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Report to those charged with governance (ISA 260) 2010/11

Bury Metropolitan Borough Council

August 2011

Contents

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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, the appointed engagement lead to the Authority. 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 Unit Manager, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

Introduction

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 2011; and**
- **our assessment of the Authority's arrangements to secure value for money (VFM) in its use of resources.**

Financial statements

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

Planning → Control Evaluation → Substantive Procedures → Completion

This report focuses on the final three stages: control evaluation, substantive procedures and completion.

Our interim accounts visit on site took place in April. During this period we carried our the following work:

Control Evaluation

- Understand accounting and reporting activities.
- Evaluate design and implementation of controls.
- Test operating effectiveness of selected controls.
- Assess control risk.

Our final accounts visit on site took place between 4th and 29th of July. During this period, we carried out the following work:

Substantive Procedures

- Planning and performing substantive audit procedures.
- Concluding on critical accounting matters.
- Identifying audit adjustments.
- Reviewing the Annual Governance Statement.

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

Completion

- Declaring our independence and objectivity.
- Obtaining management representations.
- Reporting matters of governance interest.
- Forming our audit opinion.

VFM conclusion

We have also now completed our work in respect of the 2010/11 VFM conclusion. This included work to address the specific risk areas identified in our *Audit Fee Letter 2010/11*.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out the key findings from our audit work in relation to the 2010/11 financial statements.
- Section 4 outlines the key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior year recommendations and this is detailed in Appendix 2.

Acknowledgements

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

Headlines

This table summarises the headline messages. The remainder of this report provides further details on each area.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion by the end of August 2011. We will also report that the wording of your Annual Governance Statement accords with our understanding.
Audit adjustments	Our audit has identified a total of 3 audit adjustments: ■ Two adjustments resulted in a net increase in the surplus on provision of services for the year by £6.007 million; ■ The other adjustment resulted in a decrease the net worth of the Authority as at 31 March 2011 by £83.788 million. These adjustments had no impact on the General Fund. We have included a full list of significant audit adjustments at Appendix 3. All of these were adjusted by the Authority. We have raised a number of recommendations in relation to the matters highlighted above and other issues, which are summarised in Appendix 1.
Critical accounting matters	We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed the issues appropriately.
Accounts production and audit process	The Authority has maintained the high quality of the accounts and the supporting working papers. Officers resolved the majority of audit queries in a reasonable time. We did not identify any recommendations in our ISA 260 in 2009/10.

Headlines (continued)

This table summarises the headline messages. The remainder of this report provides further details on each area.

Completion	At the date of this report our audit of the financial statements is substantially complete. Before we can issue our opinion we require a signed management representation letter. 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.
VFM conclusion	We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
VFM risk areas	We have considered the specific VFM risks we set out in our *Audit Fee Letter 2010/11*, specifically in relation to the Comprehensive Spending Review and associated financial pressures.

Proposed opinion and audit differences

Our audit has identified a total of 3 audit adjustments.

The impact of these adjustments is to:

- **Increase the surplus on the provision of services for the year by £6.007m, this is made up of the two significant adjustments described in Appendix 3 and several minor changes made throughout the audit; and**
- **Decrease the net worth of the Authority as at 31 March 2011 by £83.788m.**

Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion by the end of August 2011.

Audit differences

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.

We identified that when assessing the value of Social Houses the Authority had applied the DCLG's 2005 Regional Adjustment Factor rather than the 2011 version. This resulted in an upwards revaluation when there should have been a downwards valuation, as is the case for all Local Authorities in the region. This is explained in more detail at Appendix 3.

In addition, the Income and Expenditure Account benefited from a one off gain in relation to the Government's announcements over future pension increases. An error had been made in relation to the presentation of this gain within the Income and Expenditure Account and Movement in Reserves Statement.

We also identified that the debtors for the prior year had been understated by £3 million during the IFRS conversion, due to a duplicated adjustment.

There is no impact on the General Fund as a result of our adjustments.

