



INFRASTRUCTURE, GOVERNMENT  
& HEALTHCARE

## **Annual External Audit Report**

**2005/06**

Bury Metropolitan Borough  
Council

December 2006

AUDIT

# Content

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any officer or Member acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Adrian Lythgo, who is the engagement director to the Authority, telephone 0113 231 3054, email adrian.lythgo@kpmg.co.uk who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 236 4000, email trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Team, Nicholson House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SU or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 0117 975 3131, textphone (minicom) 020 7630 0421.

## Executive summary

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### 1.1 Scope of this report

This report summarises our audit work for the 2005/06 year. In particular, this report includes our findings in relation to our:

- audit of accounts (section 2);
- audit of data quality (section 3); and
- work on the Authority's Use of Resources (section 4).

### 1.2 Summary of findings

#### 1.2.1 Audit of accounts

On 29 September 2006, we issued our opinion on the Authority's 2005/06 financial statements. At the same time, we issued our audit certificate, which concludes our statutory responsibilities as auditors for that year.

The key issues arising from the accounts audit included:

- Continued weaknesses with the bank reconciliation process which resulted in unidentified differences on the reconciliation; and
- The absence of a housing benefits system to general ledger reconciliation, which led to duplication of housing benefit income in the accounts.

#### 1.2.2 Audit of data quality

During May-July 2006, we completed our first review of data quality at the Authority, following a methodology developed by the Audit Commission. This work forms part of our 2006/07 audit year.

Overall the Authority has sound arrangements in place for data quality. In particular, one of its key strengths is the increasing use of performance data alongside financial data to make decisions. The key issues from the data quality audit included formalising arrangements in respect of:

- Establishing a data strategy or statement; and
- Monitoring data quality measures on timeliness and accuracy.

#### 1.2.3 Use of resources

We reported our conclusion on the Authority's use of resources as part of our accounts audit report on 29 September 2006. This was an unqualified except for conclusion, indicating that the Authority has not achieved all the criteria specified by the Audit Commission. The Authority failed to put in place adequate arrangements for management of its asset base. The key issues at the time of the assessment were:

- A programme of planned maintenance based upon a rolling programme of surveys was not in place; and
- A full assessment of backlog maintenance had not been made.

The Authority has taken steps to address this in 2006/07.

Our responsibilities under the Audit Commission's Code of Audit Practice also include the review of topics relevant to the Authority's use of resources which have been determined through a risk assessment and are detailed in the 2005/06 Annual Audit and Inspection Plan.

We have also recently completed our annual Use of Resources assessment for 2006. The results of this work will help inform our value for money conclusion in 2006/2007. We have taken this opportunity to report the key messages from this assessment in this annual report.

### 1.3 Acknowledgements

We would like to take this opportunity to thank the officers and Members we contacted during these reviews for their help and co-operation throughout our work.

## Section 2

# Audit of Accounts

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### 2.1 Scope of our work

During the year we completed our work programme on the review of the Authority's internal control which were reported to officers in our *Interim Report*, issued in June 2006. Further to this we completed a detailed review of Internal Audit, the results of this were reported to officers in March 2006. During July to September 2006 we completed our work on the financial statements and our *Report to Those Charged with Governance* gave our findings and conclusions in relation to the Authority's accounts.

### 2.2 Findings of the account audit

We issued an unqualified opinion on the accounts on 29 September 2006. For the first time this year, our audit report incorporated a conclusion on the Authority's use of resources. This is discussed in more detail in section 4 and in our *Report to Those Charged with Governance*, issued to you on 27 September 2006. We are awaiting the management responses for the ISA 260 report, which includes our interim findings from the Director of Finance and E-Government. The progress on actions will be followed up during the course of our audit work in 2007.

The accounts audit identified continued weaknesses with the bank reconciliation process which resulted in unidentified differences on the reconciliation in 2005/2006. This issue has continued to present difficulties and to date, the Authority has not prepared a full bank reconciliation for 2006/2007.

### 2.3 Questions and objections from electors

Electors are entitled by law to raise with the auditor questions or objections to items of account. These queries may then require us to investigate the issue raised.

No objections were received from electors, but we did receive a number of questions from one elector regarding car park income generation. All the issues raised were reviewed in detail and investigations undertaken where appropriate. None of the issues raised prevented us issuing an unqualified opinion.

### 2.4 Certification of grant claims and returns

Our work in this area is ongoing and will conclude once all of the 2005/2006 claims are submitted at the end of the year. There are no issues to bring to the attention of the Authority at this stage. If any issues arise between now and the completion of the work programme we will discuss with the relevant officers and report any concerns to the Audit Committee.

