

## AGENDA FOR

## AUDIT COMMITTEE

*Contact::* Andrea Tomlinson  
*Direct Line:* 0161 253 5133  
*E-mail:* a.j.tomlinson@bury.gov.uk  
*Web Site:* www.bury.gov.uk

**To: All Members of Audit Committee**

**Councillors** : M Bailey, P Bury, E Fitzgerald (Chair),  
J Frith, M Hankey, P Heneghan, S Nuttall, K Rothwell and  
B Vincent

Dear Member/Colleague

### **Audit Committee**

You are invited to attend a meeting of the Audit Committee which will be held as follows:-

<b>Date:</b>	Monday, 3 March 2014
<b>Place:</b>	Meeting Rooms A & B, Town Hall, Bury
<b>Time:</b>	7.00 pm
<b>Briefing Facilities:</b>	If Opposition Members and Co-opted Members require briefing on any particular item on the Agenda, the appropriate Director/Senior Officer originating the related report should be contacted.
<b>Notes:</b>	



## **AGENDA**

**1 APOLOGIES FOR ABSENCE**

**2 DECLARATIONS OF INTEREST**

Members of the Audit Committee are asked to consider whether they have an interest in any of the matters on the agenda and, if so, to formally declare that interest.

**3 MINUTES OF THE LAST MEETING** (*Pages 1 - 6*)

**4 PUBLIC QUESTION TIME**

Questions are invited from any members of the public present at the meeting on any matters for which this Committee is responsible.

**5 AUDIT TRAINING - REGULATION OF INVESTIGATORY POWER ACT 2000 "RIPA"**

A training session will be given at the meeting.

**6 RIPA - ANNUAL REPORT 2013** (*Pages 7 - 16*)

A report from the Assistant Director of Legal and Democratic Services is attached.

**7 FINANCE AND PERFORMANCE MANAGEMENT REPORT - APRIL TO DECEMBER 2013** (*Pages 17 - 22*)

A report from the Assistant Director of Resources (Finance and Efficiency) is attached.

**8 QUARTERLY GOVERNANCE STATEMENT OCTOBER - DECEMBER 2013** (*Pages 23 - 32*)

A report from the Head of Internal Audit is attached

**9 GIFTS AND HOSPITALITY** (*Pages 33 - 36*)

A report from the Assistant Director of Resources (Finance and Efficiency) is attached.

**10 CERTIFICATION OF GRANTS AND RETURNS** (*Pages 37 - 44*)

The report is attached for information.

The Report has been approved by the Committee electronically.

**11 EXTERNAL AUDIT PLAN 2013/2014** (*Pages 45 - 74*)

A report from KPMG, Bury's External Auditors is attached.

**12 EXTERNAL AUDIT PROGRESS REPORT** *(Pages 75 - 76)*

A report from KPMG, Bury's External Auditors is attached

**13 EXCLUSION OF PRESS AND PUBLIC**

To consider passing the appropriate resolution under Section 100(A)(4) of the Local Government Act 1972 that the press and public be excluded from the meeting during consideration of the following items of business since they involve the likely disclosure of the exempt information stated.

**14 INTERNAL AUDIT PLAN 2014/2015** *(Pages 77 - 94)*

A report from the Head of Internal Audit is attached

**15 INTERNAL AUDIT PROGRESS REPORT 2013/2014** *(Pages 95 - 106)*

A report from the Head of Internal Audit is attached.

**16 INTERNAL AUDIT FEEDBACK** *(Pages 107 - 110)*

A report from the Head of Internal Audit is attached

**17 URGENT BUSINESS**

**Minutes of:           AUDIT COMMITTEE**

**Date of Meeting:** 3 December 2013

**Present:** Councillor E Fitzgerald (in the Chair)  
 Councillors J Frith, M Hankey, P Heneghan, S Nuttall,  
 K Rothwell and B Vincent

**Also in attendance:**

**Public Attendance:** No members of the public were present at the meeting.

**Apologies for Absence:**Councillor P Bury

**AU.571       DECLARATIONS OF INTEREST**

Councillor Nuttall declared a personal interest in any item that referred to Lowercroft Primary School as she was a Governor at the school.

**AU.572       MINUTES OF THE LAST MEETING**

**Delegated decision:**

That the Minutes of the last meeting of the Audit Committee held on 22 August 2013 be approved as a correct record and signed by the Chair.

**AU.573       PUBLIC QUESTION TIME**

There were no members of the public present to ask questions under this item.

**AU.574       AUDIT COMMITTEE TRAINING - PROTECTING THE PUBLIC PURSE**

Barrie Strothers, Head of Internal Audit gave a presentation setting out the contents of a recent Audit Commission report looking into and advising on the extent of fraud against Local Government.