Movements on the General Fund 2010/11

	Pre-audit £m	Adjust £m	Post-audit £m
(Surplus) or deficit on the provision of services	2.190	(6.007)	(3.817)
Adjustments between accounting basis & funding basis under regulations	12.124	6.007	18.131
Transfers to/ from earmarked reserves	201.494	0	201.494
Increase/decrease in General Fund			**0**

Balance Sheet as at 31 March 2011

	Pre-audit £m	Adjust £m	Post-audit £m
Property, plant and equipment	752.839	(83.789)	669.050
Other long term assets	36.799	0	36.799
Current assets	72.296	0	72.298
Current liabilities	(50.190)	(4.014)	(54.204)
Long term liabilities	(302.877)	4.014	(298.863)
Net worth	**508.867**	**(83.787)**	**425.080**
General Fund	(12.809)	0	(12.809)
Other reserves	(496.058)	83.787	(412.271)
Total reserves	**(508.867)**	**83.787**	**(425.080)**

Proposed opinion and audit differences (continued)

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

Other matters

Where an authority has relied upon estimates of fair value from Sector, they should note the Audit Commission's view that the estimate has been prepared on a different basis to that envisaged in IAS 39 - Financial Instruments: Recognition and Measurement.

It is appropriate to report the different basis of estimation of fair values to those charged with governance as a financial aspect of financial reporting but we do not propose any modification of the auditor's report.

At the current time Sector, the Authority's Treasury Management advisors, list the fair value of financial instruments as £101.937m whilst the DMO list the fair value as £114.309m, a difference of £12.372m. However, as this is a disclosure we will not ask the Authority to make any amendment.

We have provided a summary of significant audit differences in Appendix 3. It is our understanding that these will be adjusted in the final version of the financial statements.

In addition, we identified a number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2010 ('the Code')*. We understand that the Authority will be addressing these where significant.

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.

In our *Financial Statements Audit Plan 2010/11*, presented to you in January, we identified the key risks affecting the Authority's 2010/11 financial statements.

We have now completed our testing of these areas and set out our final evaluation following our substantive work.

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

Key audit risk	Issue	Findings
IFRS conversion process	This was the first year that Local Authorities were required to implement the requirements of International Financial Reporting Standards. This required some significant changes to the accounts.	We audited the 2009/10 restated financial statement figures in February and assessed the processes undertaken by the Authority to ensure the 2010/11 statements were fully compliant with the standards. We were satisfied with the restatement and the processes implemented by the Authority. We provided the Authority with advice on all of the key issues and notified the finance team of all emerging issues. We have audited the final accounts in line with IFRS and we are satisfied that the financial statements comply with the requirements of the standards.
Leases	The leases standard, IAS 17, gives a broader definition of finance leases than the UK accounting standard, SSAP 21. The likely result being more assets (and corresponding liabilities) coming on balance sheet.	As part of our restatement work we confirmed that the Authority's processes for identifying and reviewing leases was appropriate. In our substantive audit we have reviewed all material leases against the requirements of IAS 17 and we are satisfied that these leases have been correctly classified as operating or finance leases. The Authority has recognised a number of additional assets and liabilities on the balance sheet as a result. These were mainly in relation to vehicles, plant and equipment.

Critical accounting matters (continued)

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

Key audit risk	Issue	Findings
Employee benefits	IAS 19 requires that all organisations recognise on their balance sheet where there is a requirement to pay wages and salaries, bonuses and holiday pay.	Whilst completing our interim audit we reviewed the methodology and draft calculation used to arrive at the liability and we were satisfied that this was appropriately robust. During our interim visit we reviewed the calculation in detail and we are satisfied that it captures all of the data collated and meets the requirements of IAS 19. During the final audit we ensured that the accrual had been appropriately reflected in the financial statements. This resulted in one presentational adjustment which is detailed in Appendix 3.
Property, plant & equipment	Under IAS 16 Local Authorities are required to component account for any additions or valuations on or after 1 April 2010. This means when an item of property, plant and equipment comprises individual components for which significantly different depreciation methods or rates are appropriate each component should be accounted for separately.	From our work in this area at interim we were satisfied that the Authority had implemented suitable controls for ensuring additions and valuations were appropriately recorded in the fixed asset register. Our substantive work on property, plant and equipment found that all additions and valuations have been correctly accounted for in line with the component requirements of IAS16.
Consolidations & Associates	As a result of moving from UK GAAP to IFRS there was a possibility of different interpretations of which entities should be consolidated into group financial statements.	We have liaised with the Authority throughout the year on this issue and we are satisfied that all entities that should be consolidated within the group financial statements have been. Having completed a detailed review of the Authority's consolidation we are satisfied that it meets all of the requirements of IAS 27 and IAS 28.

