



GOVERNMENT

# Report to those charged with governance (ISA 260) 2009/10

Bury Metropolitan Borough Council

August 2010

AUDIT

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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 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's work, in the first instance you should contact Trevor Rees, who is the engagement partner to the Authority (telephone 0161 246 4063, email [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk)) who will try to resolve your complaint. Trevor is also 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 Investigation Officer, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to [complaints@audit-commission.gov.uk](mailto:complaints@audit-commission.gov.uk). Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

## Executive summary

### Scope of this report

This report summarises:

- the key issues identified during our audit of Bury Metropolitan Borough Council's ('the Authority's') financial statements for the year ended 31 March 2010; and
- our assessment of the Authority's arrangements to secure value for money in its use of resources.

### Financial Statements

The table below summarises the key findings from our work to date in relation to the financial statements audit. Section two of this document provides further details.

<b>Proposed opinion</b>	<p>We anticipate issuing an unqualified audit opinion before 30 September 2010. We will also report that the wording of your Annual Governance Statement accords with our understanding.</p>	<b>Critical accounting matters</b>	<p>We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed the issues appropriately.</p>
<b>Accounts production and audit process</b>	<p>We have noted a continued improvement in the quality of the accounts and the supporting working papers. Officers generally dealt efficiently with audit queries and the audit process has, largely, been completed within the planned timescales.</p> <p>The completion of work on capital has not been as efficient as in previous years. This is partly due to staff sickness absence.</p> <p>The Authority has implemented the majority of the recommendations in our ISA 260 Report 2008/09 relating to the financial statements.</p>	<b>Audit differences</b>	<p>No audit differences have been identified during the course of our audit work.</p> <p>We have recommended a number of small presentational amendments to the financial statements to management.</p>
		<b>Completion</b>	<p>At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas:</p> <ul style="list-style-type: none"> <li>• A query relating to fixed assets is currently awaiting a response from officers; and</li> <li>• A review of the final financial statements for typographical errors and to ensure that they cast, cross reference and comply with all disclosure requirements.</li> </ul> <p>Before we can issue our opinion we require the Audit Committee to approve the signed management representation letter provided by the Director of Finance and E-Government.</p> <p>We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.</p>

## Executive summary

### Use of Resources

The table below summarises the key findings from our assessment of the Authority's arrangements to secure value for money in its use of resources.

Our findings are detailed in section three of this report.

<b>Proposed opinion</b>	We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
<b>Use of resources assessment</b>	<p>Following the change in government, the use of resources assessment at local authorities ceased with immediate effect in May 2010.</p> <p>The Authority will therefore not receive scores in respect of the 2010 assessment.</p> <p>The Authority's arrangements in relation to asset management and risk management were notably improved from previous years. The Authority is now demonstrating outcomes from these arrangements, particularly following the completion of phase one of the Townside Fields development.</p> <p>In addition, we reviewed the workforce planning arrangements in place at the Authority for the first time. We found that the Authority had sound arrangements in place in this area.</p> <p>Given the Government's plan to reduce spending it is expected that the focus in future years will be around financial resilience. We have highlighted in section three some areas for development and we have also included the findings from the recent review of the MTFS.</p>

### Specific use of resources risks

We have considered the specific use of resources risk, medium- to long-term financial planning, that we set out in our Audit Fee Letter 2009/10.

The Authority has a medium term financial strategy that plans for future different scenarios for cuts in central government funding. However, we have made some recommendations to management around how the Authority can further improve its financial planning and sensitivity planning arrangements. This work is still ongoing. The report from this work will be reported to Members at the next Audit Committee meeting.

### Exercise of other powers

We have a duty under section 8 of the Audit Commission Act 1998 to consider whether, in the public interest, to report on any matter that comes to our attention in order for it to be brought to the attention of the public. In addition we have a range of other powers under the 1988 Act.

*No issues have arisen that have required us to issue a report in the public interest.*

### Certificate

We are required to certify that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice. If there are any circumstances under which we cannot issue a certificate, then we are required to report them to you and to issue a draft opinion on the financial statements.