It was explained that the main areas of fraud risk to Local Government were:-

- Procurement
- Tenancies
- Housing and Council Tax Benefit
- Business Rates
- Right to Buy
- Social Care
- Insurance Claims
- Disabled Parking Concessions
- Schools
- Internal Workforce and;

Audit Committee, 3 December 2013

Economic and Third Sector

Barrie explained that the main three areas of fraud against Local Government were Procurement Fraud, Tenancy Fraud and Housing and Council Tax Benefit Fraud with a combined national worth of just over £2 billion. The remaining were valued at around £7.2 million.

Barrie reported that from April 2014 there would be the roll out of the Single Fraud Investigative Service which will combine Benefit Fraud investigators from Councils, Department of Work and Pensions and Her Majesty's Revenue and Customs into one single welfare benefits investigation service.

**It was agreed:**

That Barrie be thanked for his presentation.

**AU.575 PUBLIC SECTOR INTERNAL AUDIT STANDARD**

Barrie Strothers, Head of Internal Audit presented a report setting out a new set of standards that had been published by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (IIA) and had come into force on 1 April 2013. The report informed Members of the changes to the way that Internal Audit will be assessed.

It was explained that until 2013, the CIPFA Code of Practice for Internal Audit in Local Authorities in the UK was recognised as best practice and had been adopted by the Council. Annual reviews were performed to assess the level of compliance against the Code and the results reported in an annual report to the Audit Committee.

The new standards that had been published - the Public Sector Internal Audit Standards (PSIAS) were based upon the mandatory elements of the IIA International Professional Practices Framework (IPPF) as follows:-

- Definition of Internal Auditing
- Code of Ethics
- International Standards for the Professional Practice of Internal Auditing.

It was explained that the objectives of the PSIAS were to:-

- define the nature of internal auditing within the UK public sector,
- set basic principles for carrying out internal audit in the UK public sector,
- establish a framework for providing internal audit services, which add value to the organisation, leading to improved processes and operations, and;
- establish the basis for the evaluation of internal audit performance and to drive improvement planning.

Appended to the report was the PSIAS in detail and the evaluation undertaken by Head of Internal Audit. The result of which had resulted in the necessity to update the Internal Audit Charter and introduce a Code of Ethics for Internal Audit. Both documents were appended to the report.

It was also explained that further requirements of the Standard were:-

- The development and maintenance of a quality assurance and improvement programme
- A statement on conformance with the PSIAS and the results of the quality assurance and improvement programme within the Annual Report.

Barrie reported that these two areas were already covered within the Internal Audit reports that the Committee received on a regular basis.

### **Delegated decisions:**

1. That the report be accepted as this will help the Head of Internal Audit to achieve the Standards for Internal Audit as prescribed by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (IIA).
2. That the revised Internal Audit Charter and the new Code of Ethics for Internal Audit. Committee be approved.

## **AU.576 FINANCIAL MONITORING REPORT APRIL 2013 TO SEPTEMBER 2013**

The Assistant Director of Resources, Steve Kenyon, presented a report updating Members of the Committee on the Authority's financial position in line with the Committee's Statement of Purpose to 'provide independent scrutiny of the authority's exposure to risk and the control environment'.

The report indicated that the Authority was projecting an overspend of £0.696m for the year based on spending and income information as at 30 September 2013.

A fuller version of the report will be considered by Overview & Scrutiny; 4<sup>th</sup> December.

### **Delegated decision:**

That the contents of the report be noted.

## **AU.577 QUARTERLY GOVERNANCE STATEMENT JULY 2013 TO SEPTEMBER 2013**

The Head of Internal Audit, presented a report providing Members with a quarterly update on the Annual Governance Statement which had been approved by the Audit Committee at its meeting on June 25 2013.

The report gave an update on the continuous monitoring that was carried out and highlighted any relevant issues with regards to Risk Management, Business Continuity, Budget Monitoring, the work of Internal Audit, Review of Ethical Governance, the work of the Governance Panel, Gifts and Hospitality and Sickness levels across the authority's staff.

Audit Committee, 3 December 2013

The up to date Corporate Risk Register was appended to the report and informed Members of the risk event and status. It was explained that the Risk Register had been updated to reflect the most current high level risks facing the organisation.

**Delegated decision:**

That the contents of the report be noted.

**AU.578 GIFTS AND HOSPITALITY**

Steve Kenyon presented a report providing Members with an update of the system to declare, monitor and report gifts and hospitality offered to or received by staff and Members.

The report covered the period July 2013 to September 2013.

**Delegated decision:**

That the contents of the report be noted.

**AU.579 ANNUAL AUDIT LETTER 2012/2013**

The Assistant Director of Resources, Steve Kenyon presented the Annual Audit Letter which had been received from Bury's External Auditors, KPMG.

The letter confirmed that the audit of the Council's accounts had been completed and that an unqualified opinion had been issued in relation to both the accounts and the Authority's arrangements for securing value for money as required by the Audit Commission's Code of Practice.

**Delegated decision:**

That the contents of the Annual Audit Letter be noted.

**AU.580 EXCLUSION OF PRESS AND PUBLIC**

**Delegated decision:**

That in accordance with Section 100(A)(4) of the Local Government Act 1972, the press and public be excluded from the meeting during consideration of the following items of business since they involved the likely disclosure of exempt information, relating to any action taken, or to be taken in connection with the prevention, investigation and prosecution of crime.