Critical accounting matters (continued)

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

Key audit risk	Issue	Findings
Asset values	Due to prevailing market conditions there remained a risk of impairment for Authority assets and recent capital developments.	Through our work on property, plant and equipment we have reviewed the Authority's process for identifying assets at risk of impairment and can confirm that these are appropriate. Our audit revealed that the Authority had not applied the latest DCLG guidance in respect of the valuation of council dwellings. This resulted in the dwellings being overstated by £83.8 million. This is detailed further in Appendix 3.
Equal Pay Provision	Given legal developments in this area in 2010 and 2011 it is essential that the Authority reflects the latest position in relation to the Equal Pay Provision within the financial statements.	Having completed a detailed review of this provision we can conclude that the value included within the financial statements is appropriate given the Authority's latest assessment of the likely costs of the case.
Financial Standing / MTFP	The Comprehensive Spending Review (CSR) confirmed that all Local Authorities are required to identify and achieve significant cost savings over the next four years.	Our findings in relation to our audit of the financial statements and our value for money work supports the assertion that the Authority is making good progress in identifying, monitoring and achieving savings. Going forward we will continue to provide support and advice regarding medium term financial planning in what is an increasingly challenging environment.

Accounts production and audit process

Officers dealt efficiently with the majority of audit queries and the audit process could be completed within the planned timescales.

The Authority has implemented all of the recommendations in our *ISA 260 Report 2009/10* relating to the financial statements.

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 also 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 on23 June 2011. The Authority made a small number of amendments of a presentational nature following the Audit Committee meeting when the draft financial statements were discussed.
Quality of supporting working papers	Our *Accounts Audit Protocol*, which we issued on 17 March 2011 and discussed with Head of Financial Management, set out our working paper requirements for the audit. The quality of working papers provided was consistent with prior year and met the standards specified in our *Accounts Audit Protocol*.

Element	Commentary
Response to audit queries	Officers resolved the majority of audit queries in a reasonable time.

Prior year recommendations

We did not identify any recommendations in our ISA 260 in 2009/10.

Appendix 2 provides further details.

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 a signed management representation letter.

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 2011, 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 4 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 provided a template to the Head of Financial Management. We require a signed copy of your management representations before we issue our audit opinion.

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.);
- other audit matters of governance interest.

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

New VFM audit approach

We followed a new VFM audit approach this year.

Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.

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

Overview of the new VFM audit approach

For 2010/11, auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Authority has proper arrangements in place for:

- securing financial resilience: looking at the Authority's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Authority is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Authority to mitigate these risks and plan our work accordingly.

Our VFM audit draws heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit

The key elements of the VFM audit approach are summarised in the diagram below.

Conclusion

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

VFM criterion	Met
Securing financial resilience	✓
Securing economy, efficiency and effectiveness	✓

The following pages include further details on the specific risk-based work.

Specific value for money risks

We have considered the specific VFM risks we set out in our *Audit Fee Letter 2010/11*.

Our risk assessment was included in our *Audit Fee Letter 2010/11*.

We have completed our work on these risk areas and summarise our findings below, together with any implications for our VFM conclusion.

VFM risk	Focus of work	Preliminary assessment
	The Authority faces financial pressures due to the prevailing economic conditions and the Government's latest Comprehensive Spending Review.	We have monitored the Authority's financial position throughout the year through our attendance at Audit Committee and review of associated papers. In addition, we have had held regular liaison meetings with the Executive Director of Resources and the s151 officer. As part of these meetings we have gained regular updates on the Authority's plans (including the Plan for Change programme) and actions in managing the pressures over the medium term. Management have been planning for the changes in recent years, which means that balanced budget was set for 2011/12. The budget planning process for 2012/13 has now commenced along with updating the Medium Term Financial Plan. The Authority is aware that it cannot rely on one-off savings plans and must look to achieve recurrent savings. This has been borne in mind when assessing savings options. Systems have been put in place to ensure that financial plans are monitored and where issues are arising actions will be taken to ensure the financial position is not adversely affected. As a result we are satisfied that the Authority is dealing with current financial pressures in an effective manner.