We have had one issue raised with us from electors within the local authority area, which we are currently dealing with. This is unlikely to impact upon our opinion. Therefore, at present there are no issues that we anticipate would cause us to delay the issue of our certificate of completion of the audit.

### Acknowledgements

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

# Introduction

**We have substantially completed our work on the 2009/10 financial statements.**

**There are a number of areas where our work is continuing, including one fixed assets query.**

**Subject to all outstanding queries being resolved to our satisfaction. We anticipate issuing an unqualified audit opinion before 30 September 2010.**

## The Authority’s and our responsibilities

Bury Metropolitan Borough Council is responsible for having effective systems of internal control to ensure the regularity and lawfulness of transactions, to maintain proper accounting records and to prepare financial statements that give a true and fair view of its financial position and its expenditure and income. It is also responsible for preparing and publishing an Annual Governance Statement with its financial statements.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

The Audit Commission’s Code of Audit Practice requires us to summarise the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified and we report to those charged with governance (in this case the Audit Committee) at the time they are considering the financial statements.

We are also required to comply with International Standard on Auditing (ISA) 260 which sets out our responsibilities for communicating with those charged with governance.

This report meets both these requirements.

## Introduction

Our audit of the financial statements can be split into four phases:



This report focuses on the final two stages: substantive procedures and completion. It also includes any findings in respect of our control evaluation that we have to report.

## Substantive Procedures

Our on-site final accounts visit took place between 5th July and 20<sup>th</sup> August. During these 7 weeks, we carried out the following work:

- |                        |   |
|------------------------|---|
| Substantive Procedures | <ul style="list-style-type: none"> <li>● Planning and performing substantive audit procedures</li> <li>● Concluding on critical accounting matters</li> <li>● Identifying audit adjustments</li> <li>● Reviewing the Annual Governance Statement</li> </ul> |
|------------------------|---|

We have substantially completed our audit of the Authority’s 2009/10 financial statements.

There are a number of areas where our work is continuing:

- Fixed assets – we have one query that we are currently awaiting a response from officers, following the absence of a key member of the capital accounting team; and
- A review of the final financial statements for typographical errors and to ensure that they cast, cross reference and comply with all disclosure requirements.

## Completion

We are now in the final phase of the audit. Some aspects are discharged through this report:

- |            |   |
|------------|---|
| Completion | <ul style="list-style-type: none"> <li>● Declaring our independence and objectivity</li> <li>● Obtaining management representations</li> <li>● Reporting matters of governance interest</li> <li>● Forming our audit opinion</li> </ul> |
|------------|---|

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion before 30 September 2010.

## Accounts production and audit process

**We have noted a continued improvement in the quality of the accounts and the supporting working papers.**

**Officers dealt efficiently with audit queries and the audit process could, largely, be completed within the planned timescales.**

**The Authority has implemented the majority of the recommendations in our ISA 260 Report 2008/09 relating to the financial statements.**

**The wording of your Annual Governance Statement accords with our understanding.**

### Accounts production and audit process

ISA 260 requires us to communicate to you our views about the qualitative aspects of the Authority’s accounting practices and financial reporting.

We have, therefore, assessed the Authority’s process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority has strong financial reporting processes and quality checks in place to assist in the preparation of the financial statements. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 22 <sup>nd</sup> June. The Authority made a number of amendments of a presentational nature following the Audit Committee meeting when the draft financial statements were discussed. In addition, provisions within in the financial statements were also increased following the receipt of additional information on the number of claims against the Authority. This has not affected the General Fund balance due to the Capitalisation Directive that the Authority has obtained in relation to these claims.

Element	Commentary
Quality of supporting working papers	Our Accounts Audit Protocol, which we issued on 19 <sup>th</sup> April and discussed with the Head of Financial Management, set out our working paper requirements for the audit. High quality of working papers were provided and met the standards specified in our Accounts Audit Protocol.
Response to audit queries	The majority of additional audit queries were resolved in a reasonable time. We experienced delays in the area of fixed assets, where the member of staff who prepared the working papers was not available during the audit due to sickness absence.

### Prior year recommendations

The Authority has implemented the majority of the recommendations in our *ISA 260 Report 2008/09* relating to the financial statements.