**AU.581 INTERNAL AUDIT PROGRESS REPORT**

The Head of Internal Audit submitted a report briefing the Committee Members on



the work being carried out currently by Internal Audit in line with the Annual Audit Plan 2013/2014.

Details of work undertaken and Audit Reports issued were included in the report with significant issues highlighted.

**Delegated decision:**

That the contents of the report be noted

**AU.582 INTERNAL AUDIT FEEDBACK**

The Head of Internal Audit submitted a report providing feedback to Committee Members in the form of responses to specific issues raised in relation to Audit Reports and queries.

**Delegated Decision:**

That the contents of the report be noted.

**COUNCILLOR E FITZGERALD**  
**Chair**

**(Note: The meeting started at 7.00 pm and ended at 8.25 pm)**

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## REPORT FOR DECISION

<b>Report to</b>	<b>Audit Committee</b>
<b>DATE:</b>	<b>3 March 2014</b>
<b>SUBJECT:</b>	<b>REGULATION OF INVESTIGATORY POWERS ACT 2000 ("RIPA") – ANNUAL REPORT 2013</b>
<b>REPORT FROM:</b>	<b>Deputy Leader of the Council and Cabinet Member for Finance and Corporate Affairs</b>
<b>CONTACT OFFICER:</b>	<b>Monitoring Officer</b>
<b>TYPE OF DECISION:</b>	<b>Committee</b>
<b>FREEDOM OF INFORMATION/STATUS:</b>	This paper is within the public domain
<b>SUMMARY:</b>	This report appraises Members of the Council's responsibilities under the Regulation of Investigatory Powers Act 2000 (RIPA) and of the outcome of a recent inspection by the Office of Surveillance Commissioners.
<b>OPTIONS &amp; RECOMMENDED OPTION</b>	1. Members are asked to note the contents of this report and the inspection report of the Office of Surveillance Commissioners (His Honour Judge Hodson) – Appendix A
<b>IMPLICATIONS:</b>	
<b>Corporate Aims/Policy Framework:</b>	Do the proposals accord with the Policy Framework? Yes
<b>Statement by the S151 Officer: Financial Implications and Risk Considerations:</b>	There are no financial implications

<b>Statement by Executive Director of Resources:</b>	There are no risk management issues
<b>Equality/Diversity implications:</b>	There are none
<b>Considered by Monitoring Officer:</b>	Yes  The legal implications are set out in the report
<b>Wards Affected:</b>	
<b>Scrutiny Interest:</b>	Overview and Scrutiny Panel

**TRACKING/PROCESS**

**DIRECTOR:  
Executive Director of Resources**

Chief Executive/ Strategic Leadership Team	Cabinet Member/Chair	Ward Members	Partners
√			
Scrutiny Committee	Cabinet/Committee	Council	

**1.0 BACKGROUND**

- 1.1 The Regulation of Investigatory Powers Act 2000 (RIPA) was designed to regulate the use of investigatory powers and to satisfy the requirements of the Human Rights Act 1998. RIPA regulates the use of a number of covert investigatory techniques, not all of which are available to local authorities. The three types of technique available to local authorities are the acquisition and disclosure of communications data (such as telephone billing information); directed surveillance (covert surveillance of individuals in public places); and covert human intelligence sources (such as the deployment of under-cover officers).
- 1.2 On 1 November 2012, the law on RIPA was changed, so that the approval of local authority authorisations (under RIPA) have to be by a Magistrate, and any directed surveillance must meet a crime threshold.
- 1.3 Local authorities sometimes need to use covert techniques in support of their statutory functions, such as to enforce the law in areas such as taxi regulation, benefit fraud, environmental crime, and anti-social behaviour. The Council uses the powers under RIPA to conduct authorised directed surveillance in connection with the conduct of criminal investigations.

Although the Council is also committed under RIPA to authorise the interception of communications data and the use of covert intelligence sources; it has not done so since the legislation came into force. The amendments to the legislation mean that the Council can now only grant an authorisation under RIPA for the use of directed surveillance where it is investigating particular types of criminal offences. These are criminal offences which attract a maximum custodial sentence of six months or more or criminal offences relating to the under-age sale of alcohol or tobacco. The Council cannot authorise directed surveillance for the purposes of preventing disorder unless this involves a criminal offence (again punishable by a maximum term of at least six months imprisonment).

- 1.4 The Council may therefore continue to authorise the use of directed surveillance in more serious cases, but the authorisation must be necessary and proportionate and given prior approval from a Magistrate. Examples of cases where the offence being investigated attracts the maximum custodial sentence of six months or more, could include; serious criminal damage, dangerous waste dumping and serious or serial benefit fraud. This means that low level offences such as littering, dog control and fly posting will not be authorised for the use of directed surveillance under RIPA.