Appendix 1: Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

Priority rating for recommendations		
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.

No.	Risk	Issue and recommendation	Management response
1	(two)	***NNDR Reconciliation*** A weekly reconciliation is supposed to be performed between the NNDR system and Valuation Office rateable value listing. However, through our conversations with staff we confirmed that no reconciliations were performed between December 2010 and March 2011. It is our understanding that the reconciliations have been performed on a weekly basis since the start of the current financial year. We recommend that the Authority continues to ensure that these reconciliations occur on a weekly basis throughout the remainder of the financial year.	As stated, the NNDR reconciliation is being undertaken on a weekly basis. This will be maintained throughout the year, and be subject to regular management review and sign-off.

Appendix 1: Key issues and recommendations (continued)

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response
2	● (two)	***Grant Funding*** It is the responsibility of Divisional Accountants to ensure that the Authority is in compliance with all terms and conditions of grant funding. Whilst we have found no instances where the Authority has not complied with terms and conditions there is currently no audit trail to demonstrate that the control has been performed. We recommend that all Divisional Accountants are required to document the procedures they have followed to confirm that all terms and conditions of grant funding have been met.	It is reassuring to note no breaches have been identified. Ultimately, it is the responsibility of the budget holder to ensure that all transactions are in accordance with grant conditions. Accountancy and departmental finance staff who act as financial advisors to budget holders offer a further independent check in addition to this; as does the work of the Internal Audit Section. Respective roles and responsibilities are clearly defined in the Council's Finance Procedure Rules.
3	● (two)	***Council Tax Provision*** In reviewing the bad debt provision for Council Tax we have noted that the amount outstanding in respect of the last 4 years is significantly higher than the amount provided for. There is a concern that the collection rates are out of line with the current bad debt provision policy. The amount that has been paid overall this year is 7.8%, a 2.59% reduction in debtor payback based on prior year figures. If we apply the current rate of payback to outstanding debt we forecast that the Authority has under provided by approximately £2.075m. We would recommend that the Authority reviews the percentages applied on all outstanding Council Tax bills to reflect the latest recovery rates. In addition, a review of the historic debt and its recovery should be reviewed to assess whether the provision is adequate or not.	The authority has been taking a very robust approach to Council Tax collection supported by the establishment of a task and finish group chaired by the Executive Director of Resources. Whilst the group is focussing on ways of improving in-year collections (so as to avoid the need to collect arrears) a number of steps are also being taken to improve debtor payback, including extending the use of committals. The expected outcome from this work has been factored into our considerations of the adequacy of the provision. We acknowledge this recommendation and will continue to undertake regular reviews of the percentages applied to past and present debts.

Appendix 1: Key issues and recommendations (continued)

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response
4	● (three)	***Approval of Bad Debt Provisions*** The Authority's bad debt provisions are prepared by the divisional accountants and approved by the Assistant Director of Resources. However, our testing of controls established that this approval is not currently evidenced. To ensure a full audit trail we would recommend that evidence that the Assistant Director of Resources has approved the bad debt provisions is retained.	Review and approval of bad debt provisions will be documented and evidenced.
5	● (three)	***School bank reconciliations*** Our review of the school bank reconciliations revealed that not all schools supplied their bank statements on a monthly basis, as part of the bank reconciliation process. We recommend that all schools supply a bank statement to verify amounts on a monthly basis, so that the Authority can gain full assurance over the bank reconciliation process.	Effective management of School Bank Accounts comes under the jurisdiction of the Council's s151 Officer. Schools are already required to supply bank statements on a monthly basis – upon the instruction of the Executive Director of Resources. This will be rigorously applied going forward, and sanctions will be imposed where this does not happen

Appendix 1: Key issues and recommendations (continued)

