

Annual Audit and Inspection Letter

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Bury Metropolitan Borough Council

Audit 2004/2005

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Key messages

Council performance

- 1 Bury Council is improving well and is now rated as a two star council under the CPA methodology. The revised approach to CPA is a more stringent test with more emphasis on outcomes for local people and value for money.
- 2 Bury Council continues to deliver improvements in front-line services for local people. However, following two years of strong improvement, sustaining the rate of progress will be a challenge.
- 3 The Council has maintained good performance in services for young people including school attainment and attendance levels. Further improvements have been made in recycling, the quality of parks, adult social care and the development of cleaner, greener, safer initiatives. Sixty one per cent of the indicators of performance have improved since 2002/03, although challenges remain in reducing school exclusions.
- 4 The Council continues its positive work with partners with plans in place to deliver better outcomes particularly in terms of community safety, health and children's services.
- 5 In the last year, the Council has improved the way it operates, making good progress in the delivery of key corporate priorities. It continues to improve the way staff and councillors manage performance, and is enhancing community engagement to ensure better user focus.
- 6 The Council's Use of Resources score of 'two' reflects that significant challenges remain in terms of how it oversees its financial resources.

The accounts

- 7 We were unable to reach an opinion on your 2004/05 accounts by the planned opinion date of 31 October 2005. This was primarily due to failure of officers to reconcile the accounts and other related underlying records to the bank's statements of balances. Significant work has been performed by finance officers and audit staff before and since that day to identify the issues, adjust the accounts, present and audit the evidence.
- 8 Recent working papers presented to us are being reviewed at present and we currently anticipate being able to reach an unqualified opinion on your 2004/05 accounts by the end of January 2006.
- 9 The 2004/05 financial statements were prepared on time. However, the issues arising this year indicate that there is significant scope for improvement to ensure the Authority prepares the 2005/06 financial statements a month earlier than in 2004/05. Significant work will be required by finance officers to sort out the 2004/05 issues that carry into the 2005/06 year.

Financial position

- 10 Pressures on the 2005/06 budget position are accumulating. Uncommitted General Fund Reserves and the rebuilding of the minimum balance in 2005/06 provide only limited scope for future budget support. The proposed financial settlement for 2006/07 has not improved Bury's budget pressures. The Council has identified a range of actions to support setting a balanced budget for 2006/07. Some difficult decisions will need to be taken in respect of services and maintaining financial balance.

Action needed by the Council

- 11 The Council is recommended to:
- Focus attention to improve how the Council manages and oversees its financial resources
 - Prepare financial statements fully reconciled to underlying records by the earlier due date of 30 June 2006.
 - Continue to support the Director of Finance and E-government in monitoring of finances, while the available balances are largely committed.
 - Continue to develop the medium term financial strategy and the links between budgets and service plans and update it to reflect the current position.

Performance

Bury Council is improving well and is now rated as a two star Council under the CPA methodology.

The Council continues to enhance partnership working, strengthening governance of the Local Strategic Partnership by launching a new multi agency Public Service Board to act as the key delivery group, and is helping revise the Community Strategy to make it more sharply focused on outcomes.

There is evidence of strong, sustained performance in Adult Care and Children's Services. There continues to be strong progress against important priorities, including the priority of cleaner, safer, greener. Here the Council exceeded its statutory target for recycling. There is also encouraging progress against other priorities including reductions in many crime categories by more than national averages, and an increasing emphasis on improving town centres and neighbourhoods including levels of external investment to both.

There are areas for improvement. The Council scored 'two' out of 'four' in the way it uses its resources. This highlighted specific weaknesses in financial reporting with material errors in the accounts causing a delay in issuing an opinion on the 2004/05 accounts. Part of the assessment considers value for money, and overall it found that the Council is delivering good value for money.

CPA scorecard

- 12 The CPA judgements this year have been made using the revised methodology: CPA - the harder test. As the title implies CPA is now a more stringent test with more emphasis on outcomes for local people and value for money. We have also added a new dimension, a Direction of Travel judgement, that measures how well the Council is improving. Under the new framework, the council is "improving well" and its overall CPA category is two stars.

