



INFRASTRUCTURE, GOVERNMENT
& HEALTHCARE

Annual External Audit Report

2006/07

**Bury Metropolitan
Borough Council**

February 2008

AUDIT

The contacts at KPMG LLP in connection with this report are:

Adrian Lythgo

Director
KPMG LLP (UK)

Tel: 0113 231 3054
Fax: 0113 231 3941
adrian.lythgo@kpmg.co.uk

Jillian Burrows

Senior Manager
KPMG LLP (UK)

Tel: 0161 246 4705
Fax: 0161 838 4040
jillian.burrows@kpmg.co.uk

Rashpal Khangura

Manager
KPMG LLP (UK)

Tel: 0113 231 3396
Fax: 0113 231 3941
rashpal.khangura@kpmg.co.uk

Heather Thornton

Assistant Manager
KPMG LLP (UK)

Tel: 0161 246 4314
Fax: 0161 838 4040
heather.thornton@kpmg.co.uk

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This report is addressed to the Authority and has been prepared for the sole use of Bury Metropolitan Borough Council (the Authority). We take no responsibility to any member of staff 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 LLP’s work, in the first instance you should contact Adrian Lythgo, who is the engagement director to the Authority, telephone 0113 231 3054, e-mail 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 246 4000, e-mail 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 are 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 9753131, textphone (minicom) 020 7630 0421.

Section 1

Executive summary

1.1 Scope of this report

This report summarises the 2006/07 external audit work carried out by KPMG LLP ("KPMG") at Bury Metropolitan Borough Council ("the Authority") with regards to the areas of our audit responsibility under the Audit Commission's *Code of Audit Practice* ("the Code"). Under the *Code* we are required to review and report on two specific areas which we have used to structure this report:

- **Accounts and Statement of Internal Control:** This area is concerned with the accounts production process and the associated opinions that we provide on the Authority's financial statements and the Whole of Government Accounts (WGA) submission (section 2); and
- **Use of resources:** This work is concerned with determining whether the Authority has sound arrangements in place to ensure value for money in the delivery of its services and the deployment of its resources (section 3).

The majority of the issues summarised in this report have previously been reported to the Authority by KPMG and a list of all reports issued in relation to our 2006/07 audit is provided at Appendix A.

Our findings are summarised below, with our more detailed findings presented in sections 2 and 3 of this report.

- **Accounting Policies:** Section 4 of this report includes a brief summary of the changes that are planned to be implemented through the implementation of the Statement of Recommended Practice (SORP) for 2007. In addition as a result of a statement made in the March 2007 budget where the Chancellor confirmed that the public sector would be required to adopt International Financial Reporting Standards (IFRS), adapted as necessary for the public sector, a brief summary of the changes being brought into local government financial reporting is also included in this section.

1.2 Summary of findings

Audit of accounts and Statement on Internal Control

We issued our unqualified opinion on the 2006/07 financial statements on 28 September 2007. We also reviewed the Authority's WGA submission and concluded that it was consistent with the statutory accounts.

Matters arising during the course of the audit were brought to the attention of Members through our *ISA 260 Report to those charged with governance*, which was presented to the Audit Committee on 19 September 2007.

We expect to issue our audit certificate, which marks the conclusion of our statutory responsibilities for the year, in February 2008, once we are satisfied there is no residual issues to consider in relation to the elector challenge issue referred to further in section 2.7.

Use of resources judgement

Between July and October 2007, we completed our third scored judgement on the Authority's use of resources. This assesses the Authority against Key Lines of Enquiry (KLOEs) specified by the Audit Commission, against which the Authority is scored on a scale between 1 (below minimum requirements) and 4 (performing strongly). The scores were reviewed by both KPMG's local and national quality control processes and then by the Audit Commission to ensure consistency in scoring with other auditors and authorities.

The Authority obtained an overall score of level 3, which means the Authority is performing well.

Notable achievements emerging from this assessment include:

- Two of the five theme scores have increased from the previous assessment;
- All three Internal Control scores have increased to level 3 (performing well); and
- There have been increases in scores on seven of the individual KLOEs, with one of the financial management KLOEs achieving the maximum score of 4 (performing strongly).

This overall improvement is unmatched by any other Greater Manchester Authority in 2007.

Section 1

Executive summary

Value for money conclusion

We reported our conclusion on the Authority's use of resources on 28 September 2007. The conclusion is based on to what extent the Authority meets 12 criteria specified by the Audit Commission which link to our other audit work – for example, on Use of Resources scored judgement and Data Quality. It is unqualified where these are all met and qualified if there are areas where the minimum standards are not fully addressed.