### **2.0 The Council's Use of RIPA**

- 2.1 In the recent past the numbers of authorisations for directed surveillance have been: four in 2010/11, three in 2011/12 and eight in 2012/13. As may be noted in the attached inspection report from the Office of Surveillance Commissioners, the inspector reviewed and approved a sample from each year.
- 2.2 In the inspection period there was only one authorisation that required judicial approval and this had been successfully obtained before the Magistrates, just two weeks after the start of the new regime. The role of the Magistrate is to ensure that the correct procedures have been followed and that the relevant factors have been taken into account. This particular authorisation involved anti social behaviour (some criminal damage was recorded).

### **3.0 Acquisition and Disclosure of Communications Data**

- 3.1 For the period 2012 to 2013 two authorisations were made by the designated officer under the National Anti Fraud Network RIPA telecommunications service (located at Tameside Council). The Council has made three applications to the Magistrates Court under the new provisions, attempting to get names and addresses linked to telephone numbers.

### **4.0 The Council's Policy Guide and Forms**

- 4.1 As is set out in the inspection report of the Office of Surveillance Commissioners, the single recommendation was to amend the Council's Policy Guide as indicated in Paragraphs 8, 9 and 10 of that report. Whilst the Guide had been kept up to date, in terms of the legislative changes, some drafting amendments were still required. The forms and notes for investigating and authorising officers also needed to be revised and the new form for Magistrates approval needed to be included within the suite of documents. Amendments to the existing policy guide to support the recommendations of the external inspection and to ensure the Council continues to be compliant with its use of such surveillance are being made on the Intranet.

**5.0 CCTV**

5.1 For Members information, the Council does not use CCTV cameras for any covert surveillance at all. They are used for overt surveillance and shared by the Police and other partner agencies.

**6.0 Conclusion**

6.1 As and when judicial approval is sought to use these powers, it will help support the Council's aims by preventing and detecting crime associated with the Council's functions. Members are, therefore, asked to note the contents of this report and the successful inspection.

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**List of Background Papers:-**

None

**Contact Details:-**

Jayne Hammond  
Assistant Director, Legal & Democratic Services  
The Town Hall  
Knowsley Street  
Bury  
BL9 0SW

[j.m.hammond@bury.gov.uk](mailto:j.m.hammond@bury.gov.uk)

0161 253 5237

**RESTRICTED**



**OFFICE OF SURVEILLANCE COMMISSIONERS**

**INSPECTION REPORT**

**Bury Borough Council**

**22<sup>nd</sup> October 2013**

**Assistant Surveillance Commissioner:  
HH David Hodson.**

**RESTRICTED**



Office of Surveillance  
Commissioners

The Rt. Hon. Sir Christopher Rose  
Chief Surveillance Commissioner  
Office of Surveillance Commissioners  
PO Box 29105  
London SW1V 1ZU

5 November 2013

**BURY BOROUGH COUNCIL  
INSPECTION REPORT**

Inspection Date      22 October 2013  
Inspector              His Honour David Hodson  
                                 Assistant Surveillance Commissioner

**INTRODUCTION**

1. Bury Metropolitan Borough Council (Bury Council) is one of the 10 authorities that made up the former County of Greater Manchester. Although the County of Greater Manchester was abolished as an administrative county in 1986 it continues to exist in law and as a ceremonial entity. Consequently Bury Council and all the other Metropolitan Borough Councils are now in effect unitary authorities. It has approximately 8500 employees and serves a population of 183.000 people. The last OSC inspection was in October 2010 by Mr Graham Wright, Surveillance Inspector.
2. Bury is, of course, celebrated as the home of the Black Pudding and as the birthplace of Sir Robert Peel, Home Secretary and twice Prime Minister. His name is, of course, perpetuated in the Home Office as that given to one of the three buildings that comprise the present headquarters in Marsham Street.
3. Mr Mike Kelley is Chief Executive and he is supported by four Executive Directors. That quintet comprises the Strategic Leadership of the Council. Ms Jayne Hammond is the Assistant Director of Legal and Democratic Services and Ms Anita Green is the Council Solicitor. Mr Kelley is the RIPA Senior Responsible Officer and Ms Hammond is the Surveillance Monitoring Officer. Ms Green has only been with the Council for approximately six months but, undoubtedly, has taken a firm grip on RIPA activities already.
4. Mr Kelley joined Ms Hammond, Ms Green and myself at the start of the inspection for a useful exchange on RIPA practices and he returned for a final



discussion at the conclusion of the inspection. I am most grateful for the constructive part he played in the inspection.

5. Since the last inspection there have been 15 authorisations for Directed Surveillance. No CHIS has been authorised. None of the authorisations has involved the acquisition of confidential information and no authorisations have been refused.
6. Mr Kelley's address for correspondence is Bury Council, Town Hall, Knowsley Street, Bury, Lancashire BL9 0SW.