Table 1 CPA scorecard

Element	Assessment
Direction of Travel judgement	Improving well (3 out of 4)
Overall	2 stars
Current performance	out of 4
Children and young people	3
Social care (adults)	3
Use of resources	2
Housing	3
Environment	3
Culture	4
Benefits	3
Corporate assessment/capacity to improve (not reassessed in 2005)	2

(Note: 1=lowest, 4= highest)

Direction of Travel statement from scorecard.

- 13 Bury Council continues to deliver improvements in front-line services for local people. However, following two years of strong improvement, sustaining the rate of progress will be a challenge.
- 14 The Council has maintained good performance in services for young people including school attainment and attendance levels. Further improvements have been made in recycling, the quality of parks, adult social care and the development of cleaner, greener, safer initiatives. Sixty one per cent of the indicators of performance have improved since 2002/03, although challenges remain in reducing school exclusions.
- 15 The Council continues its positive work with partners with plans in place to deliver better outcomes particularly in terms of community safety, health and children's services.
- 16 In the last year, the Council has improved the way it operates, making good progress in the delivery of key corporate priorities. It continues to improve the way staff and councillors manage performance, and is enhancing community engagement to ensure better user focus.
- 17 However, significant challenges remain in terms of how it oversees its financial resources.

Direction of Travel report

- 18 A more detailed overview of progress of the Council Priorities over the last year follows.
- 19 Bury Council is improving well and is now rated as a two star Council under the CPA methodology. This is in the light of the revised approach to CPA, which is now a more stringent test with more emphasis on outcomes for local people and value for money.
- 20 The Council continues to enhance partnership working, strengthening governance of the Local Strategic Partnership and helping revise the Community Strategy to make it more sharply focused on outcomes. Over half of the Local Public Service Agreement (LPSA 1) targets will be achieved, but those most at risk of not being achieved are those for education and road safety.

Cleaner, safer, greener.

- 21 There continues to be strong progress in the high resident priority of cleaner, safer, greener. The Council exceeded its statutory target for recycling and satisfaction with waste management improved between 2000 and 2003. Street cleanliness performance was not matched by satisfaction with such cleanliness, which is in the worst quartile and did not improve between 2000 and 2003. Cleaning teams are now Area based. A late 2004 survey by the Council gave mixed results, with more people saying the area has become cleaner in the last twelve months than worse.
- 22 Crime in all categories reduced, in most cases significantly and by a bigger amount than nationally. The Bury Safe initiative was launched which brings together various agencies who will operate at an Area level. However, there remain areas for improvement. Whilst crime levels overall remain high, Bury's performance is the best in the sub region. Reporting of racial incidents fell and more people think race relations have deteriorated in the last three years than think they have improved. Over the past two decades, road casualties have declined at a rate, which, if continued, would enable the Council to meet the Government's 2010 target.

Improving town centres and neighbourhoods

- 23 Improving town centres and neighbourhoods is a key priority, with particular emphasis on the regeneration of town centre sites to make them more attractive to businesses, housing and cultural facilities. External investment has been identified to facilitate these improvements. Central to this priority is the ambition to reduce inequalities in employment and narrowing the gap between the most deprived areas and the rest of the borough. Achieving success in this priority will take time, but initiatives such as 'Bury but better' and the establishment of a culture quarter by 2008 show progress is being made.

Better opportunities for children and young people

- 24 Achieving better opportunities for children and young people has been a consistently high priority and there has been good progress against last year's Commission for Social Care and Inspection's (CSCI's) and OFSTED's annual performance assessment (APA), resulting in strong performance across all three areas, including the top grade for Education. This includes evidence of clear improvement, in some cases well ahead of target dates. Attainment continues to be good or very good with many performance indicators in the best quartiles. Securing further improvements in performance levels in key stage one and three, although from a high base line, remains a challenge. Modest reductions in exclusions have been achieved, but they are still high.
- 25 Overall, the Council has the capacity to deliver what is needed for young people. It is making good progress to embed and develop the newly established children's service, and has increased resources and the skills of its staff. Bury has the best attendance at schools amongst Metropolitan Authorities and second best nationally.

Improved cultural and sporting opportunities

- 26 The Council continues to make good progress towards the priority of improved cultural and sporting opportunities. There has been a significant investment in parks and countryside, with further parks receiving green flags, so that Bury now has the best ratio of parks nationally with this status. Bury received an award from North West in Bloom for the second year in a row. All of which contributed to a marked rise in satisfaction between 2000 and 2003. However, satisfaction with all other cultural facilities declined during this period, as did library usage.