Appendix D provides further details.

### Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that

- it complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE in June 2007; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

# Critical accounting matters



**We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed the issues appropriately.**

## Work completed

- In our *Financial Statements Audit Plan 2009/10*, presented to you in February, we identified the key risks affecting the Authority’s 2009/10 financial statements.
- We have now completed our testing of these areas and set out our final evaluation following our substantive work.

## Key findings

- The table below sets out our detailed findings for each risk.

Key audit risk	Issue	Findings
 <p><b>Provisions</b></p>	<p>In 2008/09 the Council included significant provisions in their financial statements. At the time there was still uncertainty around the eventual outcome of the cases involved. There is a risk of under or over provision if the Council does not adequately reflect the latest position with regards to these cases.</p>	<p>We have discussed this issue with management at various points throughout the year.</p> <p>During the final audit visit we have completed testing of the provisions and are satisfied that the amounts provided adequately reflect the latest position with regards to the outcome of the associated cases.</p> <p>We have also reviewed the accounting treatment for the provision and use of the capitalisation directive and are satisfied that the accounting treatment is correct and in accordance with the SORP requirements.</p>
 <p><b>Local Taxes / Rent Arrears</b></p>	<p>The 2009 SORP has brought in changes to the way in which Council’s are required to account for NNDR and Council Tax income and arrears. This will require the Council to put in place appropriate systems to capture the required information.</p>	<p>Again, we have discussed these issues with management at an early stage to clarify points of uncertainty when interpreting the SORP guidance. We have now audited the NNDR and Council Tax and income and arrears balances included in the financial statements and are satisfied that they have been prepared in accordance with the requirements of the 2009/10 SORP.</p> <p>In addition, the Authority has appropriately prepared the prior period adjustment required to reflect the changes in accounting policy.</p>

**Critical accounting matters (continued)**

The Authority's work on IFRS is ongoing. We plan to undertake a review of the restated 2009/10 balances in the following months.

Key audit risk	Issue	Findings
 <p>Implement- -tation of IFRS</p>	<p>Councils are required to report under IFRS for the first time in 2010/11. The 2009/10 financial statements will need to be converted to IFRS to form the comparative period. Therefore, the opening IFRS balance sheet date was 1 April 2009. It is important that the Council continues to work towards delivery of its IFRS project plan in order to ensure future compliance with IFRS.</p>	<p>We have had regular discussions with management throughout the year which has enabled us to review the progress being made by the Authority.</p> <p>We have advised management and provided guidance to assist in ensuring that the convergence process runs smoothly.</p> <p>The Authority does still have some work to do in terms of bringing Council Members knowledge up to date on the impact that IFRS will have on the Authority and its financial statements.</p> <p>We will complete an audit of the re-stated balance sheet over the coming months, in advance of the 2010/11 year end to provide management with assurance in advance of the full year end audit.</p>



