not been reconciled to the supporting sub-systems. Reconciliations were performed by external audit which confirmed that the balances were fairly stated.

Opening balances

- The Authority's work to check that opening balances were correctly brought forward onto the 2004/05 financial ledger was not completed until July 2005.

Final accounts working papers

- Although most working papers were available at the start of the accounts audit, several were not. In particular, the bank reconciliation and the Housing Revenue Account working paper files were not received until the 1 and 14 September respectively.

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 Council 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 that we wish to draw to your attention.

Other matters that we wish to draw to your attention

- There are no other matters which we wish to draw to your attention.

Next steps

- 8** We are drawing these matters to the Audit Committee's attention so that you can consider them before the financial statements are approved and certified.
- 9** Officers are preparing revised financial statements containing the adjustments outlined in their separate report. Officers will ask the Audit Committee to approve these revised financial statements at their meeting on 20 October 2005, subject to the satisfactory resolution of the matters arising noted in paragraph 3. The final amended financial statements will be made available to all Councillors. The District Auditor will complete the opinion and certificate to conclude the audit.
- 10** Subject to Audit Committee approval of this report, we will produce an action plan for the future for discussion with officers which will address all the issues identified during our audit of the 2004/05 financial statements.

Appendix 1 – (Audit opinion for a principal local authority that does not administer a pension fund) Independent Auditor's Report to Bury Metropolitan Borough Council

I have audited the statement of accounts on pages A to F 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 Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission.

Respective responsibilities of the Chief Financial Officer and Auditor

As described on page x the Chief Financial Officer 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 2004. My responsibilities, as independent auditor, are established by statute, the Code of Audit Practice issued by the Audit Commission and my/our 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 page 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/our audit of the financial statements. I am not required to consider whether the statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of the Council'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 is 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 presents fairly the financial position of Bury Metropolitan Borough Council as at 31 March 2005 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:.....