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response
6	● (three)	***Treatment of Year-end Transactions*** When reviewing the classification of transactions immediately before and after year end we identified one transaction that is being accounted for in 2011/12 although it should have been apportioned across both 2010/11 and 2011/12. The amount was not material and we did not identify any other transactions that were treated incorrectly. We recommend that the Authority reviews its year end procedures to ensure that any invoices received after year end that relate to the previous financial year are included as receivables in the financial statements.	We are disappointed that one transaction was identified, however reassured that it is considered immaterial. Putting this into context, the Council paid 94,000 invoices during 2010/11. We do not accept the recommendation is necessary as we feel that existing controls are adequate. Every year end the Council tests a sample of transactions, e.g. rentals, subscriptions, licence agreements to ensure that they have been charged / accrued to the correct financial year.
7	● (three)	***Authorised Signatory List*** The Authority operates an electronic purchasing system, Procure to Pay, whereby all orders are authorised electronically. However, there are still some orders which are processed manually. For these purchase orders, Accounts Payable check invoices against an authorised 'Invoice Certification Voucher' prior to payment. However, Accounts Payable do not have an authorised signatories list, so are not able to confirm that the individual who authorised the Invoice Certification Voucher is permitted to do so. We recommend that the Authority prepare and maintain an authorised signatory list for use by Accounts Payable when processing invoices manually.	This recommendation is relevant for a traditional “paper based” payment system. However, the Council has been operating an electronic payment system now for nearly 3 years. Approvals are sanctioned on line in a password controlled environment. This is done at the requisitioning (purchase) stage. A number of paper based transactions remain, and these are in the process of being phased out.

Appendix 1: Key issues and recommendations (continued)

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response
8	(three)	***Journal* Controls** Through our work on financial reporting we established that there are limited controls to review the posting of journals. This means there is a risk that incorrect journals could be posted to the general ledger. We recommend that the Authority implement a system of exception reporting that would identify any large, unusual or erroneous journal entries.	System Access is password protected. User profiles determine tasks that can be performed Any erroneous journals are identified through the routine budget monitoring process. In practice, accountancy and departmental finance staff do communicate details of large transactions before actioning them. We will look at ways of formalising this process.
9	(three)	***Authorisation of Reconciliations*** Throughout our audit we found instances where reconciliations had been performed but were not signed as prepared and/or reviewed. We recommend that all reconciliations are signed and dated by both the preparer and the senior independent reviewer to ensure there is a clear audit trail of the preparation and review processes.	It is reassuring to note that all reconciliations had been performed satisfactorily. The issue of outstanding signatures will be addressed going forward**.**
10	(three)	***Classification of Assets*** We identified two assets, the Warthfield and Beech Grove, which had been classified as held for sale on the balance sheet but did not meet the criteria set out within IFRS 5. Whilst these classifications did not have a material impact upon the accounts we recommend that the Authority review its processes for identifying assets held for sale to ensure that only assets that meet the criteria of IFRS 5 are classified as such.	IFRS was a new and challenging requirement for the 2010/11 Accounts. We are reassured that the Council addressed the requirements around classification of assets satisfactorily, with issues relating to just two assets being raised. Putting this into context, the total value of assets as at 31/3/11 was in excess of £675 million. Controls around classification of assets will be reviewed to prevent future occurrences.

Appendix 2: Follow up of prior recommendations

The Authority has implemented all of the recommendations in our *ISA 260 Report 2009/10.*

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

Number of recommendations that were:	
Included in original report	1
Implemented in year or superseded	1
Remain outstanding (re-iterated below)	0

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at 10 August 2011
1	● (two)	The schools bank reconciliation for Manchester Mesivta has an opening balance discrepancy of £0.130m. This is a historical balance dating to 2005/06 when the school did not have a bank account. 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. This recommendation dates back to our 2008/09 audit.	Internal Audit 2010/11	**Implemented** During the 2010/11 audit we have identified that whilst this balance remains on the school bank reconciliation it has been investigated and reconciled by Internal Audit. We have reviewed Internal Audit's paper on the issue and we are satisfied with their conclusions. This school is no longer under the control of the Authority, therefore, we consider this issue to be resolved.

Appendix 3: Audit differences

Both of the significant adjustments required were technical adjustments and had no cash impact on the Authority's operations.

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

The following table sets out the significant audit differences identified by our audit of Bury Metropolitan Borough Council's financial statements for the year ended 31 March 2011. It is our understanding that these will be adjusted. However, we have not yet received a final set of financial statements to confirm this, however, we have seen a number of revised drafts.