## Audit commentary – pension liabilities

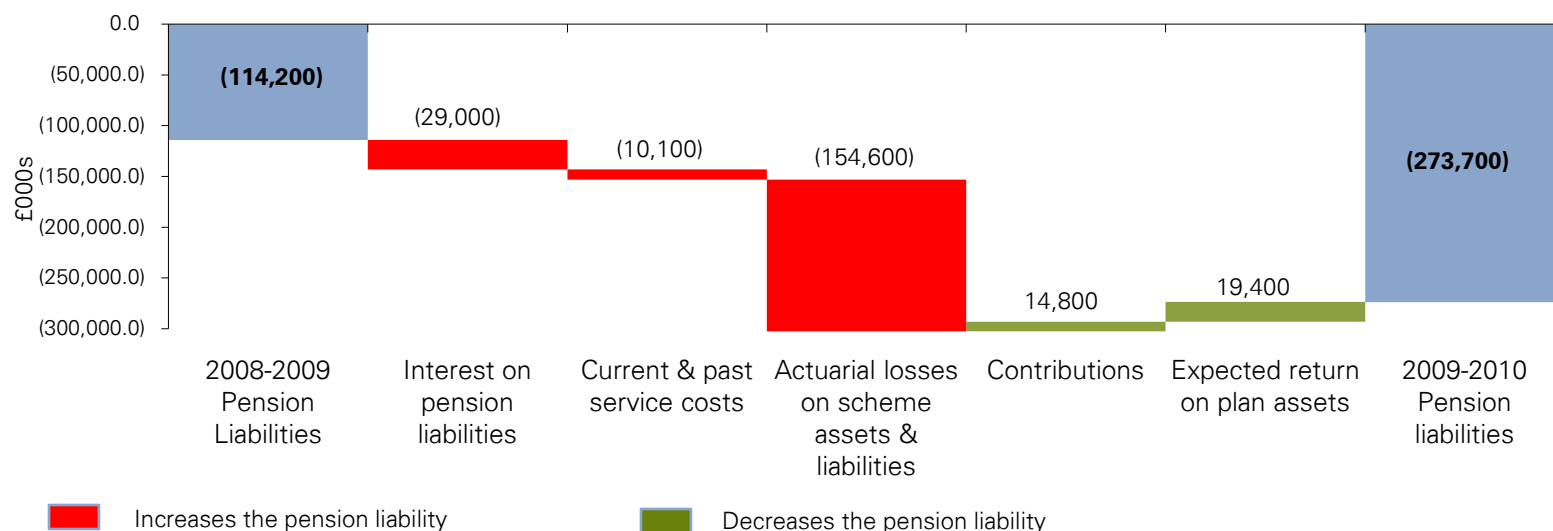
There were significant movements in the Authority's pension liabilities. This was largely due to a change in assumptions used by the actuary to estimate the liabilities and also the performance of the capital markets affecting the pension assets.

In addition, following the balance sheet date the Government announced a change to pensions, required authorities to disclose a post balance sheet event disclosure.

Members will have noticed that there has been a significant increase in the pension liabilities disclosed in the Authority's balance sheet from 2008/09 to 2009/10. This is consistent with other pension funds around the country.

Below we have provided an analysis of the pension liability movement to aid Members' understanding of the reasons for this:

From this analysis it can be seen that the largest change in the pension liability is due to the actuarial losses on the pension scheme. There was an actuarial loss on the liabilities of £245.9 million, which was partially offset by a gain of £91.3 million on the pension assets. The main reason for the change in the pension liability is because the actuary changed the assumptions it uses to estimate the pension fund liabilities. For example, people living longer, a lower discount rate and increased inflation rates.



### Government announcement on pension increases

The Government has, however, recently announced that the basis upon which pensions increase will, in the future, be based on the Consumer Price Index (CPI) as opposed to the Retail Price Index (RPI). As CPI is typically lower than RPI, this is expected to have a positive impact upon pension scheme liabilities

As a result of this announcement, the Authority has disclosed a post balance sheet event in its notes to the financial statements. This is considered to be a 'non-adjusting event' under the relevant financial reporting standard (FRS 21). This means that the balance sheet for 2009/10 has not been changed to reflect this announcement as the announcement was made after the balance sheet date.

## Audit differences

**We have identified no issues in the course of the audit that are considered to be material.**

### **Work completed**

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

### **Key findings**

We did not identify any material misstatements.

We identified a small number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2009: A Statement of Recommended Practice* ('SORP'). We understand that the Authority will be addressing these where significant.

## Completion

**We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.**

**Before we can issue our opinion we require the signed management representation letter provided by the Director of Finance and E-Government to be approved by the Audit Committee.**

**Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.**

### **Declaration of independence and objectivity**

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Bury Metropolitan Borough Council for the year ending 31 March 2010, we confirm that there were no relationships between KPMG LLP and Bury Metropolitan Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix F in accordance with ISA 260.

### **Management representations**

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have included a copy of a representation letter as Appendix G. We have received a draft representation letter from the Director of Finance and E-Government. This now needs approving by the Audit Committee.

### **Other matters**

ISA 260 requires us to communicate "audit matters of governance interest that arise from the audit of the financial statements" to you which includes:

- material weaknesses in internal control identified during the audit;
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. issues relating to fraud, compliance with laws and regulations, subsequent events etc); and
- other audit matters of governance interest.