## Section 3

# Audit of data quality

### 3.1 Scope of our work

The Audit Commission has introduced a new review of local authorities' data quality arrangements, commencing with this review, which forms part of the 2006/07 audit year.

The work is timely since, with the continued development of the performance management framework in many organisations, there is increased reliance on information for decision-making, so the accuracy of the information is vital for effective management of the organisation.

Data is also important to external stakeholders wishing to review authorities' performance. Our work includes the validation of certain indicators to assist the Audit Commission with the CPA process.

Our review of data quality was performed following Audit Guides specified by the Audit Commission. These divide our work into three phases.

- Stage 1: Review of management arrangements. We consider the arrangements in place by which the Authority defines its objectives for data quality and aims to ensure that they are achieved. This is through comparing actual arrangements to arrangements identified in the Management Arrangements Key Lines of Enquiry (KLOEs).
- Stage 2: Comparison to other authorities. This audit step involves responding to the Audit Commission where they raise questions on the Authority's indicators. These questions may arise through analysis of historical trends or comparison to other authorities.
- Stage 3: Data testing. We perform detailed testing on a number of indicators selected by the Audit Commission, carrying out the tests specified in the Audit Guide. The number of indicators tested is dependent upon our assessment of the adequacy of arrangements in Stage 1.

This section of the report focuses on our findings from Stages 1 and 3.

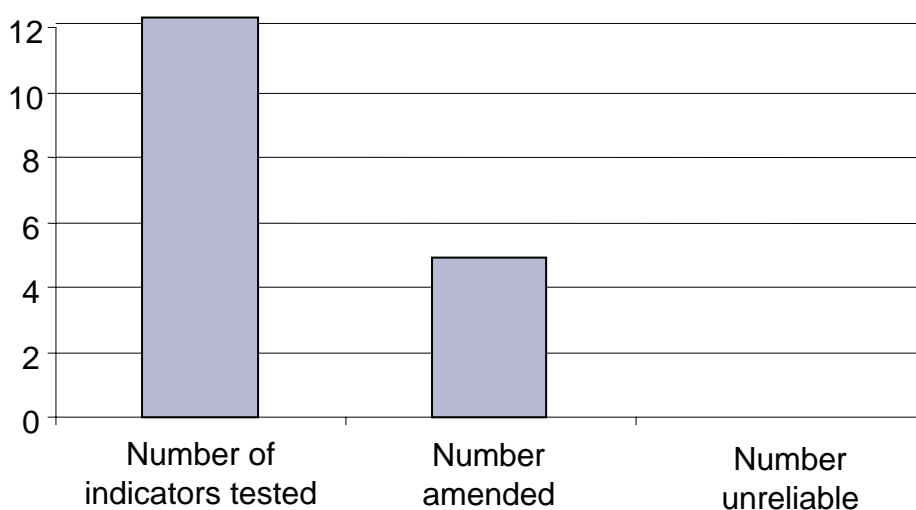
### 3.2 Summary of our assessment

Overall the Authority has sound arrangements in place for data quality. In particular, one of its key strengths is the increasing use of performance data alongside financial data to make decisions.

Areas where the Authority could improve include, formalising arrangements in respect of data quality, such as establishing a data quality strategy or statement and formally monitoring data quality measures on timeliness and accuracy.

Table 1 shows we tested 12 indicators and did not have to place any reservations on these. Although we had to request the Authority to amend five indicators.

**Table 1: Results of data testing**



## Section 3

# Audit of data quality

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### 3.3 Governance arrangements

This section of the management arrangements work reviews leadership over data quality, including:

- how responsibilities for data quality are defined and communicated;
- the data quality objectives in place; and
- how standards for data quality are monitored and reviewed.

This area is important because it defines what is expected of staff and how officers and members ensure that this is achieved.

Whilst the Authority's commitment to data quality is not specifically outlined in corporate document and a data quality strategy is not in place, issues related to data quality are considered by the Performance Team. Further to this the Performance Team puts an emphasis on data quality through a number of its arrangements, such as commissioning Internal Audit reviews, training relevant staff and emphasising the importance of timeliness and accuracy. However, performance on accuracy and timeliness is not formally reported.

The Audit Commission's Key Lines of Enquiry state that governance arrangements could be improved by linking data quality through the corporate performance appraisal system for those with responsibility for data quality. Currently the Authority does not have these arrangements in place as it experiences strong compliance to data quality requirements.

Overall, there is a focus on ensuring data quality within the Authority, however some of the arrangements need to be formalised, including more formal monitoring of timeliness and accuracy measures of data quality.

#### **Recommendation 1: Monitoring data quality**

The Authority should ensure formal arrangements to monitor data quality are in place, including:

- monitoring measures of timeliness and accuracy of performance information from departments; and
- reporting on the above measures to those charged with governance to improve accountability.