For 2006/2007 we issued a unqualified conclusion and as such, we reported that the Authority has adequate arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Audit of data quality

In 2007, we completed our second review of data quality at the Authority using the methodology developed by the Audit Commission. We assessed the Authority as performing well. We have reported in detail our findings and made appropriate recommendations in our Data Quality Report.

Matters raised by local electors

We investigated one issue raised by a local elector with respect to income associated with the enforcement of on and off street parking. After considering carefully the nature of the issues raised and considering the legal advice and the action taken by the Authority we have decided to take no further action on this matter.

1.3 Looking Forward

The Authority faces a number of challenges in 2007/08 and we have discussed, risk assessed and agreed our audit plan for this period with the Authority. From that analysis we have identified the following key areas for review:

- Redirection of resources to the Authority's priorities;
- Local Area Agreement;
- Major capital projects;
- Integrated social needs transport arrangements.

The Audit Committee will receive these reports for consideration in due course.

1.4 Acknowledgements

We would like to take this opportunity to thank Officers and Members for their continuing help and co-operation throughout our audit work.

Section 2

Accounts and Statement on Internal Control

This section summarises our findings from the audit of the accounts and Statement on Internal Control for 2006/07, including the submission process for Whole of Government Accounts (WGA).

2.1 Audit of the Authority's accounts

Context of the accounts

The accounts are the most widely accessible document setting out the Authority's financial position, so are used by external stakeholders. This makes the accounts important to the Authority's framework of external accountability. As the financial statements are required to be prepared in accordance with the standards set out in the *Statement of Recommended Practice* for local government ("the SORP"), unlike internal monitoring information, they should be comparable with those of other councils. To enable stakeholders to make this comparison, it is important to comply with the relevant standards.

Opinion and certificate

On 28 September 2007, we issued an unqualified opinion on the Authority's accounts for 2006/07. We expect to issue our audit certificate, which marks the conclusion of our statutory responsibilities for the year, in February 2008, once we are satisfied there is no residual issues to consider in relation to the elector challenge issue referred to in section 2.7.

We have reported our findings from our audit in our *ISA 260 Report to Those Charged with Governance*. This report included our detailed findings and contained an action plan summarising our recommendations to both improve the accounts process and strengthen internal control arrangements. Detailed internal control issues were reported in our Interim Report for Management, which also contained an action plan. Action against both these plans is being monitored on a regular basis and we will complete a formal follow up of the recommendations during our interim work in 2008.

2.2 Whole of Government Accounts

Whole of Government Accounts (WGA) are "commercial-style" accounts that cover the whole of the public sector and include some 1,300 separate bodies. Each of these bodies is required to submit a consolidation pack. This is based on, but separate from, their statutory accounts. In the case of the Authority, all disclosures within the pack are based on the Authority's group accounts.

The 2006/07 year was the second year of full "live" consolidation for the WGA process, and as auditors we were required to review and report on the WGA consolidation pack.

We submitted the Authority's WGA pack to the Department for Communities and Local Government (DCLG) on 1 October 2007. This is the deadline for submission of the audited WGA pack to DCLG.

During the course of our work, we found that the Authority's working papers were to a good standard in supporting the WGA pack. This assisted in the completion of the audit of the pack in line with the prescribed deadlines.

2.3 Evaluation of Internal Audit

Our annual overview of Internal Audit completed during the planning stages of the 2006/2007 audit confirmed that the service complies with the CIPFA *Code of Practice for Internal Audit*. In 2006/07, we placed reliance on the work of Internal Audit where it was relevant to our responsibilities. Going forward, the Authority needs to formalise the arrangements it is putting in place to meet the requirements of the accounts and audit regulations in respect of the annual review of the effectiveness of Internal Audit.

2.4 The Statement on Internal Control

We reviewed the information supporting the Authority's Statement on Internal Control (SIC) for 2006/07, which the Authority had reflected in its Governance Statement, and concluded that it was consistent with our understanding of the Authority. Going forward, all local authorities need to produce an annual governance statement, as required by the SORP 2007. The Authority needs to consider the arrangements it already has in place and ensure these meet the guidance for the annual governance statement.