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

### **Opinion**

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion by 30 September 2010.

Our proposed opinion on the financial statements is presented in Appendix A

## Introduction

**We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.**

### The Authority's and our responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and regularly reviewing their adequacy and effectiveness.

We are required to conclude whether the Authority has adequate arrangements in place to ensure effective use of its resources. We refer to this as the 'value for money (VFM) conclusion'.

### Introduction

Our assessment previously drew mainly on the findings from the use of resources assessment (UoR) framework, as the specified criteria for the VFM conclusion were the same as the UoR Key Lines of Enquiry (KLoE).

In May 2010 the new government announced that the Comprehensive Area Assessment (CAA) would be abolished. The Audit Commission subsequently confirmed that work related to CAA should cease with immediate effect. This includes work for UoR assessments at local authorities.

However, there is no change to the requirement in the statutory Code of Audit Practice for auditors to issue a VFM conclusion.

### Findings from VFM work

At the time of the announcement, the vast majority of UoR work for 2010 had already been completed and this therefore informed our 2009/10 VFM conclusion.

We have provided detailed feedback on the work undertaken to the Director of Finance and E-Government. The key message is that the Authority has met each of the VFM criteria, as can be seen from the table.

Going forward we expect that the focus of our work will be on financial resilience, given the anticipated cuts in Government spending. Some areas for development in readiness for this have been identified in our specific risk review work.

As a result of the risks around cuts in Government spending we

have reviewed the Authority's medium- to long-term financial strategy (MTFS) to ensure that appropriate planning has taken place. The initial findings are that the MTFS is sound, but there are further opportunities to develop sensitivity planning arrangements. We will report fully on this later in 2010. We understand that work is underway to capitalise on these development opportunities.

### Conclusion

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Our proposed conclusion is set out in Appendix B.

VFM criterion	Met
<b>Managing finances</b>	
Financial planning	✓
Understanding costs and achieving efficiencies	✓
Financial reporting	✓
<b>Governing the business</b>	
Commissioning and procurement	✓
Data quality and use of information	✓
Governance	✓
Risk management and internal control	✓
<b>Managing resources</b>	
Use of natural resources	✓
Strategic asset management	✓
Workforce planning	✓

## Appendix A: Proposed Opinion on the Financial Statements

**Our opinion states whether the accounting statements and related notes give a true and fair view of the financial position of the Authority and its income and expenditure for the year.**

**We define what mean by 'accounting statements'.**

**The audit report also includes our opinion on the Group accounts.**

### Independent auditors' report to the Members of Bury Metropolitan Borough Council

#### Opinion on the accounting statements

We have audited the accounting statements and related notes of Bury Metropolitan Borough Council and its Group for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the Authority and Group Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Authority and Group Balance Sheet, the Authority and Group Statement of Total Recognised Gains and Losses, the Authority and Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Account, the Statement of Movement on the Housing Revenue Account, and the Collection Fund. The accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to Bury Metropolitan Borough Council, as a body, in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to Bury Metropolitan Borough Council, as a body, those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Bury Metropolitan Borough Council, as a body, for our audit work, for this report, or for the opinions we have formed.

#### Respective responsibilities of the Responsible Financial Officer and auditors

The Responsible Financial Officer's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009 are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the accounting statements and related notes give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009, of:

- the financial position of the Authority and its income and expenditure for the year; and
- the financial position of the Group and its income and expenditure for the year.

We review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. We report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the governance statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

We read other information published with the accounting statements and related notes and consider whether it is consistent with the audited accounting statements and related notes. This other information comprises the Explanatory Foreword and the content of the Annual Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounting statements and related notes. Our responsibilities do not extend to any other information.

## Appendix A: Proposed Opinion on the Financial Statements (continued)

**Our proposed opinion is unqualified.**

**There are no expected modifications to the auditors' report.**

### **Basis of audit opinion**

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

### **Opinion**

In our opinion:

- The accounting statements and related notes give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009, of the financial position of the Authority and its Group as at 31 March 2010 and its income and expenditure for the year then ended.