Strengthened communities,

- 27 Overall, there have been improvements to the priority of strengthened communities, with continued emphasis on partnership working and community cohesion. There is a clear drive towards creating a stronger sense of community through strengthening townships.
- 28 Adult social care is improving, with a new adult service now in place. These changes are supported by a strong emphasis on partnership working with the Primary Care Trust (PCT). In addition, more of older people are being supported in the community, thereby reducing the reliance on Council run residential care. There remain areas to improve including better strategic management of demand, and financial pressures in the learning disabilities services.

Choice of quality housing

- 29 Making the area a more attractive place to live is an important aspect of the priority for choice of quality housing. An important development is the establishment of the 'Six Town Housing' arms length management organisation (ALMO) set-up in April 2005 to manage and improve the Council's housing stock. These changes have been supported by general improvement to community

housing and housing management performance indicators, with more improving than declining in the last year. There was an improvement in the proportion of homes meeting the Decent Homes Standard and in the energy efficiency of homes; there were also improvements in re-let times and speed of completing repairs, though a reduction in the number of appointments kept.

Putting customers first

- 30 Putting customers first remains an important priority. All Council buildings are accessible to disabled people, more services are e-enabled than before and the website's accessibility to those with disabilities has been enhanced. Planning applications have moved from bottom quartile to reaching top quartile performance within twelve months as a result of new systems and working practices. The Customer Relationship Management programme has recently been introduced and will support efforts to improve user focus. Although the Council rose from Level 1 to Level 2 on the National Equality Standard, it has not moved on as far or as fast as it had intended with its race equality agenda in general and the Race Equality Scheme in particular.

Promoting healthier living

- 31 The Council continues to work hard to improve the priority of promoting healthier living and thereby reducing inequalities. Teenage conception rates are close to national levels but are not reducing as fast as those nationally. However, Government Office North West has rated Bury's performance the best across Greater Manchester. Leisure services are contributing to health and community safety. Their contributions such as GP referral and Positive Activities for Young People are beginning to make a positive impact.

Improving access and quality for all citizens

- 32 A more consistent approach to improving access and quality for all citizens is being addressed. Although the Council does undertake both corporate and service-driven surveys of residents and engages with them by a variety of means, this dialogue is not consistent, available community information is not consistently put to good use to modify services.
- 33 There are examples of services improving access in small ways. For example, the Benefits Service has enhanced the channels for repayment of overpayments and improved its internal quality control. A new housing benefits system was implemented from January 2005, which impacted on performance. The overall speed of processing has been below the standard in both 2004/05 and in 2005/06 to date. However, improved performance is expected now the system is fully implemented. There have been some changes to library services for the black and ethnic minority communities, such as better stock for Asian readers and Sunday opening in the Jewish area.
- 34 In terms of how the Council uses its resources, it was judged as scoring two out of four in the Use of Resources assessment. This highlighted specific weaknesses in financial reporting with material errors in the accounts, and delays in issuing an opinion on the 2004/05 accounts. This was a disappointing

assessment and steps are being taken to ensure weaknesses are addressed during 2006. Part of the assessment considers value for money, and overall it found that the Council is delivering good value for money. It is delivering more for its money, and performance has increased faster than cost since 2001/02. Overall efficiency savings have been made, including reductions in prices for residential and nursing home care.

- 35 The Council is improving the way it works and has enhanced its scrutiny function by focusing more on policy development. It is also strengthening and broadening how it manages performance with the launch of the second-generation performance management framework known as B2G. This focuses more on the performance monitoring role to include progress on major corporate projects and assessments of corporate health, based on EFQM assessments. These changes are helping support new corporate and departmental plans introduced in 2005. The Council has also strengthened its ICT capacity and is progressively shedding its dependence on outdated mainframe technology; this includes a new website and telephone system. There remain areas in need of improvement, sickness absence while falling remains in the worst quartile, but there is concerted effort to address this through a new HR strategy and increasing emphasis on workforce planning.

Other performance work

Home to school transport

- 36 Our audit review was prompted by the Council's concerns of increasing costs around home to school transport for children assessed with special educational needs. We found good budget monitoring and the cost pressures were demand led. Increasing costs continue into 2005/06 current budget pressures. Our work compared Bury's practices to good practice from the DfES and to practices in other Authorities. Whilst many good practices for a quality service were in place, we made some recommendations, based on these comparisons, where areas for change could be considered by officers.