Impact					Basis of audit difference
Income and expenditure statement	Adjustments btw. accounting basis & statute	Assets	Liabilities	Reserves	
Dr Net Cost of Services £49.554m	Cr Movement in Reserves Statement £49.554m	Cr Council Dwellings £83.788m		Dr CAA £49.554m Dr Revaluation Reserve £34.234m	A Regional Adjustment Factor for the region of 48% was initially set by the DCLG in 2005. However, due to changes in the economic client effecting the value of Social Houses, the DCLG published a new set of Regional Adjustment Factors in January 2011. The new Regional Adjustment Factor for the region is 35%. This applies to all local authorities in the region. However, the Authority had applied the original rate resulting initially in an upwards valuation which should be an impairment of the HRA.
Cr Net Cost of Services £55.546m	Dr Movement in Reserves Statement £55.546m				The Authority incorrectly debited the cost of services when making adjustments to the pension reserve for negative past service cost in relation to the Government's announcement to change the rate of benefit increases from RPI to CPI.

Appendix 3: Audit differences (continued)

This adjustment is a reclassification issue and has no material impact upon the financial statements.

Impact					Basis of audit difference
Income and expenditure statement	Adjustments btw. accounting basis & statute	Assets	Liabilities	Reserves	
			Dr Provisions Cr Accruals £4.018m		The Authority had classed their holiday pay accrual as a provision. No net impact upon the Income and Expenditure account or balance sheet. This also resulted in the prior year balance being moved to accruals to for consistency.
Cr £5.992m	**Dr £5.992m**	**Cr £83.788m**	**Dr/Cr £0**	**Dr £83.788m**	**Total impact of adjustments**

Appendix 4: 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.

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.

Appendix 4: 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.

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 2011, 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 5: Draft management representation letter

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

The wording for these representations is prescribed by auditing standards.

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

Dear Sirs

This representation letter is provided in connection with your audit of the Authority and Group financial statements of Bury Metropolitan Borough Council ("the Authority"), for the year ended 31 March 2011, for the purpose of expressing an opinion as to whether these:

i. give a true and fair view of the financial position of the group and of the authority as at 31 March 2011 and of the group's and the authority's expenditure and income for the year then ended;

ii. have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

These financial statements comprise the Authority and Group Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the Collection Fund and the related notes.

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1. The Authority has fulfilled its responsibilities, as set out in regulation 8 of the Accounts and Audit (England) Regulations 2011, for the preparation of financial statements that:
   - give a true and fair view of the financial position of the group and of the authority as at 31 March 2011 and of the group's and the authority's expenditure and income for the year then ended ; and
   - have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

   The financial statements have been prepared on a going concern basis.
2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.
3. All events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom require adjustment or disclosure
4. have been adjusted or disclosed.

Information provided

5. The Authority has provided you with:
   - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
   - additional information that you have requested from the Authority for the purpose of the audit; and
   - unrestricted access to persons within the Authority [and Group] from whom you determined it necessary to obtain audit evidence.
6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
7. The Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
8. The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Appendix 5: Draft management representation letter (continued)

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

The wording for these representations is prescribed by auditing standards.

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

9. The Authority has disclosed to you all information in relation to:

a) Fraud or suspected fraud that it is aware of and that affects the Authority and its Group and involves:

- management;
- employees who have significant roles in internal control; or
- others where the fraud could have a material effect on the financial statements; and

b) allegations of fraud, or suspected fraud, affecting the Authority and Group financial statements communicated by employees, former employees, analysts, regulators or others.

11. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements. Further, the Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

12. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities are consistent with its knowledge of the business.

13. The Authority further confirms that:

a) all significant retirement benefits, including any arrangements that:

- are statutory, contractual or implicit in the employer's actions;
- arise in the UK and the Republic of Ireland or overseas;
- are funded or unfunded; and
- are approved or unapproved,

have been identified and properly accounted for; and

b) all settlements and curtailments have been identified and properly accounted for.

14. The Authority's provision in respect of equal pay claims reflects the latest legal and financial position known by the Authority at the time of the approval of the financial statements.

This letter was tabled and agreed at the meeting of the Audit Committee on 25 August 2011.

Yours faithfully,

[Chair of the Audit Committee] , [Chief Financial Officer] cutting through complexity™