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Report to those charged with governance (ISA 260) 2011/12

Bury Metropolitan Borough Council

15 August 2012

Contents

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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 which is available on the Audit Commission's website at www.auditcommission.gov.uk.

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, 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 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 2012; and**
- **our assessment of the Authority's arrangements to secure value for money (VFM) in its use of resources.**

We do not repeat matters we have previously communicated to you.

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 two stages: substantive procedures and completion. It also includes any findings in respect of our control evaluation that we identified during our interim audit.

Our final accounts visit on site took place between 9 July 2012 and 17 August 2012. 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 2011/12 VFM conclusion. This included:

- Identifying any significant risks following the completion of our risk assessment review. In carrying out this exercise we consider the Authorities financial resilience and arrangements for securing VFM; and
- Detailed review of the MTFP and 'Plan for Change' and discussions with officers to determine whether the Authority has appropriate policies and procedures in place for achieving the required savings and efficiencies.

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 2011/12 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 completing our audit by 31 August 2012, a month ahead of the statutory deadline, and plan to issue an unqualified opinion on the financial statements shortly after. We will also report that the wording of your Annual Governance Statement accords with our understanding of the Authority and its governance arrangements.
Audit adjustments	Our audit has identified one audit adjustment with a total value of £23.6million to recognise the prior period adjustment required to implement the Code changes in respect of heritage assets. The impact of these adjustments, on the 2010/11 balance sheet, is to: ▪ Increase the net worth of the Authority as at 1 April 2010 by £23.6million. Management had recognised this change as an in year revaluation therefore overall there was a nil impact on the net worth of the Authority as at 31 March 2012. We have included a full list of significant audit adjustments at Appendix 3. All of these were adjusted by the Authority. We have raised one recommendation as a result of our year end audit work. This is detailed in Appendix 1.
Critical accounting matters	We have worked with Officers throughout the year to discuss specific risk areas raised in our External Audit Plan 2011/12. The Authority addressed these issues appropriately. Further details on the findings in respect of each of these critical accounting matters can be seen in section 3.
Accounts production and audit process	As in previous years management have provided high quality accounts and supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. We have noted a particular improvement in respect of fixed assets as we worked closely with management in advance of the audit to arrange timescales for completing this work which meant we were able to carry out this testing in an efficient manner and completed this earlier than in previous years. The Authority has implemented nine of the ten recommendations contained in our *ISA 260 Report 2010/11* relating to the financial statements.

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 subject to completion of the following areas: ■ Post balance sheet events review; ■ Final review of all financial statements; and ■ Completion and review of the audit work performed over the whole of government accounts pack. 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. We therefore anticipate issuing an unqualified VFM conclusion by 31 August 2012.
VFM risk areas	We have considered there to be a specific VFM risk with regards to financial planning due to the current economic conditions and the level of required savings that the Authority will need to achieve. Based on our work performed in this area we are satisfied that the Authority has put appropriate procedures in place and that the medium term financial plan and Plan for Change help to mitigate this risk.

Proposed opinion and audit differences

Our audit has identified one audit adjustment.

The impact of this adjustment is to:

- **Increase the net worth of the Authority as at 1 April 2010 by £23.6million.**
- **The impact on the net worth of the Authority at 31 March 2012 is £nil. This is a presentational adjustment.**

Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate completing our audit by 31 August 2012 and issuing an unqualified opinion shortly after on the financial statements.

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.

Our audit identified one significant retrospective audit difference, which we have set out in Appendix 3. This has been adjusted in the revised version of the financial statements. There are no uncorrected audit differences.

During 2011/12 there was a revision to the CIPFA Code of Practice relating to the valuation of Heritage Assets in Local Government Accounts. Originally the Authority, in following the Code, had valued it's Heritage Assets at 1st April 2010 at cost. During 2011/12, this was revised as the assets were required to be shown at 'valuation'. The Authority has used insurance valuation as a proxy for this – a treatment accepted by the code of practice. The net impact of this adjustment was to increase the value of Heritage Assets by £23.6m. We agreed with management it would not be appropriate to reflect this increase in 2011/12 but, instead a prior year adjustment to the opening value of Heritage Assets at 1 April 2010.

The tables on the right illustrate the total impact of audit differences on the Authority's movements on the General Fund for the year and balance sheet as at 1 April 2010. There is no impact on the General Fund for 2009/10 as a result of audit adjustment as heritage assets are not depreciated.