Performance Plan

- 37 The Council has produced a Best Value Performance Plan, which included all the required Best Value Performance Indicators (BVPI's). KPMG LLP as your external auditors for 2005/2006 onwards completed the statutory audit and concluded that the plan complied in all significant respects with the relevant legislation. The plan overall was given an unqualified audit opinion. BVPI's were found to be reliable with only a small number requiring amendment following the audit.

Other Audit Commission inspections

- 38 No other Audit Commission Inspections were carried out for the 2005 reporting year. However, an inspection of the ALMO is in progress and will be reported in next year's annual audit and inspection letter.

Working with other inspectorates and regulators

- 39 An important aspect of the role of the Relationship Manager is to work with other inspectorates and regulators, who also review and report on the council's performance. These include:
- OFSTED;
 - Commission for Social Care and Inspection (CSCI);
 - Benefits Fraud Inspectorate (BFI);
 - DfES; and
 - Local Government Office contact.

We share information and seek to provide 'joined up' regulation to the Council. During the last year, the Council has received the following assessments from other inspectorates and these have been included in the Direction of Travel report part of this letter.

Accounts and governance

We were unable to reach an opinion on your 2004/05 accounts by the planned opinion date of 31 October 2005. This was primarily due to failure of officers to reconcile the accounts and other related underlying records to the bank's statements of balances. Significant work has been performed by finance officers and audit staff before and since that day to identify the issues, adjust the accounts, present and audit the evidence.

Recent working papers presented to us are being reviewed at present and we currently anticipate being able to reach an unqualified opinion on your 2004/05 accounts by the end of January 2006.

The 2004/05 financial statements were prepared on time. However, the issues arising this year indicate that there is significant scope for improvement to ensure the Authority prepares the 2005/06 financial statements a month earlier than in 2004/05. Significant work will be required by finance officers to sort out the 2004/05 issues that carry into the 2005/06 year.

Pressures on the 2005/06 budget position are accumulating. Uncommitted General Fund Reserves and the rebuilding of the minimum balance in 2005/06 provide only limited scope for future budget support. The proposed financial settlement for 2006/07 has not improved Bury's budget pressures. The Council has identified a range of actions to support setting a balanced budget for 2006/07. Some difficult decisions will need to be taken in respect of services and maintaining financial balance. Councillors must continue to support the Director of Finance and E Government in monitoring of finances, while the available balances are largely committed.

Apart from these issues, your overall corporate governance arrangements are satisfactory in most key areas.

Audit of 2004/05 accounts

- 40 The published accounts are an essential means by which the Council reports its stewardship of the public funds at its disposal and its financial performance in the use of those resources. Members approved the Council's 2004/05 accounts for audit on 27 July 2005.
- 41 We were unable to reach an opinion on your accounts for 2004/05 by the planned opinion date of 31 October 2005 as described in the preceding summary. Recent working papers presented to us are being reviewed at present and we currently anticipate being able to reach an unqualified opinion on the 2004/05 accounts by the end of January 2006.

Report to those with responsibility for governance

- 42 We are required by professional standards to report to those charged with governance, in this case the Audit Committee on 20 October 2005, matters arising, before we give an opinion on the financial statements.

- 43 We reported that although our work on the financial statements was substantially complete, there were two significant matters arising to be resolved by officers, before we could issue our opinion:
- **Bank reconciliation**
Officers were preparing an amended bank reconciliation following resolution of the discrepancies identified from the initial audit review of the original bank reconciliation working papers. This would then need to be tested by audit.
 - **National non domestic rates**
Officers were reviewing the appropriateness of the National Non-Domestic Rating (NNDR) exchequer creditor balance (£4.3 million). Depending on the outcome, this could result in material adjustments to the sundry creditors and sundry debtors balances.
- 44 At that stage, we reported that subject to the satisfactory conclusion of the work outstanding, we anticipated being able to issue an unqualified opinion by 31 October 2005. We agreed with the Audit Committee that should the matters above not be resolved by the due date, our opinion would be delayed until such a time as they were fully explained.
- 45 In the event:
- the NNDR issue was resolved by the due date with material changes to figures in the accounts required.
 - the bank reconciliation and related reconciliations to underlying records were not resolved, as the difficulties were found to be more embedded and involved than originally envisaged. Material adjustments to balances will be needed as a result of the additional work.