#### **MANAGEMENT STRUCTURE**

7. The Chief Executive's Department has one executive director of resources, three assistant directors and 11 heads of service. The Communities and Neighbourhoods Department has one executive director, two assistant directors and two heads of service. The Children's Services Department has one executive director, two assistant directors, one strategic lead and two heads of service. The Adult Care Services Department has one executive director, two assistant directors, one director of public health, an assistant director of commissioning and procurement and three heads of service.

#### **RIPA STRUCTURE**

8. The Senior Responsible Officer and the Surveillance Monitoring Officer have already been identified. Ms Green's valuable role has also been acknowledged. I have been provided with a chart which lists the Authorising Officers and indicates who is a regular user or an occasional/infrequent user. There are five regular users and four occasional/frequent users. These numbers seem to be appropriate given the present RIPA usage by the Council.

#### **COUNCIL POLICY AND PROCEDURAL GUIDE**

9. The Guide which attracted favourable comment in the last inspection report has been kept up to date with some recent legislative changes. However, as with a number of other authorities the abolition of urgent oral authorisations has been over-looked. Similarly there are no amendments to cover the new crime threshold criteria. Therefore i) references to urgent oral authorisations in paragraphs 8 on p2, paragraph 17 on p9, paragraphs 4, 5 on p10 and on the flow chart on p21 should all be deleted, and ii) suitable references to the crime threshold criteria should be added to paragraph 8(b) on p7, paragraph 3(a) on p9 and on the flow chart on p21

**See Recommendation**

10. I have also suggested that in the section covering intrusive surveillance on page 6 it should be clearly emphasised that Bury Council has *no power to authorise intrusive surveillance*.

See Recommendation

11. The set of Forms and the Notes for Investigating and Authorising Officers that accompany the Guide are now out of date and need to be revised. The new form for Magistrates' approval needs to be included as well.

See Recommendation

### TRAINING

12. A more satisfactory pattern of training has been established since the last inspection. Previously training had been provided by the Surveillance Monitoring Officer. No criticism was made of that in the last inspection. But it was recognised before that inspection that to introduce, in addition, some outside training would be beneficial. This commenced in October 2011. Training for 15 delegates was provided by Pannone, Solicitors. This was repeated for 22 delegates in October 2013 by the same firm and I have seen the slides of this latest presentation. They can properly be described as comprehensive, accurate and up to date. Between these sessions in-house training has continued on an approximately six monthly basis.
13. It is clear from the high quality of the authorisations I have seen that valuable lessons have been learned from the training and first class documentation is now the norm.

### CENTRAL RECORD AND AUTHORISATION FORMS.

14. The Central Record of Authorisations is kept on an electronically maintained spread sheet. There were four authorisations for Directed Surveillance in 2010/11, three in 2011/12 and eight in 2012/13. I have examined a representative sample from each year and it a pleasure to report that all were of the highest quality. All aspects of necessity and proportionality were covered well by investigating and authorising officers. Review dates were properly set, renewed if necessary, and invariably cancelled in a timely way. I was pleased to be able to congratulate personally Mr Andrew Johnson, Authorising Officer, Head of Commercial and Licensing and Trading Standards on the excellence of his work. Similarly, when we were joined by Mr Ian Davenport, Principal Benefits Officer (Investigations and Overpayments), I was able to comment favourably to him on his good work.
15. In this inspection period there was only one authorisation that required judicial approval. Coincidentally, it was a case of Mr Johnson's which he successfully took before the magistrates only two weeks after the start of the new regime.

16. None of the failings reported by Mr Wright in 2010 in the completion of the authorisation forms was to be seen in the forms I examined for the present inspection.

**CCTV CONTROL ROOM**

17. I am very grateful to Mr Ged McGee, Head of Community Safety, for his taking the time to explain the working of the new CCTV control room. The room was opened in January 2013 with 88 cameras in use. Bury Council does not use them for any covert surveillance at all. They are used for overt surveillance and are shared by the Police and the Department for Work and Pensions. Any covert activity by either of those two bodies is regulated through their own RIPA authorisations copies of which are kept in the control room. A lively discussion on matters of current interest followed.

**CONCLUSIONS**

18. In my estimation this was a very satisfactory inspection. All those who contributed in any way to its success deserve congratulation. Mr Kelley can be confident that under his leadership there is a RIPA regime well placed to comply fully with all RIPA requirements. I am most grateful for the warm welcome I was given by everyone and for all the arrangements that had been made by Ms Hammond and Ms Green.

**RECOMMENDATION**

19. I have one recommendation; the Council to consider the amendment of the Policy Guide and its associated forms as set out in paragraphs eight, nine and ten above.