Section 2

Accounts and Statement on Internal Control

2.5 The Authority's financial position

Financial position, reserves and balances

For the year ended 31 March 2007 the Authority reported a surplus of £7.888 million on the General Fund, allowing £4.813million to be contributed to reserves against a budgeted contribution of £2.648million. This brings the Authority's cumulative General Fund balance to £13.316 million of which £7.368 million is attributable to Schools' Budgets and £5.948 million is available to the Authority at 31 March 2007.

The Authority approved a balanced budget for 2007/08. The Authority, based on expenditure at the end of September 2007, is forecasting an overspend of £0.935 million for the year. The key reason for this variance is the cost of new and increased learning disability care placements. To control this the Authority has implemented a review programme, which constantly reviews all placements to see if more cost effective placements are possible. Actions are also been taken to review and re-tender contracts with external providers.

The Authority's ability to maintain its reserves in line with its reserves strategy depends on it robustly managing its budget to ensure that the use of working balances is not required to deal with any overspends, which are within its control. The Authority's reserves strategy set a target of maintaining uncommitted reserves of £3.4 million. The general fund balance stands at £5.948 million at 31 March 2007, with a further £7.559 million of earmarked reserves held for specific purposes. Whilst the anticipated balance at the year end of £5.013 million is still 47% higher than the minimum level set by the reserve strategy, the Authority needs to continue to closely monitor budget performance and implement necessary corrective action to mitigate the use of further reserves.

We have reviewed the level of reserves within our work on financial standing and as part of our work in respect of KLOE 3.1 within the Use of Resources judgement. Our detailed observations are contained within the Use of Resources report.

Single Status

We reviewed the Authority's progress with the implementation of Single Status, assessing the approach and progress made by its project team on implementation.

Our review specifically identified financial risks in relation to equal pay claims. There is no certainty over the potential value of these claims at this stage. The costs to the Authority of implementing Single Status could vary considerably as a result of a number of factors, such as the effect of the new pay structures on the ongoing pay bill. Nonetheless, given the significant sums likely to be involved, it will be important for the Authority to manage the impact on its financial position by finalising the likely costs and plans of how these will be met.

2.6 Certification of grant claims and returns

Our work in this area is ongoing and will conclude once all of the 2006/07 claims are submitted. There has been a number of claims and returns which we have qualified, the main qualifications have been in relation to:

- Housing Subsidy Base Data return – housing stock numbers being based on a sample of surveyed properties rather than surveys of all properties; and
- Housing Benefits and Council Tax Benefits claim – benefits system and general ledger not reconciling.

In all circumstances the Authority is taking action to resolve issues for future claims and returns.

2.7 Questions and objections from electors

Electors of Bury Metropolitan Borough Council can raise with the auditor questions or objections to items of account. Any such queries can then require us to investigate the issue raised. We received several representations from electors during 2006/7 but one in particular that required extended follow up. This issue had previously been raised directly with the Authority.

The question referred to the legality of income generated by the Authority from penalty charge notices on car parking and in relation to income from off street parking traffic regulation orders. The issue in respect of parking charge notices was that the notices did not include the date of issue and this may have rendered them invalid. The National Parking Adjudication Service (NPAS) had allowed an appeal against one such parking charge notice issued by the Authority. The issue in respect of traffic regulation orders was that NPAS had allowed an appeal against a penalty charge notice issued by the Authority because the off street traffic regulation orders were not accurate.

This is a matter on which the Authority has taken its own legal advice, advice which it has had regard to in considering the vires of its transactions and in compiling its financial statements. We have also taken separate legal advice on these matters as the legal issues involved were of significant importance to the legality of the income generated. The Authority has taken steps to remedy the deficiencies found with both parking charge notices and traffic regulation orders.

Section 2

Accounts and Statement on Internal Control

After considering carefully the nature of the issues raised and considering the legal advice and the action taken by the Authority we have decided to take no further action on this matter because:

- though the area of law is unclear and complex the Authority obtained independent legal advice which it took into account in determining its response;
- the Authority had primary powers to collect penalty charge income though there were some deficiencies in the wording of parking charge notices and of off street traffic regulation orders;
- the residual amounts of income where there was a question of vires after taking account of legal advice on the issue were not material to the accounts;
- the Authority has now amended any possible errors in their penalty charge notices and traffic regulation orders; and
- there has been no loss to local taxpayers.

Considering the complexities of the issues involved we advised the Authority to take opinion from leading counsel. The Authority did not deem this necessary and as a result we had to take further advice, before reaching our conclusion. The Authority has an established procedure which it followed, but in our view this procedure needs to be more explicitly linked to risk, in terms of the likelihood and impact of the issue being considered.