The changes presented to us are being reviewed at present.

Preparation of accounts for 2005/06

- 46 The 2004/05 financial statements were prepared on time. However, the issues arising this year indicate that there is significant 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.
- 47 Significant work will be required by finance officers to sort out the 2004/05 issues that carry into 2005/06 year, so that robust financial statements reconciled to the bank balances and underlying records can be prepared by 30 June 2006. In addition, action needs to be taken to improve the timeliness and robustness of all reconciliations to all subsidiary systems, addressing appropriately the reconciling items in the accounts.
- 48 The general ledger balances will need this data clarification before they can be realistically transferred to the planned new ledger system.

Financial standing

49 The council's financial position is outlined in Table 2.

Table 2 Financial Position to 31 March 2005

Performance to 31 March 2005	Audit comment
General Fund net budget of £200 million	
<p>Budget net expenditure, excluding commitments to schools budgets, was exceeded by a net £0.1 million, but various overspends managed within this included:</p> <ul style="list-style-type: none"> • Social Services childcare external placements of £2.3 million • Education non-schools costs of £1 million. 	<p>The Council is working to understand and address the underlying issues around child placements. These demand and cost pressures are faced by many Authorities.</p> <p>The education overspend was agreed by the schools forum to be a first call on passported schools budget monies for 2005/06.</p>
Reserves	
<p>After commitments to schools, General Fund Reserves at March 2005 were £1 million, all but £0.3 million of which was committed to the 2005/06 budget. The budget for 2005/06 included plans to replenish reserves to £2.85m, the minimum level the Council has risk assessed as sufficient to meet calls.</p>	<p>Uncommitted General Fund Reserves of £0.3 million and the rebuilding of the minimum balance in 2005/06 provides limited scope for future budget support.</p>
School balances	
<p>Monitoring of school balances has continued and at March 2005 net surplus balances were £5.1 million and only three schools were in deficit.</p>	<p>The accumulation of surpluses or deficits for the individual schools was reported and that balances will be used to meet work force reform and managing falling pupil numbers.</p>
Capital expenditure	
<p>Capital expenditure slipped by 20% (£9.9 million) on the revised capital programme of £47.9 million .</p>	<p>The monitoring identifies explanations of why schemes were undelivered or finance not spent as planned and</p>

Performance to 31 March 2005	Audit comment
The capital programme monitoring group meets monthly to manage capital project issues arising at an early stage, reporting quarterly to the resource and performance scrutiny panel.	reschedules as appropriate to make best use of available resources via the capital strategy group. Capital expenditure continues to need careful project management and monitoring to continue to make best use of the resources available and to deliver on priorities in a timely manner.
Housing Revenue Account	
Housing Revenue reserves decreased by £1.2 million to £3.7 million at 31 March 2005.	The change in position is largely a result of changed capital and housing accounting requirements for the Housing Revenue Account.
Debt collection	
<ul style="list-style-type: none"> • NNDR 98% (98.9% in 2003/04) and • Council Tax 97.3% (97.4% in 2003/04) 	A strong recovery position is maintained in 2004/05.

Future position

- 50** The budget for 2005/06 is being closely monitored. The last report to Committee for the period to the end of September 2005 identifies a net overspend of £3.1 million, primarily in respect of child placements and learning disabilities. Steps are being taken to manage this in year by the project board set up for the purpose, but much of the overspend comes from service demand pressures.
- 51** Pressures on the 2005/06 budget position are accumulating with less uncommitted reserves than overspends to the end of September 2005, the most recent monitoring report. An updated overall monitoring report for the next reporting period is in preparation.
- 52** The proposed national financial settlement for 2006/07 has not improved Bury's budget pressures, as they have received less than the national average. The Council has identified a range of actions to support setting a balanced budget for 2006/07. This includes a vacancy freeze, and potentially staff and service reductions. Discussions are also being held with central government about the settlement.
- 53** The general fund reserves offer only limited scope for manoeuvre on the 2006/07 financial position that the Council is currently addressing and will need to be revised to a level that reflects the risks that the council perceives itself to be under. The Council will have some difficult decisions to take in respect of services and maintaining financial balance.