There is no net impact on the balance sheet as at 31 March 2012, as this is simply a presentation change to remove the in year revaluation.

Movements on the General Fund 2011/12

£m	Pre-audit	Post-audit	Ref (App.3)
Surplus on the provision of services	8,029	8,029	-
Adjustments between accounting basis & funding basis under Regulations	1,092	1,092	-
Transfers [to/ from] earmarked reserves	(3,895)	(3,895)	-
Increase in General Fund	**5,226**	**5,226**	

Balance Sheet as at 1 April 2010

£m	Pre-audit	Post-audit	Ref (App.3)
Property, plant and equipment	728,380	752,056	*1*
Other long term assets	26,515	26,515	-
Current assets	62,987	62,987	-
Current liabilities	(44,813)	(44,813)	-
Long term liabilities	(465,696)	(465,696)	-
Net worth	**307,373**	**331,049**	
General Fund	(9,925)	(9,925)	-
Revaluation reserve	(173,797)	(197,473)	*1*
Other reserves	(123,651)	(123,651)	-
Total reserves	**(307,373)**	**(331,049)**	

Proposed opinion and audit differences (continued)

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

Presentational differences

In addition, 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 2011/12 ('the Code')*. We understand that the Authority will be addressing these as appropriate.

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.

Internal Audit

The Authority completes the CIPFA Internal Audit Self-Assessment Return on an annual basis. The Return covers IA's Scope, Independence, Ethical Framework, Competence, Relationships, Staff training, Audit Strategy and Planning, Performance of Audit Work, Professional Due Care, Reporting and Effectiveness. We have reviewed this return in order to determine:-

- Whether the return has been completed and appropriate answers submitted in each section;
- Whether any material issues exist regarding IA's execution of its duties which could impact our audit.

During our review we identified one key change from previous period. The Authority has withdrawn from the CIPFA Benchmarking Scheme for Internal Audit due to the cost implications associated with participate in this scheme. Alternative arrangements have been made and benchmarking will be performed against the other AGMA authorities. IA also report a number of key performance indicators to Audit Committee which identify year on year trends in the service's performance. We are satisfied that Internal Audit have put appropriate arrangements in place to ensure they have appropriate information available to monitor and assess their performance.

Critical accounting matters

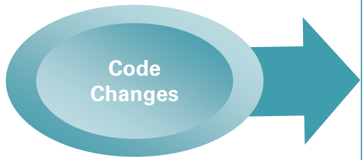
We have worked with Officers throughout the year to discuss specific risk areas. The Authority addressed the issues appropriately.

In our External Audit Plan 2011/12, presented to you in February, we identified the key risks affecting the Authority's 2011/12 financial statements.

We have now completed our testing of these areas and set our final evaluation following our substantive work. The table below sets out detailed findings for each risk.

Key audit risk	Issue	Findings
	**Risk identified in planning our audit** As at January 2012, the Authority was forecasting that it would deliver its 2011/12 budget in overall terms. This included a savings programme totalling £8.2million. The Authority has robust plans in place to enable them to achieve these savings. The Authority estimates that another £7.9m in savings will need to be achieved during 2012/13 to address the further reductions to local authority funding. Against a backdrop of continued demand pressures, particularly in Adult Social Care and Children's Services, it will become more and more difficult to deliver these savings in a way that secures longer term financial and operational sustainability. However, the Authority's 'Plan for Change' has identified areas where savings can be achieved. As part of the savings programmes the Authority plan to carry out a programme of VER and are currently reviewing applications. Management have confirmed they have had a positive response to the scheme which will help in achieving the required savings. If there are any related liabilities at year end, for example through the VER programme, these will need to be accounted for in the 2011/12 financial statements as appropriate. Management have confirmed that they are expecting to reach a settlement over the equal pay claim prior to year end which will result in the utilisation of reserves to finance the settlement. There is still a risk that additional claims could be submitted which may impact on the financing arrangements the Authority has in place. We will continue to liaise with management on this issue throughout the year.	As part of the year end audit we have reviewed the Authority's progress against the 2011/12 budget. The Authority has reported an underspend of £1.3m, of which £1.16m relates to non-service specific costs. The underspend in year is due to savings on interest payable of £1.5m offset by a reduced level of investment income of £0.4m due to continued low interest rates. We will continue to monitor the Authority's progress against it's savings plan in 2012/13. We have reviewed all exit packages as disclosed in the financial statements and performed substantive testing in this area. No issues have been identified and we are satisfied that all liabilities and payments in relation to the VER programme have been accounted for in the correct period. A settlement has been reached over the equal pay claim. A small number of payments have been made during 2011/12 which have been reflected in the financial statements. However the majority of the payments have been made since year end and as such the majority of the provision is still held in the 2011/12 accounts and will be released as payments continue to be made throughout 2012/13. Management have planned for this and have appropriate financing arrangements in place.