Section 3

Use of Resources

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 2006/07	July to September 2007	Report to those charged with governance 2006/07	19 September 2007
2007 Use of Resources scored judgement	August-November 2007	Annual External Audit Report 2006/07	11 December 2007
2007 Overall Use of Resources score	August-November 2007	Use of Resources Report 2007	11 December 2007
Use of Resources issues from 2007/08 Audit and Inspection Plan	August 2007- March 2008	To be included within individual reports	Various during January to June 2008

The following section comments on our work on the Use of Resources scored judgement, and makes links to the risk areas we have identified in our 2006/07 Audit Plan where relevant.

3.1 Use of Resources scored judgement

The Use of Resources assessment is based around five Key Lines of Enquiry (KLOEs): Financial Management; Financial Standing; Financial Reporting; Internal Control; and Value for Money.

We formulated our judgement against the KLOEs by considering the evidence provided, holding interviews with the Authority's Officers and Members and through consideration of evidence from our other audit work. Following internal quality control processes by KPMG at both a local and national level, and national review by the Audit Commission the following five individual KLOE scores have been agreed for the Authority:

KLOE	2007 score	2006 score	2005 score
Financial Reporting	3	3	1
Financial Management	3	3	2
Financial Standing	3	2	2
Internal Control	3	2	2
Value for Money	3	3	3

The Authority's overall score is level 3, which means the Authority is performing well.

Progress during the year

The Authority has made significant progress during the year, strengthening its processes in all areas and achieving a movement upwards in scores for seven of the eleven KLOEs. The most notable progress areas are seen in financial management, where one individual KLOE achieved the maximum score of four (performing strongly) and internal control, where all three assessment areas improved from scores of two (adequate performance) in 2006 to scores of three (performing well) in 2007. This is shown in the table overleaf.

The overall improvement is unmatched by any other Greater Manchester Authority in 2007 and demonstrates the priority that this assessment has been given and the importance placed on this performance measurement process by the Authority as a whole.

Section 3

Use of Resources

KLOE 1: Financial Reporting	2007 Score	2006 Score	2005 Score
1.1: Production of statutory annual accounts	3	2	1
1.2: Promoting external accountability	4	4	2
Overall score for KLOE 1	3	3	1

KLOE 2: Financial Management	2007 Score	2006 Score	2005 Score
2.1: Financial planning and budget setting	3	2	2
2.2: Managing performance against budgets	4	3	2
2.3: Asset management	3	3	1
Overall score for KLOE 2	3	3	2

KLOE 3: Financial Standing	2007 Score	2006 Score	2005 Score
3.1: Managing spending within available resources	3	2	2

KLOE 4: Internal Control	2007 Score	2006 Score	2005 Score
4.1: Risk management	3	2	2
4.2: Internal control	3	2	2
4.3: Ethics and conduct	3	2	2
Overall score for KLOE 4	3	2	2

KLOE 5: Value for Money	2007 Score	2006 Score	2005 Score
5.1: Achievement of value for money	3	3	3
5.2: Processes to improve value for money	3	3	2
Overall score for KLOE 5	3	3	3

Section 3

Use of Resources

3.2 Data Quality

Scope of our work

The Audit Commission introduced a review of local authorities' data quality arrangements in 2005/2006 and this work has been undertaken again during 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.

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.

Summary of our assessment

Stage 1 – We have assessed the Authority as 'performing well' for 2006/2007, the second highest category achievable, compared with 'performing adequately' in 2005/2006. This demonstrates the improvement the Authority has made in this area.

Stage 2 – Our analytical review identified that the performance indicator values reviewed fell within expected ranges or were substantiated by evidence.

Stage 3 – We carried out spot checks as per Audit Commission guidance on five of your performance indicators. As a result of our audit work, we concluded that these performance indicators were fairly stated and we made no amendments.

Good practice and improvement opportunities

Good practice points identified at the Authority and improvement opportunities within each KLOE assessment area are contained within the detailed Data Quality report.

3.3 Best Value Performance Plan

We are required to audit the Authority's Best Value Performance Plan to ensure that its contents comply with statutory requirements. We issued an unqualified opinion on the 2006/07 Plan on 19 December 2006. Our opinion is included in the detailed Data Quality report and there are no issues arising from our work which we wish to bring to the attention of Members.