- 54 Councillors must continue to support the Director of Finance and E government in monitoring of finances, while the available balances are largely committed.
- 55 The medium term financial strategy, which had been developed and was continuing to develop, will need updating to reflect these current events.

Systems of internal financial control

- 56 Apart from the issues around the bank and other reconciliations previously described, we have not identified any further significant weaknesses in the overall control framework.
- 57 Your own Statement on Internal Control, which we review for consistency with our understanding of the Council's procedures, was well prepared and reflected our understanding at that time of the issues facing the Council and addressed in your action plan. The issue around the bank reconciliation and other reconciliations will need to be considered in future Statements on Internal Control.

Internal Audit

- 58 Our assessment is that Internal Audit provides an effective service overall. Internal Audit report regularly to the Audit Committee, which allows consideration of the key points arising from their work programme.

Audit Committee

- 59 The Audit Committee was re-constituted in 2004/05 municipal year from its former sub-committee status. It has addressed some complex financial and other issues presented; the involvement helps to improve general understanding of issues, raises useful questions and promotes and supports the Authority's action.

Housing benefits grant claim

- 60 A new housing benefits system was implemented by Bury MBC 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. based on the old HBIS system from the first ten months. Given the estimated basis, the claim and its supporting housing benefits system figures could not be reconciled to the financial ledger or used for the audit of the claim. Following work undertaken by Bury MBC officers and additional audit testing, it was confirmed that, the material figures in the financial ledger were properly recorded from the housing benefits systems. However, the Authority was required to prepare a revised housing benefits claim, using the actual figures from the old and new housing benefits systems, so they too could be audited.
- 61 This was received on 31 October 2005. Work progressed to audit these revised figures by the ODPM's deadline of 31 December 2005, but benefits officers were still resolving the many queries from the extensive testing required arising from the complexities of the systems changeover. The completion of the audit and amended claim is expected in the next few days.

Standards of financial conduct and the prevention and detection of fraud and corruption

- 62 We have not identified any significant weaknesses in your arrangements to prevent and detect fraud and corruption.
- 63 During the year and at the Council's request, we gave two similar training sessions for Councillors on conduct, ethics and community leadership in public service from an audit - probity perspective which provoked thought on some of these sometimes difficult issues Councillors face.

National fraud initiative

- 64 In 2004/05, the local authority took part in the Audit Commission's National Fraud Initiative (NFI). The NFI, which is undertaken every two years, aims to help identify and reduce fraud by bringing together data from NHS bodies, local authorities and government departments and other agencies, to detect a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud, tenancy fraud and payroll fraud as well as, new for 2004/05, right to buy scheme fraud and providing new contact details for former tenants with arrears in excess of £1,000.
- 65 An audit review has found the Council has continued in its effective approach to following up issues identified from the data. Work on the high priority matches has progressed well, and is supported by up to around £50,000 potential savings reported so far. The Council has also piloted with the Audit Commission and other authorities around Greater Manchester extended data matching in respect of insurance claims, creditors' payments, blue badge parking permits and private homecare residents. Some issues are being investigated from this data.

Legality of transactions

- 66 We have not identified any significant weaknesses in the framework established by the council for ensuring the legality of its significant financial transactions.

Public rights and audit issues

- 67 There have been no formal issues raised with us as a result of the inspection of the accounts by the public.
- 68 During the year, we have also been asked by Officers to review various issues arising. We have also asked officers to review legal and technical issues brought to our attention by the Audit Commission.
- 69 None of these issues brought into doubt the overall arrangements at Bury MBC for ensuring the legality of these transactions and we note the constructive way officers helped us and the Council address these.

Use of resources judgements

- 70 The use of resources assessment is a new assessment which focuses on financial management but links to the strategic management of the authority. It looks at how the financial management is integrated with strategy and corporate management, supports council priorities and delivers value for money. It will be carried out annually, as part of each council's external audit. For single tier and county councils, the use of resources assessment forms part of the CPA framework.
- 71 As your external auditors for the 2005/2006 financial year onwards, KPMG LLP has completed this piece of work.
- 72 For the purposes of the CPA, KPMG has assessed the Council's arrangements for use of resources in five areas.