#### **Recommendation 2: Formalising governance arrangements**

To improve governance and accountability the Authority should ensure data quality arrangements are formalised by introducing a formal statement on data quality as part of the Authority's performance management strategy.

### 3.4 The policy framework for data quality

This area considers the Authority's policies in relation to data quality and how they are implemented. Policies may exist at the service level, addressing the particular circumstances of each area of the Authority and outlining how the service will ensure that the corporate data quality objectives are achieved.

At an operational level the Performance Team issue guidance to ensure data that is produced is accurate and all relevant deadlines are met. As noted above there is a lack of a data quality strategy statement. However, in the future when a data quality strategy statement is formally in place the Authority will be able to use the guidance it issues to underpin the strategy/statement.

The Authority collects performance indicators through the Performance Information Management System (PIMS). Operational procedures are in place for PIMS and compliance with the operational procedures is monitored by the Performance Team. On the whole, compliance with the procedures appears to be strong. Also there is evidence to show the Authority is proactive at informing relevant staff of changes in guidance.

### 3.5 Information systems and processes

Fundamental to the reliability of the Authority's information is the robustness of the systems which store the underlying data. This section of the management arrangements review considers the robustness of the systems in place, including management's action in relation to previously identified weaknesses, and consideration of data security and integrity. It also considers the systems for collating indicators and sharing information.

## Section 3

### Audit of data quality

External and Internal Audit work has identified a small number of issues with performance indicator systems in the past, however the relevant corrective action has been taken to address these issues. Support for staff who operate the information systems that produce performance information is available and the Performance Team is at the centre of this support role.

A significant number of performance indicators that were reviewed as part of the spot checks required some manipulation before the data could be reported. This manipulation increases the risk of errors appearing in indicators. Procedure notes identifying the processes that are required to produce performance indicators from systems are not in place for a number of systems. This increases the risk of incorrect procedures being used to generate indicators. This is especially the case where a significant amount of human manipulation is required.

Importantly data is reviewed prior to reporting to management at both a departmental and corporate level. In addition the Authority engage Internal Audit to undertake work on systems on a risk basis, which includes new indicators and redefined indicators.

Overall the review of systems has not identified a significant number of historical issues. Also arrangements are in place to ensure data is reviewed at both a departmental and corporate level prior to reporting to senior management and beyond. However, weaknesses exist which need to be addressed if the Authority is to ensure outputs from systems are robust. These weaknesses include using systems/processes that require significant human manipulation prior to reporting performance indicators and a lack of procedure notes on performance information systems in departments.

#### **Recommendation 3: Procedure notes**

The Authority should ensure procedure notes are in place for systems that produce the performance indicators. The procedures should demonstrate how to input data on to the system and how to use that data to generate performance indicators.

### 3.6 People and skills

The areas set out above require a range of skills for successful implementation – whether knowledge of information systems or the knowledge of processes in order to ensure that they are appropriately designed to deliver high-quality data. It is therefore, important for the Authority to consider the skills it needs to deliver its data quality objectives.

Once these have been identified, it will be necessary to implement training programmes and briefings in order to develop staff skills.

For all performance information (PI) that is generated by the Authority, the Performance Team establish three roles for this information. These are the PI Compiler, PI Owner and PI Co-ordinator roles. Each of the roles have particular responsibilities which have developed over a period of time and the officers in these roles receive a certain amount of guidance. Officers in the roles are clear about their responsibilities, although these are not incorporated into job descriptions because the Authority are concerned that this could reduce flexibility if the main PI compiler is absent.

Officers in these roles are not formally set targets or assessed against targets, however, there is a clear expectation in place 'to get it right first time'. There is also evidence that where weaknesses are identified in the performance of officers in the three roles, relevant training is provided.

#### **Recommendation 4: Measuring data quality**

The Authority should ensure formal monitoring takes place to ensure the roles in respect of data quality are being undertaken.

## Section 3

### Audit of data quality

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#### 3.7 Using data effectively

In order to gain the greatest benefit from the collection of performance data, this information needs to be used in decision-making. There should be evidence of action being taken as a result of the review of performance information.

Moreover, there should be evidence of consideration of the appropriateness of performance information reported to management and members – for example, the timeliness of information, and thorough review processes by senior staff before information is presented.

The Authority has strong arrangements for using data. At the centre of this is PIMS which enables flexible reporting arrangements to exist. There is clear evidence that exception reporting, through the use of a traffic light system, is used at both a senior officer and member level. Also, performance data is increasingly being used with financial data in a qualitative way rather than a purely quantitative way.