Critical accounting matters (continued)

Key audit risk	Issue	Findings
	**Risk identified in planning our audit** The 2011/12 *Code* includes a number of accounting changes, including a new requirement to carry 'heritage assets' at valuation. Heritage assets include historical buildings, museum and gallery collections and works of art. The 2011/12 *Code* also clarifies requirements in a number of areas where ambiguity was identified in the 2010/11 *Code.* The Authority needs to review and appropriately address these changes in its 2011/12 financial statements.	The Authority has identified a number of heritage assets including paintings and civic regalia. In order to recognise these assets on the balance sheet management have used insurance valuations and these assets have been included in fixed assets note. This is allowable under the Code. An additional three heritage assets, historic buildings such as Radcliffe Tower, have also been identified however it has not been possible to obtain a valuation for these. The Code does not require assets to be recognised on the balance sheet where the cost of obtaining valuation information outweighs the benefits to the users of the financial statements. This is deemed to be the case in respect of these three assets. These assets have been appropriately disclosed in the financial statements. Following discussions with management, a prior period adjustment has now been made to implement the change in accounting policy arising from this change in the Code. We have reviewed all accounting entries and disclosures and are satisfied that the 2011/12 Code has been implemented correctly.

Accounts production and audit process

Management have continued to prepare high quality accounts and supporting working papers.

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

The Authority has implemented the majority of the recommendations in our *ISA 260 Report 2010/11* relating to the financial statements.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant 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 good financial reporting processes in place and this has helped to ensure a smooth audit process for the year ended 31 March 2012. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts well in advance of the audit commencing on 9 July 2012.
Quality of supporting working papers	Our *Accounts Audit Protocol*, which we issued in March 2012 and discussed with the Head of Financial Management, set out our working paper requirements for the audit. The quality of working papers provided was of a high quality and met the standards specified in our *Accounts Audit Protocol*.
Response to audit queries	Officers resolved the majority of audit queries in a reasonable time.
Group audit	To gain assurance over the Authority's group accounts, we seek to place reliance on work completed by Baker Tilly on the financial statements of *Six Town Housing.* At the date of completing this report we are still awaiting a reply from Baker Tilly relating to our request for information to enable us to gain the assurance we require. There are no specific matters to report pertaining to the group audit.

Prior year recommendations

In our *Interim Audit Report 2011/12* we commented on the Authority's progress in addressing the recommendations in our *ISA 260 Report 2010/11.*

The Authority has now implemented the majority of the recommendations in our *ISA 260 Report 2010/11* relating to the financial statements. One recommendation raised in relation to other to the NNDR Valuation Office reconciliations remains outstanding.

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 2012, 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 Responsible Finance Officer, a draft of which is reproduced in Appendix 5. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- significant difficulties encountered during the audit;
- significant matters arising from the audit that were discussed, or subject to correspondence with management;
- other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2011/12 financial statements.

VFM conclusion

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.

Background

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.

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	✓

We have completed our risk assessment and identified a key VFM risk in relation to financial resilience. The following page includes further details on our specific risk-based work.

Specific VFM risks

We have now concluded our specific work in relation to the residual risks we set out below.

We are satisfied that management is taking appropriate action against those risks.

Below we have identified the residual audit risks for our VFM conclusion, and set out our preliminary assessment of these with reference to the relevant work by the Authority, the Audit Commission, other inspectorates and review agencies.

We concluded that we needed to carry out additional work for some of these risks and this work is now complete.

The outcome of this work is set out below.