Table 3 Use of resources assessment

Element	Assessment out of 4
Financial reporting	1
Financial management	2
Financial standing	2
Internal control	2
Value for money	3
Overall	2

(Note: 1=lowest, 4=highest)

- 73 In reaching these judgements, KPMG LLP has drawn on the above work and supplemented this with a review against specified Key Lines of Enquiry.
- 74 The most significant areas where further development is needed are detailed in the paragraphs below.
- 75 For financial reporting, the Council need to ensure the required audit evidence is available for the auditors to give an opinion by the required deadline. The Council also need to ensure all working papers are available from the start of the audit and there is a quality assurance process in place to ensure the accounts are free from material misstatements.
- 76 Financial management arrangements in respect of the Medium Term Financial Strategy, budgets and the capital programme are robust, however, weaknesses exist in the arrangements for the Council's asset base. In particular, further work is required to establish a planned maintenance programme and the level of backlog maintenance for all council owned property.
- 77 The Council has strong mechanisms for financial standing but needs to build upon these by developing a mechanism to link the target level of reserves to all

the risks the Council face, and by maintaining its spend within budget without significant unexpected over or under-spending.

- 78** The Council's arrangements in respect of internal control are generally sound, however further developments would enhance internal control. These developments are ensuring:
- risk management is operating effectively;
 - the assurance framework maps strategic objectives to risks, controls and assurances; and
 - periodic reviews of compliance to the ethical framework are completed.
- 79** Arrangements to review and improve value for money further need to be enhanced. In particular, information for officers and members to manage and review costs, quality and performance of services together needs to be improved.

Grant claims

- 80** In accordance with Strategic Regulation, the Audit Commission has continued with a more risk-based approach to the certification of grant claims. We have reduced our audit of these claims but the scope to reduce further depends on the adequacy of the Council's control environment.
- 81** The Council's arrangements for managing and quality assuring grant claims submitted for audit has improved in recent years and so we have been able to take advantage of the new approaches. The new auditors will continue to work with the Council to build on these approaches.

Looking forwards

Future audit and inspection work

- 82 An audit and inspection plan for 2005/06 has been agreed with your Audit Commission Relationship Manager and new auditors KPMG LLP and we have reported in this letter those aspects that have already been completed. The remaining elements of that plan, including their audit of the 2005/06 accounts, will be reported in next year's Annual Letter. The planned work, together with that of other inspectorates, is included on both the Audit Commission and LSIF (Local Services Inspectorates Forum) websites.
- 83 The plan seeks to ensure, wherever possible, that the work relates to the improvement priorities of the Council. This approach will continue when planning the programme of work for 2006/07 which will reconsider, with you, your improvement priorities in the light of the latest CPA assessment and your own analysis, and develop an agreed programme by 31 March 2006. Work will continue with other inspectorates and regulators to develop a co-ordinated approach to regulation.

Revision to the Code of Audit Practice

- 84 The statutory requirements governing our audit work, are contained in:
- the Audit Commission Act 1998; and
 - the Code of Audit Practice (the Code).
- 85 The Code has been revised with effect from 1 April 2005. Further details are included in the Audit Plan which was agreed with the Audit Committee in July 2005. The key changes included:
- the requirement to draw a positive conclusion regarding the Council's arrangements for ensuring value for money in its use of resources; and
 - a clearer focus on overall financial and performance management arrangements.

Closing remarks

- 86 This letter will be discussed and agreed with officers. A copy of the letter will be presented at the Audit Committee and subsequently to the Executive on 25 January 2006.
- 87 The Council has taken a positive and constructive approach to our audit and inspection I would like to take this opportunity to express my appreciation for the Council's assistance and co-operation.

Availability of this letter

- 88 This letter will be published on the Audit Commission's website at www.audit-commission.gov.uk, and also on the Council's website.