PIMS also includes an audit trail function which enables information sources to be identified. Information which is subject to external publication and used for assessment purposes by other agencies is subject to Internal Audit review in the first year the information is used.

#### 3.8 Findings of data testing

|                               |    |
|-------------------------------|----|
| Number of indicators tested   | 12 |
| Number of indicators amended  | 5  |
| Number of reservations placed | 0  |

Five of the indicators we tested required amendments for different reasons. The most significant reason, which applied to one indicator, was non compliance with the guidance on the calculation methodology. However, importantly none of the indicators required us to reserve our opinion.

#### **Recommendation 5: Calculation methodology**

The Authority should ensure the correct calculation methodology is applied for all indicators.



## Section 4

### Use of Resources

#### 4.1 Scope of our work

Our responsibilities under the *Code of Audit Practice* in relation to the Authority's use of resources, and where we report these, is set out in the following table.

| Area   | Timing of work        | Report  | Report date    |
|--|-----------------------|---|----------------|
| Use of Resources conclusion 2005/06                            | August 2005-July 2006 | Report to those charged with governance 2005/06 | September 2006 |
| Use of Resources topics from 2005/06 Audit and Inspection Plan | April 2005-July 2006  | Annual External Audit Report 2005/06            | November 2006  |
| Use of Resources scored judgement                              | August-October 2006   | Annual External Audit Report 2005/06 *          | November 2006  |

\* Feedback on this area will be included in the Relationship Manager's annual letter which is expected in March 2007.

This document only covers those issues set out in the 2005/06 Annual Audit and Inspection Plan which have not previously been reported.

#### 4.2 Use of Resources topics

During the 2005/06 audit we completed reviews on the Authority's Medium Term Financial Strategy and risk management arrangements. The results of these reviews have already been reported to you. The issues highlighted in these reviews and our 2005 Use of Resources auditor judgements resulted in us identifying further work in the areas of financial management and risk management as part of the 2006/2007 audit plan.

We scoped these reviews to proactively comment on proposed changes and actual changes to the Authority's arrangements. Our work to date has been able to provide proactive feedback on:

- monitoring and embedding risk management arrangements;
- introducing risk management techniques in financial monitoring;
- changes to financial monitoring reports;
- asset management planning and monitoring arrangements; and
- development of the service assessment framework.

#### 4.3 Use of Resources judgement

The annual Use of Resources assessment evaluates how well councils manage and use their financial resources. The assessment focuses on the importance of having sound and strategic financial management to ensure that resources are available to support the Authority's priorities and improve services, covering five themes.

This is the second year of carrying out the assessment and our work has focussed on building on our previous year's work and updating it for any changes and improvements to the Council's arrangements.

Judgements are made for each theme on a scale which has been standardised by the Audit Commission across inspection and performance assessment frameworks. In forming our assessment, we followed the methodology set out in the Use of Resources Guidance for Councils, 2006 assessment.

## Use of resources judgement

| Key lines of enquiry (KLOEs)  | Score 2005 | Score 2006 |
|---|------------|------------|
| <b>Financial Reporting</b>  |            |            |
| 1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.           | 1          | 2          |
| 1.2 The Council promotes external accountability.   | 2          | 4          |
| <b>Overall Financial Reporting</b>  | <b>1</b>   | <b>3</b>   |
| <b>Financial Management</b>   |            |            |
| 2.1 The Council's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities. | 2          | 2          |
| 2.2 The Council manages performance against budgets.  | 2          | 3          |
| 2.3 The Council manages its asset base.   | 1          | 3          |
| <b>Overall Financial Management</b>   | <b>2</b>   | <b>3</b>   |
| <b>Financial Standing</b>   |            |            |
| 3.1 The Council manages its spending within the available resources.  | 2          | 2          |
| <b>Overall Financial Standing</b>   | <b>2</b>   | <b>2</b>   |
| <b>Internal Control</b>   |            |            |
| 4.1 The Council manages its significant business risks.   | 2          | 2          |
| 4.2 The Council has arrangements in place to maintain a sound system of internal control.   | 2          | 2          |
| 4.3 The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.             | 2          | 2          |
| <b>Overall Internal Control</b>   | <b>2</b>   | <b>2</b>   |
| <b>Value for Money</b>  |            |            |
| 5.1 The Council currently achieves good value for money.  | 3          | 3          |
| 5.2 The Council manages and improves value for money.   | 2          | 3          |
| <b>Overall Value for Money</b>  | <b>3</b>   | <b>3</b>   |

We have issued a separate detailed report to the Authority on the findings of the assessment. We will be working with the Director of Finance and E-government to formulate an action plan to aide the improvement of the overall score for the Authority going forward.