**His Honour David Hodson**  
**Assistant Surveillance Commissioner.**

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# REPORT FOR INFORMATION

<b>Agenda Item</b>	
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**MEETING:** **AUDIT COMMITTEE**

**DATE:** **3<sup>rd</sup> MARCH 2014**

**SUBJECT:** **FINANCIAL MONITORING REPORT – APRIL 2013 TO DECEMBER 2013**

**REPORT FROM:** **ASSISTANT DIRECTOR OF RESOURCES (FINANCE AND EFFICIENCY)**

**CONTACT OFFICER:** **S Kenyon**

**TYPE OF DECISION:** **NON-KEY DECISION**

**FREEDOM OF INFORMATION/STATUS:** This paper is within the public domain

**SUMMARY:** To up-date the Committee on the authority’s financial position in line with the Committee’s Statement of Purpose to *‘provide....independent scrutiny of the authority’s financial and non-financial performance to the extent that it affects the authority’s exposure to risk and weakens the control environment’.*

The report shows that the authority is projecting an overspending of **£0.085m** for the year based on spending and income information as at 31<sup>st</sup> December 2013.

**OPTIONS & RECOMMENDED OPTION** The Committee is asked to note the contents of the report.

**IMPLICATIONS:**

**Corporate Aims/Policy Framework:** Do the proposals accord with Policy Framework? Yes.

**Comments of s151 Officer:** Budget monitoring falls within the appropriate statutory duties and powers and is a requirement of the Council’s Financial Regulations to which Financial Regulation B: Financial Planning 4.3. (Budget Monitoring

## Document Pack Page 18

and Control) relates. The report has been prepared in accordance with all relevant Codes of Practice.

There may be risks arising from any changes to service levels or service patterns that result from any remedial action taken to address the budget position. These will be identified by Directors when savings plans are considered by Members at the quarterly Star Chamber meetings.

**Comments of Executive Director of Resources:**

The successful management of the Council's financial resources is central to the Council's Financial Strategy. Successful budget monitoring provides early warning of potential major overspends or underspendings against budget of which Members need to be aware.

This report draws Members attention to the fact that, based on the most prudent of forecasts, several budget hotspots exist which will need remedial action in the coming weeks and months. Members and officers will be examining these areas in more detail at the Star Chambers together with proposals for actions to be undertaken in the current year.

**Equality/Diversity implications:**

No

**Considered by Monitoring Officer:**

Budget monitoring falls within the appropriate statutory duties and powers and is a requirement of the Council's Financial Regulations to which Financial Regulation B: Financial Planning 4.3. (Budget Monitoring and Control) relates. The report has been prepared in accordance with all relevant Codes of Practice.

**Are there any legal implications?**

Yes

**Staffing/ICT/Property:**

There may be staffing implications arising from the need to address budget pressures.

**Wards Affected:**

All

**Scrutiny Interest:**

Scrutiny Committee (Internal).

**TRACKING/PROCESS****DIRECTOR: Mike Owen**

Chief Executive/ Senior Leadership Team	Cabinet	Scrutiny Committee	Council	Ward Members	Partners
3 <sup>rd</sup> February 2014	19 <sup>th</sup> February 2014	12 <sup>th</sup> February 2014			

**1.0 INTRODUCTION**

- 1.1 This report is intended to allow the Committee to keep abreast of the authority's financial position and to gauge the effectiveness of corrective action that has been determined by the Cabinet and/or Scrutiny Committee.
- 1.2 This report summarises the forecast financial position as at the end of December 2013.

**2.0 MONITORING PROCESSES**

- 2.1 The Authority's financial position is continually monitored throughout the year as follows;

**Monthly** - reports are considered by service management teams and summaries made available to specific Cabinet Members. A monthly summary of the financial position is submitted to the Senior Leadership Team and to the Cabinet Member for Resource.

**Quarterly** - detailed corporate monitoring reports based on the position at June, September, December and March are considered by the Senior Leadership Team, the Cabinet, Star Chambers and Scrutiny Committee. These set out a risk assessed summary of the financial position, explanations of major variances from budget, an assessment of the minimum level of balances, information on the forecast balances position and an assessment of performance against the objectives of the Financial Strategy (including the Golden Rules).

- 2.2 Members are also advised that **monthly** Star Chamber meetings are now taking place at the request of the Leader, to deal with particular areas where financial pressures have been identified.

**3.0 FINANCIAL POSITION**

- 3.1 The authority's overall financial position based on forecasts made using income and expenditure information as at 31<sup>st</sup> December 2013 is summarised in the table in paragraph 3.3. As Members will be aware, financial reporting involves an element of judgement, and this particularly applies to the treatment of budget pressures. Often an area of overspending identified at this point in the year will resolve itself before the end of the year following appropriate budget management action.

- 3.2 However it is felt that it is most appropriate to alert Members to potential problems at this stage so that they can monitor the situation and take ownership of the necessary remedial action and this is the basis on which the report is written.
- 3.3 In summary the outturn forecast based on the position at 31<sup>st</sup> December 2013 is:

Department	Budget £'000	Forecast £'000	Variance £'000
Adult Care Services	53,087	53,227	+140
Chief Executives	4,502	5,079	+577
Childrens Services	32,402	32,810	+408
Communities / Neighbourhoods	36,029	36,042	+13
Non-Service Specific	22,227	21,174	-1,053
<b>TOTAL</b>	<b>148,247</b>	<b>148,332</b>	<b>+85</b>

- 3.4 The projected overspend of £0.085m represents approximately 0.06% of the total net budget of £148.247m. *(This compares to forecast overspends of £0.696m at Quarter 2, and £0.202m at this stage last year).*
- 3.5 Members are particularly reminded that the position on volatile budgets such as Learning Disability and Children's Agency placements can change dramatically depending on service user numbers and case structures. Likewise, the prevailing economic climate is impacting upon levels of income, e.g. Property Services, Planning, Car Parking.