Signature

District Auditor **Clive Portman**

Relationship Manager **James Foster**

19 January 2006

Appendix 1 – Background to this letter

The purpose of this letter

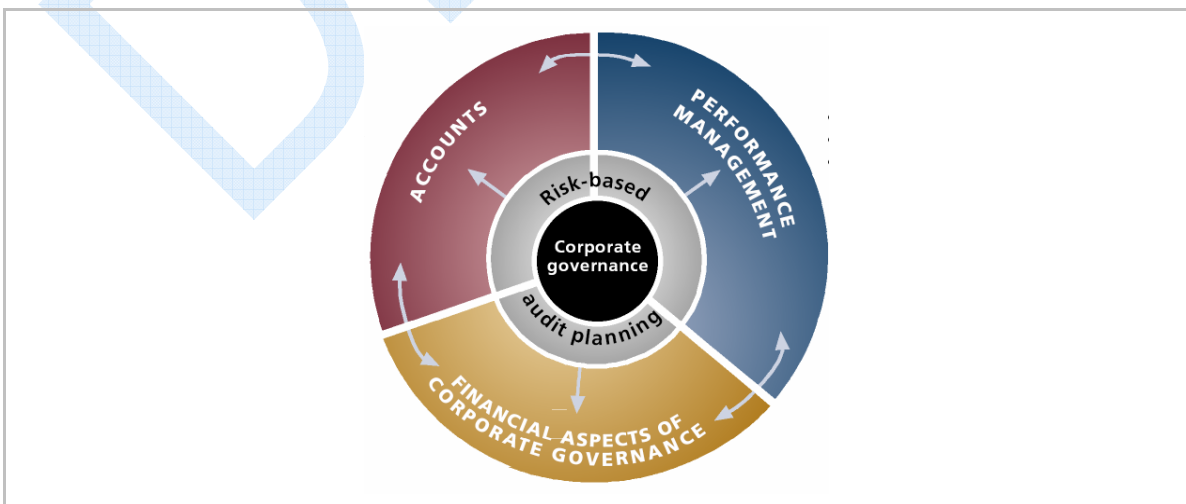
- 1 This is our Audit and Inspection ‘Annual Letter’ for members which incorporates the Annual Audit Letter for 2004/05, which is presented by the Council’s Relationship Manager and District Auditor. The letter summarises the conclusions and significant issues arising from our recent audit and inspections of the Council.
- 2 We have issued separate reports during the year setting out the findings and conclusions from the specific elements of our programme. These reports are listed at Appendix 2 for information.
- 3 The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.
- 4 Appendix 3 provides information about the fee charged for our audit and inspections.

Audit objectives

- 5 Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on your significant financial and operational risks that are relevant to our audit responsibilities.
- 6 Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as set out in the Code and shown in Figure 1.

Figure 1 Code of Audit Practice

Code of practice responsibilities



- 7 Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as shown below.

Accounts

- Opinion.

Financial aspects of corporate governance

- Financial standing.
- Systems of internal financial control.
- Standards of financial conduct and the prevention and detection of fraud and corruption.
- Legality of transactions.

Performance management

- Use of resources.
- Performance information.
- Best value performance plan.

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Appendix 2 – Audit and inspection reports

Table 4 Audit and inspection reports issued

Report title	Date issued	Covered by this letter
Audit and Inspection Plan 2004/05: items listed	November 2004	
Environmental services inspection	August 2004	2004 Letter
Best Value Performance Indicators 2003/04: - opinion to Audit Commission	September 2004	2004 Letter
Performance Plan opinion	December 2004	2004 Letter
User Focus review	May 2005	2004 Letter
Home to school transport	September 2005	✓
CPA score card	December 2004	2004 Letter
Annual Letter including CPA improvement report 2004	January 2005	2004 Letter
SAS 610 report to those charged with governance on financial statements	October 2005	✓
Final statements action plan draft	January 2006	✓
Audit and Inspection Plan 2005/06: items thus far	July 2005	
Best Value Performance Indicators 2004/05 audit	September 2005	✓
Performance Plan opinion	December 2005	✓
Use of resources judgement	November 2005	✓
Direction of Travel	December 2005	✓
CPA scorecard	December 2005	✓
Annual audit and inspection letter (including direction of travel assessment)	January 2006	✓

Appendix 3 – Audit fee

Table 5 Audit fee update

Audit area	Plan 2004/05 £000	Actual 2004/05 £000
Accounts	57	57*
Financial aspects of corporate governance	92	92
Performance	102	102
Total Code of Audit Practice fee	251	251
Grant claim certification work	130	90
Additional voluntary work (under section 35)	0	3

The grant claim actual fee reported is our current estimate of the likely fee for the 2004/05 certification work, some of which is in progress.

** Extra work has been undertaken on the final accounts audit, which is incurring additional fee*

Inspection fee update

The 2004/05 inspection fee net of ODPM grant is £64,000 and 2005/06 £17,000. The work reported in this Audit and Inspection Letter has been funded by an element of the fee covering 2004/05 and the fee covering 2005/06. In both years, the actual fee will be in line with that planned.