Key VFM risk	Preliminary assessment	Key findings of our additional work
	The Authority faces financial pressures due to the prevailing economic conditions and needs to plan effectively to identify and achieve the required savings.	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. The Authority is undertaking reviews of all services to firm up savings plans and ways to deliver these services more efficiently. Management are also focusing on recurrent savings plans, as opposed to one-off measures. During 2011-12 the Authority made a positive contribution to reserves and the year end balance is significantly above the minimum level therefore providing some form of contingency if savings are not delivered. The Authority has Medium to Long Term Financial Plan in place which, along with the Plan for Change considers the available resources and required savings for the period up to 2014/15. In addition, with effect from April 2013 the Public Health Services previously undertaken by the PCT will transfer to the Authority. Arrangements are being made for the integration of these services into the Authority. A robust action plan is in place to mitigate the risks identified by the Authority. As a result of the work carried out we are satisfied that the Authority has appropriate financial plans in place.

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		
❶ ***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.	❷ ***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.	❸ ***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 / responsible officer / due date
1	❸	**Component accounting** Management should continue to give consideration to component accounting and in particular whether implementation would have an material impact on HRA depreciation. A detailed calculation should be prepared to evidence that the impact is not material. This has not been documented for audit purposed for the financial year 2011/12. We will continue to liaise with management on component accounting and offer advice on the process and methodology for implementing component accounting should this become material.	**Management Response** We recognise the implications of component accounting and have developed a component accounting policy to assist with implementation which KPMG have been given a copy of. We acknowledge the requirement to undertake a detailed calculation, and this will be actioned in the current financial year. We welcome the continued liaison with KPMG to ensure this recommendation is satisfactorily addressed. **Responsible Officer** Head of Financial Management **Due Date** 31st March 2013

Appendix 2: Follow up of prior year recommendations

The Authority has implemented the majority of the recommendations in our *ISA 260 Report 2010/11.*

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 2010/11* and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	10
Implemented in year or superseded	9
Remain outstanding (re-iterated below)	1

No.	Risk	Issue and recommendation	Management Response	Status
1	2	**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.	During our interim audit we identified that, as raised in the prior year recommendation, the reconciliation between the NNDR system and the Valuation Office rateable value listing was not being performed on a timely basis throughout the year. We recommend that the reconciliation is prepared on a monthly rather than weekly basis to improve efficiency and ensure that the reconciliation is completed in a timely manner. **Management response** We receive revised rating lists from the Valuation Office Agency (VOA) on a weekly basis, and these are always actioned with immediate effect. We have strived to undertake weekly reconciliations alongside these updates, however this has not always been possible given the volume of changes, and differences in the way the VOA present information. Going forward, we recognise the heightened importance of Business Rates - in light of proposals for local retention of rates collected. We therefore welcome and support the recommendation to undertake monthly reconciliations.

Appendix 3: Audit differences

This appendix sets out the significant audit differences. We have identified one audit difference. This has been adjusted.

The audit difference arises from the prior year adjustment (PYA) that is required to implement the *Code* change in relation to the valuation of heritage assets.

The impact is on the opening balance at 1 April 2010. The net impact on 2011/12 financial statements is £nil however a presentational adjustment is required.

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 2012.

	Impact					
No.	**Income and Expenditure Statement**	**Movement in Reserves Statement**	**Assets (1 April 2010)**	**Liabilities (1 April 2010)**	**Reserves**	**Basis of audit difference**
1	-	-	Dr PPE £23.6m			To apply the changes introduced in the 2011/12 Code of Practice, heritage assets are required to be held at valuation. As this is a change in accounting policy a PYA is required to restate the opening fixed asset balance at 1 April 2010/11. The Authority had accounted for this change as an in year revaluation therefore an audit adjustment was required to account for the PYA.
	-	-		-	Cr Revaluation Reserve £23.6m	
	-	**-**	**Dr £23.6m**	**-**	**Cr £23.6m**	**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. We do this in our Annual Audit Letter.

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 ended 31 March 2012, 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.

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 2012, for the purpose of expressing an opinion as to whether these:

i. give a true and fair view of the financial position of Bury Metropolitan Borough Council and its Group as at 31 March 2012 and of its income and expenditure for the year then ended;

iii. 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 Bury Metropolitan Borough Council and its Group as at 31 March 2012 and of its income and expenditure for the year then ended;
   - 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 have been adjusted or disclosed.
4. In respect of the restatement *of Heritage Assets* made to implement a change in Accounting Policy ,the Authority confirms that the restatement is appropriate.

Information provided

6. 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.
7. All transactions have been recorded in the accounting records and are reflected in the financial statements.

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.

Information provided

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.

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.

This letter was tabled and agreed at the meeting of the Audit Committee on *[date]*.

Yours faithfully,

[Chair of the Audit Committee] , [Chief Financial Officer]

KPMG

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