3.4 Use of resources topics

The 2006/2007 External Audit Plan contained reviews of financial management and risk management. We scoped these reviews to proactively comment on proposed changes and actual changes to the Authority's arrangements. We provided feedback to officers in a number of progress reports during 2006/07 and we summarised this feedback in a summary report presented to the June 2007 Audit Committee. Our work was able to provide proactive feedback on:

- monitoring and embedding risk management arrangements;
- introducing risk management techniques in financial monitoring;
- changes to financial monitoring reports; and
- asset management planning and monitoring arrangements.

Section 3

Use of Resources

3.5 Use of Resources conclusion

We are required to give a conclusion on the Authority's use of resources for 2006/07. The conclusion is based on whether the Authority meets 12 criteria specified by the Audit Commission, and is unqualified where these are all met and qualified if there are areas where the minimum standards are not fully achieved. Our overall assessment draws on our Use of Resources scored judgement, our audit of data quality and a review of the Authority's most recent Corporate Assessment.

We reported our conclusion on the Authority's use of resources as part of our accounts audit opinion, which was issued on 28 September 2007. This was an unqualified conclusion.

Section 4

Accounting Policies

4.1 Statement of Recommended Practice (SORP) 2007

- Further changes to accounting policies will be necessary in 2007/08. The 2007 SORP incorporates the provisions of FRS 25 (Financial instruments: disclosure and presentation), FRS 26 (Financial instruments: recognition and measurement) and FRS 29 (Financial instruments: disclosure). A GAAP compliant Revaluation Reserve along with a Capital Adjustment Account will also be adopted to replace the Fixed Asset Restatement Account (FARA) and the Capital Financing Account (CFA).
- We will discuss these changes with the Authority's finance team and will confirm that they are aware of the implications.

4.2 International Financial Reporting Standards (IFRS)

- In a statement in the March 2007 budget the Chancellor confirmed that central government bodies covered by the Financial Reporting Manual (FRM) would be required to adopt International Financial Reporting Standards (IFRS), adapted as necessary for the public sector. The timetable announced by the Government is that adoption will be required for 2008/09. This will require the 2007/08 accounts to be restated for comparative purposes.
- The CIPFA/LASAAC Joint Committee which is responsible for the Local Authority Statement of Recommended Practice (SORP) has indicated that IFRS will not be adopted in the local government sector until 2009/10, at the earliest, although the WGA returns for 2008/09 will have to be prepared under IFRS. CIPFA has published an analysis of the key differences between the SORP and IFRS and two of the key issues for local government (accounting for PFI/PPP schemes and accounting for infrastructure) will be the subject of Treasury guidance to be issued before the end of 2007.
- As we get more guidance as to how IFRS are to be adapted for the public sector we will liaise with the Authority's finance team to ensure that they have appropriate plans in place to manage the transition. We are also working closely with our private sector IFRS team to ensure we benefit from our experience of the IFRS convergence process and we will work closely with you to ensure that we can transfer those benefits to you in the period leading up full adoption. We also believe that the extension of the period available to local government to prepare for IFRS must be used wisely if some of the problems experienced by companies in moving to IFRS are avoided and we would be happy to work with you to identify the key areas where progress really needs to be made.

Appendices

Appendix A: Audit reports issued

This appendix sets out the reports that we issued during the year of our audit.

Report title	Date issued
Annual Audit and Inspection Plan 2006/07	27 June 2006
Auditors' report on the Best Value Performance Plan 2006/07	19 December 2006
Financial Management and Risk Management Reviews	Various feedback reports issued to officers during 2006/07. Summary of feedback reports issued on 19 June 2007
Statement of Accounts 2006/07: Interim Report for Management	24 August 2007
Statement of Accounts 2006/07: ISA 260 Report to those charged with governance	19 September 2007
Auditors' report on 2006/07 accounts	28 September 2007
Whole of Government Accounts opinion 2006/07	1 October 2007
Data Quality Report	03 December 2007
Use of Resources Auditor Judgements 2007	11 December 2007
Annual Audit and Inspection Letter 2006/07 (Audit Commission Report)	Pending (Scheduled for March 2008)

Appendices

Appendix B: Fee summary

The table below summarises our fees for completing the 2006/07 audit.

Area of audit work	Planned fee /£	Actual fee /£
Audit of accounts	136,000	136,000
Use of resources	119,000	119,000
Grant claim certification *	105,000	105,000
Elector challenge **		33,433
Total **	360,000	393,433

Notes:

* Our work on grant certification is summarised in section 2 above. As noted in that section, we are currently working on a number of 2006/07 claims, therefore the final fee may change.

** Elector challenge fee cannot be planned as it depends on the number and nature of questions/objections made by electors.