
EXTRACT FROM THE ISA 260 REPORT TO THOSE CHARGED WITH GOVERNANCE

A full ISA 260 Report to those Charged with Governance will be presented to the Audit Committee on 19 September 2007.

Audit differences - Draft

We are required by ISA (UK and Ireland) 260 Communication of Audit Matters to Those Charged with Governance to communicate all uncorrected misstatements, other than those that we believe are clearly trivial, to the Audit Committee. We are also required to report all material misstatements that management has corrected but that we believe should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

This appendix sets out the audit differences that we identified following the completion of our audit of Bury Metropolitan Borough Council for the year ended 31 March 2007.

Uncorrected audit differences

Detailed below are the audit differences identified by our audit of the financial statements that have an effect on the reported financial position of the Council. (Credits are in brackets)

Impact (£000s)		Basis of audit difference	Reason for non-adjustment
Income and expenditure	Balance sheet		
231	(231)	Audit Commission guidance states that interest payable on stepped interest loans (LOBOs – lender option – borrower option) should be smoothed over the expected life of the loan. The Authority has not smoothed its interest charges in this way. This has led to expenditure in the income and expenditure account being understated by £231k. (£38k in relation to HRA and £193k in relation to the General Fund)	The Authority does not agree with this accounting treatment. This is not a significant audit difference, however, it is above our posting threshold.

Corrected audit differences

Detailed below are the audit differences identified by our audit of the financial statements that have been corrected by the Council. (Credits are in brackets)

Impact (£000s)		Basis of audit difference
Income and expenditure	Balance sheet	
201 (201)	-	Investment income of £201k had been netted off interest payable in the Income and Expenditure account. (Classification difference only).
-	1,624 (1,624)	The Council had treated the cash of Greater Manchester Connexions as a debtor balance in the balance sheet, this should have been recorded as a cash. (Classification difference only).
(82)	82	In calculating the voluntary revenue contribution to the repayment of external debt, the Authority has used an incorrect figure. This led to expenditure being over-stated by £82k.
-	319 (319)	Prepayments in respect of housing rents have been netted off against the housing arrears balance. This has the effect of understating housing rents arrears and understating income in advance, within creditors by £319k. (Classification difference only).
-	3371 (3371) (Group Account balance sheet)	The adjustment made in respect of intra-group debtors and creditors in respect of 2005-06 was reversed out in error in 2006-07. This has had the effect of overstating debtors and creditors by £3,371k in the Group Account Balance Sheet. (Classification difference only).

A number of presentational adjustments were also made to the financial statements.

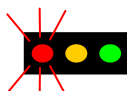
The issues raised above do not take account of a question raised by an elector. This is currently being reviewed.

Accounts performance improvement observations - Draft

This appendix summarises the performance improvements that we have identified relating to the accounts production process while preparing this report. We have given each of our observations a risk rating (as explained below) and agreed with management what action you will need to take.

Priority rating for performance improvement observations raised

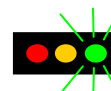
Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.



Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.



Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.



Number	Risk	Issue and recommendation	Management response	Officer and due date
1	● (one)	<p>Five year rolling programme of revaluations</p> <p>Local authorities are required to revalue all of their assets every five years, as part of a rolling programme of revaluations. Whilst the Authority has made some progress at revaluing 63% of assets representing 90% of the asset register value, the five year rolling programme has not been fully achieved</p> <p>It is noted that the Authority has a plan in place to overcome this problem in 2007-08. The Authority now needs to monitor this plan to ensure that the rolling programme is complete for the financial year end and to ensure that no more slippages occur, which may have a material impact upon the fixed asset balances in the financial statements.</p>	<p>At the present time 63% of assets, representing approximately 90% of the asset register by value, have been revalued within the last five years.</p> <p>48 assets (including the housing stock) are revalued annually and these have a combined asset value of almost £298 million, representing 51% of the asset portfolio by value.</p> <p>Within the 2007/08 programme we are prioritising the outstanding asset revaluations by value, notably schools, and will endeavour to complete the majority of these revaluations by the end of October 2007.</p>	<p>Corporate Asset Manager. October 2007.</p>
2	● (two)	<p>Council Tax and NNDR write-off procedures</p> <p>During the year the Authority's write off process for NNDR and Council Tax did not operate in a timely fashion. As a result a pending write-off was not reviewed for approval.</p> <p>We have therefore reviewed the amounts involved and assessed the adequacy of the bad debt provision as a result. We are satisfied that the accounts are not materially mis-stated, however, the Authority should ensure that there are procedures in place to ensure that proposed write-offs are reviewed in a timely manner.</p>	<p>All write offs are passed in accordance with the Council's formal write off procedure. A debt account may be identified as "pending write off" by a member of staff and an indicator put on the system, the accounts are then checked by a supervisor to determine procedures have been followed or whether further action may be taken to recover the debt before being passed for write off. Owing to a lack of senior staffing resources in 2006/07, few Council Tax and NNDR write offs were processed. This also tied in with all pending write off cases being run through the recently introduced Experian credit checking system.</p> <p>The back log of cases are now being worked through and it will be ensured that pending write offs will be reviewed and processed in a timely manner.</p>	<p>Head of Revenues and Benefits. December 2007.</p>