Commitment Accounting

- 3.6 Further analysis of the month 9 figures highlights;

Status	£'000	%
Spent @ 31/12/13	114,972	78
Committed @ 31/12/13	15,491	10
Forecast (1/1/14 - 31/3/14)	17,869	12
<b>Total</b>	<b>148,332</b>	<b>100</b>

- 3.7 Spend and Commitment are clearly factual, however "forecast" is based upon an assessment of a wide range of factors and risks.

Balance Sheet Monitoring

- 3.8 Previous reports have focussed on the Council's "in year" revenue budget position. The Chair has requested that additional Balance Sheet / Treasury Management information should be included to assist Members' wider understanding.
- 3.9 The following key indicators have been extracted as at Month 9;



<b>Indicator</b>	<b>Position at 1/4/13</b>	<b>Position at 31/12/13</b>
<b>Treasury Performance</b>		
Total Sums Invested	£17.5m	£55.4m
% Return on Investments	1.67%	0.67%*
Total Sums Borrowed	£203.7m	£220.9m
% Cost of Borrowing	4.43%	4.10%
<b>Assets</b>		
Stocks & Work in Progress	£1.285m	£0.951m
Long Term Debtors	£0.280m	£0.162m
Sundry Debtors	£35.797m	£26.504m
Cash	£6.771m	£2.544m
<b>Liabilities</b>		
Sundry Creditors	£24.759m	£13.787m
Provisions	£2.845m	£2.469m

*Note\* - compares to sector benchmark of 0.50%*

- 3.10 It should be noted that these figures represent a "snapshot" of the Council's Balance Sheet at a given point in time, and are by no means indicative of the Council's overall financial position.
- 3.11 From a monitoring perspective however they provide useful information, and trends can be plotted as the exercise is repeated in future quarters.

#### Minimum Level of Balances

- 3.12 The actual position on the General Fund balance is shown below:

	<b>£m</b>
<b>General Fund Balance 1st April 2013 per Accounts</b>	10.730
Less : Minimum balances to be retained in 2013/14	-4.400
Less : Forecast overspend	-0.085
Less : Earmarked to Fund Equal Pay Settlements	-1.500
<b>Available balances at 31<sup>st</sup> March 2014</b>	<b>4.745</b>

- 3.13 Based on the information contained in this report, on the risk assessments that have been made, on the forecast outturn position for 2013/14 and using the latest available information on the likely achievement of savings options it is clear that there is no reason to take the minimum balances above the existing level of £4.4m.
- 3.14 Additionally, in view of the fact that the minimum level of balances figure includes a provision of £1.5m relating to a cushion for 'Unpredictable and Demand led Expenditure' then it is clear that the authority's forecast overall financial position does not present an unacceptable risk at this point.

**S. Kenyon**  
**Assistant Director of Resources (Finance & Efficiency)**

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***Background documents:***

Further information available from the Assistant Director of Resources (Finance & Efficiency)

***For further information on the details of this report, please contact:***

Mr S Kenyon, Assistant Director of Resources (Finance & Efficiency),  
Tel. 0161 253 6922,  
Email: S.Kenyon@bury.gov.uk

# REPORT FOR DECISION



<b>Agenda Item</b>	
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**MEETING:** **AUDIT COMMITTEE**

**DATE:** **3<sup>rd</sup> MARCH 2014**

**SUBJECT:** **QUARTERLY GOVERNANCE STATEMENT OCTOBER TO DECEMBER 2013**

**REPORT FROM:** **HEAD OF INTERNAL AUDIT**

**CONTACT OFFICER:** **BARRIE STROTHERS (Head of Internal Audit)**

**TYPE OF DECISION:** **NON-KEY DECISION**

**FREEDOM OF INFORMATION/STATUS:** This paper is within the public domain.

**SUMMARY:** This report presents Members with a quarterly update on the Annual Governance Statement (Approved by Audit Committee June 2013).

**OPTIONS & RECOMMENDED OPTION** The Committee is asked to note the contents of the report.

Members are requested to consider the revised corporate risks at Appendix A.

**IMPLICATIONS:**

**Corporate Aims/Policy Framework:** Do the proposals accord with Policy Framework? **Yes.**

**Financial Implications and Risk Considerations:** The Annual Governance Statement is a fundamental document for recording, monitoring and communicating the effectiveness of the internal control framework within the Council.

**Statement by Assistant Director of Resources (Finance & Efficiency):** Failure to maintain an internal control / governance framework jeopardises the Council's ability to deliver economy, efficiency and effectiveness in the delivery of its priorities / ambitions.