**Trevor Rees (Senior Statutory Auditor)**

**for and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*

2 St James' Square

Manchester

[Date]

## Appendix B: Proposed use of resources conclusion

**Our proposed use of resources conclusion is unqualified.**

### **Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources**

#### **Authority's Responsibilities**

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

#### **Auditors' Responsibilities**

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. We report if significant matters have come to our attention which prevent us from concluding that the Authority has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

#### **Conclusion**

We have undertaken our audit in accordance with the Code of Audit Practice. Having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, we are satisfied that, in all significant respects, Bury Metropolitan Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2010.

**Trevor Rees (Senior Statutory Auditor)**

**for and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*

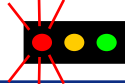


St James' Square

Manchester

Date

## Appendix C: Recommendations

We give any recommendations we make a risk rating (as explained below) and agreed what action management will need to take. We follow up any recommendations made in the following year. We have not identified any priority one recommendations during the course of our 2009/10 final accounts audit. More minor issues have been discussed directly with management.

Priority rating for recommendation		
<p><b>Priority one:</b> 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.</p> 	<p><b>Priority two:</b> 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.</p> 	<p><b>Priority three:</b> 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.</p> 



## Appendix D: Follow-up of prior year recommendations

**The Authority has not implemented all of the recommendations in our ISA 260 Report 2008/09.**

**We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.**

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2008/09* and re-iterates any recommendations that are still outstanding.

Number of recommendations that were:		
Included in original report	Implemented in year or superseded	Remain outstanding (re-iterated below)
3	2	1

No.	Priority	Recommendation	Officer Responsible and Due Date	Status
1	2	<p>The schools bank reconciliation for Manchester Mesivta has an opening balance discrepancy of £130k. This is a historical balance dating to 2005/06 when the school did not have a bank account.</p> <p>Given that this is a cash balance it is recommended that the Council take all steps possible to reconcile this balance and make any appropriate amendments and write-offs.</p>		<p><b>Remains outstanding</b></p> <p>During the 2009/10 audit we have identified that this balance remains an unreconciled item on the school bank reconciliation.</p> <p>The Head of Financial Management has requested that Internal Audit investigate this matter further. We recommend that if this balance cannot be reconciled then it should be written off.</p>

## Appendix D: Follow-up of prior year recommendations (continued)

The Authority has not implemented all of the recommendations in our *ISA 260 Report 2008/09*.

We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.

No.	Priority	Recommendation	Officer Responsible and Due Date	Status
2	3	<p>There is a requirement under the Building (Local Authority Charges) Regulations 1998 for the Council to ensure that the income received from its charges fully recover the cost of carrying out its building control functions over a rolling three year accounting period. However, for the three year period to 31 March 2009, the Council has made a deficit of £73k, therefore breaching the Regulations. Given the current economic position, there is an increased risk to the Council of further deficits if the position is not monitored and managed closely.</p> <p>The Council has a plan in place to address the current deficit position. This plan should be monitored closely and action taken as necessary to ensure that this deficit position is returned to a break-even or surplus position.</p>		<p><b>Implemented</b></p> <p>Management continue to closely monitor this balance. Although under the 2009 SORP there is no longer a requirement to disclose this balance in the financial statements separate records continue to be kept of relevant transactions. In 2009/10 a surplus of £38k was made, reducing the 3 year cumulative figure to a deficit of £27k</p>
3	3	<p>The investment strategy makes reference to non-specified investments that the Council can make. The flexibility of this strategy may reduce the effectiveness of other investment restrictions that have been put in place.</p> <p>The Council should provide greater clarification regarding what constitutes a non specified investment to ensure that unsuitable investments are not being placed.</p>		<p><b>Implemented</b></p> <p>The Authority has addressed this recommendation in the refresh of the Treasury Management Strategy which was taken to the Executive in February 2010. There is now greater clarity over what constitutes a non-specified investment.</p>

## Appendix E: Audit differences

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We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in the Authority's case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

### **Corrected audit differences**

No audit differences, other than those which are considered to be clearly trivial, have been identified by our audit of Bury Metropolitan Borough Council's financial statements for the year ended 31<sup>st</sup> March 2010.