Accounts performance improvement observations - Draft

Number	Risk	Issue and recommendation	Management response	Officer and due date
		Reconciliations		
3	● (two)	<p>During the year the Authority implemented a new financial ledger system. As a result of this implementation some reconciliations were not completed on a timely basis, although it is noted the Authority did ensure these were completed at a later date.</p> <p>Also some reconciliations were not signed and dated by an independent reviewer. It should be noted, however, that the year end reconciliations were signed and dated by the Director of Finance and E-Government.</p>	<p>Agreed, although all the reconciliations were reviewed on a monthly basis at a special meeting set up for that purpose. For 2007/08, this has been fully implemented and all reconciliations have been signed and dated by an independent reviewer.</p>	Completed.
		Interim Audit Report		
4	● (two)	<p>We have presented the findings from our interim audit to officers.</p> <p>The Authority should ensure that an action plan is implemented to address the issues identified.</p>	<p>The Authority is in the process of responding to the findings and an action plan with timescales will be drawn up as appropriate.</p>	<p>Head of Financial Management. October 2007.</p>

Prior year performance improvement observations - Draft

This appendix summarises the progress made to implement the performance improvements that we identified in our previous reports. We have given each of our observations a risk rating. In summary:

Year	Number of performance improvement observations that were:		
	Included in original report	Implemented in year or superseded	Remain outstanding (re-iterated below)
2005-06 Interim	11 (18 performance observations identified in the Interim Report - 11 followed up in 2006-07)	7	4
2005-06 Final	7	5	2 (1 of these relates to following up Interim Report performance observations)
Total	18	12	6

No.	Risk	Issue and recommendation	Current Status	Management response	Officer and due date
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2005-06 ISA 260 report

1	● (two)	<p>Sundry bad debt provisions</p> <p>The Authority did not provide any justification for the level of bad debt provision included within the financial statements. Furthermore, our audit work identified that no provisions are included for certain types of debt. The Authority should ensure that a methodology for calculating the bad debt provision is adopted in 2006/07 for all categories of debt and that the calculation is supported by working papers for audit.</p>	<p>This remains an issue for the 2006-07 accounts. Provisions for sundry debtors are reduced by write-offs of debts in year, however, there is no additional provision made for new debt raised in year. This means that the bad debt provision is falling year on year.</p>	<p>Work is ongoing with our auditors to identify and adopt good practice.</p>	<p>Head of Financial Management. December 2007.</p>
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2005-06 Interim Report

2	● (one)	<p>Journals</p> <p>Several issues were identified in relation to journals. Through our testing we identified that the Authority (with the exception of Civic Halls) do not have segregation of duties and there was no evidence of authorisation of the journal prior to its input onto the system. Journal vouchers in payroll did not always support the entries posted to the general ledger. Journal vouchers were sometimes completed after the entries had been made on the general ledger and the supporting documentation was not attached to the journal voucher to support the information entered onto the system.</p> <p>The Authority should employ segregation of duties for the journals process. Journal vouchers should be completed and supported with relevant documentation prior to being input on the system.</p>	<p>The Agresso system allows journals to be posted to the system with a lack of segregation of duties.</p> <p>There is no audit trail of the posting process, therefore, the completion of journal vouchers would allow us to test the adequacy of the arrangements employed within the Authority.</p>	<p>Noted. However, the Authority is confident that the compensating controls that we have put in place (e.g. restricted user profile, detailed budget monitoring analysis, analysis of all journals inputted) address this issue. However, the Authority will consider the feasibility of developing a report that allows for a review of all journals entered on the Agresso system.</p>	<p>Head of Financial Management. December 2007.</p>
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Appendix 5: Prior year performance improvement observations

No.	Risk	Issue and recommendation	Current Status	Management response	Officer and due date
3	● (two)	<p>Setting up new suppliers</p> <p>New supplier request forms are used to request new suppliers to be set up on the creditors system, but there is no independent authorisation of this form. This could lead to fraudulent suppliers being entered onto the creditors system.</p> <p>The new supplier request forms should be reviewed by and authorised by an authorised signatory.</p>	<p>This recommendation has not yet been implemented.</p>	<p>Noted. The Authority is looking for a way forward on this issue through the Procure to Pay process.</p>	<p>Head of Financial Management. December 2007.</p>
4	● (two)	<p>Council Tax and NNDR exception reports</p> <p>We understand that exceptions reports are produced by the IBS system, however, there is no formal process for reviewing exceptions on the report lists.</p> <p>The Authority should have clear procedures in place for the review of exception reports. These should be reviewed by a more senior officer and signed and dated of evidence of this process having taken place.</p>	<p>Whilst we understand that exception reports are reviewed on a regular basis, there is no apparent audit trail of this process for us to place reliance upon.</p>	<p>Depending on the exception report and the level of staff checking the report, not all copies and authorisation of the reports are kept or made.</p> <p>Eg Office Manager checks recovery exception reports as part of standard duties and disposes of the report although copies held within the system, Direct Debit reports are checked and processed by a supervisor and the report kept and authorised by a Manager due to the value of the transactions.</p> <p>In line with recommendations all procedures will be documented in relation to each report and in future, authorisation of all reports will be put into place for consistency and audit purposes.</p>	<p>Head of Revenues and Benefits. December 2007.</p>
5	● (two)	<p>Physical verification of assets</p> <p>The Authority does not presently undertake physical asset verifications. This may result in the fixed asset register being out of date, due to not being updated with disposals.</p> <p>The Authority should ensure the accuracy of their fixed asset register by sampling assets from the fixed asset register and confirming their existence by physical verification and by tracing a sample of fixed assets in existence back to the fixed asset register. This process should be fully documented.</p>	<p>There remains no formal procedure for the physical verification of assets within the Authority.</p>	<p>Physical verifications of assets does occur through a number of means including IT equipment, large items of plant and machinery, vehicles, land and buildings. However, we will document these as a formal procedure.</p>	<p>Head of Financial Management. December 2007.</p>