### **Uncorrected audit differences**

There are no uncorrected audit differences to report to the Audit Committee.

## Appendix F: Declaration of independence and objectivity

**The Code of Audit Practice requires us to exercise our professional judgement and act independently of both the Commission and the Authority.**

### Requirements

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* (the Code) which states that:

*“Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors’ functions, if it would impair the auditors’ independence or might give rise to a reasonable perception that their independence could be impaired.”*

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission’s *Standing guidance for local government auditors* (‘Audit Commission Guidance’) and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* (‘Ethical Standards’).

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK &I) 260 *Communication of Audit Matters with Those Charged with Governance* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor’s objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor’s network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor’s professional judgement, the auditor is independent and the auditor’s objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor’s objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Audit Partner and the audit team.

## Appendix F: Declaration of independence and objectivity (continued)

**We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.**

### **General procedures to safeguard independence and objectivity**

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the Ethics and Independence Manual ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual Ethics and Independence Confirmation. Failure to follow these policies can result in disciplinary action.

### **Auditor Declaration**

In relation to the audit of the financial statements of Bury Metropolitan Borough Council for the financial year ending 31 March 2010, we confirm that there were no relationships between KPMG LLP and the Bury Metropolitan Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

## Appendix G: Draft management representation letter

**We ask you to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud.**

**The wording for these representations is standard and prescribed by auditing standards.**

**We require a signed copy of your management representations before we issue our audit opinion.**

Dear KPMG LLP,

We understand that auditing standards require you to obtain representations from management on certain matters material to your opinion. Accordingly we confirm to the best of our knowledge and belief, having made appropriate enquiries of other members of the Authority, the following representations given to you in connection with your audit of the financial statements for Bury Metropolitan Borough Council for the year ended 31 March 2010.

All the accounting records have been made available to you for the purpose of your audit and the full effect of all the transactions undertaken by Bury Metropolitan Borough Council has been properly reflected and recorded in the accounting records in accordance with agreements, including side agreements, amendments and oral agreements. All other records and related information, including minutes of all management and Committee meetings, have been made available to you.

We confirm that we have disclosed all material related party transactions relevant to the Authority and that we are not aware of any other such matters required to be disclosed in the financial statements, whether under FRS 8 or other requirements.

We confirm that we are not aware of any actual or potential non-compliance with laws and regulations that would have had a material effect on the ability of the Authority to conduct its business and therefore on the results and financial position to be disclosed in the financial statements for the year ended 31 March 2010.

We acknowledge that we are responsible for the fair presentation of the financial statements in accordance with the Local Government Statement of Recommended Practice ("SORP") and wider UK accounting standards. We have considered and approved the financial statements.

We confirm that we:

- understand that the term "fraud" includes misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Misstatements resulting from fraudulent financial reporting involve intentional misstatements or omissions of amount or disclosures in financial statements to deceive financial statement users. Misstatements resulting from misappropriation of assets involve the theft of an entity's assets, often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation;
- are responsible for the design and implementation of internal control to prevent and detect fraud and error;
- have disclosed to you our knowledge of fraud or suspected fraud affecting the Authority involving:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the financial statements.
- have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the Authority's financial statements communicated by employees, former employees, analysts, regulators or others; and
- have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

## Appendix G: Draft management representation letter (continued)

We confirm that the presentation and disclosure of the fair value measurements of material assets, liabilities and components of equity are in accordance with applicable reporting standards. The amounts disclosed represent our best estimate of fair value of assets and liabilities required to be disclosed by these standards. The measurement methods and significant assumptions used in determining fair value have been applied on a consistent basis, are reasonable and they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Authority where relevant to the fair value measurements or disclosures.

We confirm that there are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than that already disclosed in the financial statements; and
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements.

Finally, no additional significant post balance sheet events have occurred that would require additional adjustment or disclosure in the financial statements, over and above those events already disclosed.

This letter was tabled at the meeting of the Audit Committee on 26<sup>th</sup> August 2010.

Yours faithfully

[Name of Executive Director signing letter on behalf of Bury Metropolitan Borough Council]

On behalf of Bury Metropolitan Borough Council