- Equality/Diversity implications:** No
- Considered by Monitoring Officer:** Yes - Through the Governance Panel; the Monitoring Officer has raised no issues that require inclusion in the Quarterly Statement.
- Are there any legal implications?** No
- Staffing/ICT/Property:** No
- Wards Affected:** All
- Scrutiny Interest:** No

**TRACKING/PROCESS**

**DIRECTOR: RESOURCES**

Chief Executive/ Strategic Leadership Team	Cabinet Member/Chair	Ward Members	Partners
Scrutiny	Cabinet	Committee	Council
		Audit 03/03/14	

**1.0 Purpose of the Annual Governance Statement**

- 1.1 The purpose of the Annual Governance Statement is to provide a continuous review of the effectiveness of an organisation’s internal control and risk management systems, so as to give an assurance as to their effectiveness.
- 1.2 There is a mandatory requirement to produce a Governance Statement to accompany the Authority’s Statement of Accounts – as presented in June 2013.
- 1.3 It is accepted good practice to continuously review the internal control framework, and make interim reports to those charged with governance – the Audit Committee.
- 1.4 The Council has adopted this practice since 2008, and refers reports to the Audit Committee on a quarterly basis.

**2.0 Matters for consideration**

2.1 Members are asked to:

- Note the report

**3.0 Quarterly Update**

3.1 Risk Management

3.1.1 Risk registers are held at both Corporate and Departmental level.

3.1.2 The registers are web-based to allow “real time” update as and when circumstances require.

3.1.3 An officer (Operational) level risk management group comes together regularly to discuss the Risk Management Strategy and Departmental Risk Registers.

3.1.4 Similarly, a Member level Corporate Risk Management Group sits quarterly to review registers and action plans. The group last met on 5th November 2013 to review and update the Corporate Risk Register.

3.1.5 The Risk Management Annual Report has been presented to this Committee (25<sup>th</sup> June 2013), the Cabinet (10<sup>th</sup> July 2013) and Council (11<sup>th</sup> July 2013).

3.1.6 The Corporate Risk Register for the period October to December has been updated to reflect the latest high level risks facing the organisation; see Appendix A attached.

3.2 Business Continuity

3.2.1 The Authority has ranked key services in terms of required recovery times, and business continuity plans continue to be developed.

3.2.2 A database has now been developed to host these plans, and ensure appropriate arrangements are in place where services are inter-dependant. All the 253 service plans have now been uploaded and the focus now is on improving the information held within the database.

3.3 Budget Monitoring

3.3.1 Budget monitoring is undertaken on a monthly basis, and quarterly reports are produced for Members.

3.3.2 The quarter 3 statement (i.e. April to December) provides an in-year summary of spend to date and a forecast outturn for the year. This alerts Directors to any pressures which they are required to address when preparing the 2014/15 budget.

3.3.3 As such, it is critical that forecasts are accurate; evidence based, and have been through a rigorous quality assurance process.

3.3.4 The Quarter 3 report is scheduled to go to Cabinet on 19<sup>th</sup> February 2014, and will be reported in summary later in the agenda.

3.4 Work of Internal Audit

3.4.1 The Internal Audit Section operates according to a risk based Audit Plan.

3.4.2 During the period April to December 2013, the section has examined the following fundamental financial system(s);

- Payroll
- Housing Benefit
- Treasury Management
- Debtors
- NNDR (Business Rates)
- Housing Rent
- Cash and banking

3.4.3 The Internal Audit section produces reports which rank recommendations according to urgency / priority. The reports completed during the first three quarters produced a total of 171 recommendations. To date, none of these recommendations have been ranked RED – which would warrant specific inclusion in the Governance Statement.

3.5 Work of Governance Panel

3.5.1 The Governance Panel has now met regularly since its inception in November 2008, and continues to be a valuable arena to exchange information / concerns regarding the Council's governance arrangements.

3.5.2 The Panel comprises:

- Director of Resources
- Director of Legal & Democratic Services (Monitoring Officer)
- Assistant Director of Resources (Finance & Efficiency) (s151 Officer)
- Head of Internal Audit (Anti-Money Laundering Officer)

3.5.3 The Panel last met on 16<sup>th</sup> January 2014; no concerns were raised which required specific reference in this update.

3.6 Gifts & Hospitality

3.6.1 A web-based system operates for members and officers to report offers of gifts and hospitality, and any interests which may conflict with their role.

3.6.2 A full update of declarations for the period ended 31<sup>st</sup> December 2013 is reported elsewhere on this agenda.

3.7 Sickness Update

3.7.1 The Audit Committee has shown considerable interest in sickness absence, requesting absence data and action plan updates from Directors upon request.

3.7.2 The following table contains the sickness absence figures per head (Full Time Equivalent FTE) for the Council and the individual four Directorates over the previous financial year and the first three quarters of 2013/14.

<b>Directorate</b>	<b>2012/13 Full Year</b>	<b>2013/14 Qtr1</b>	<b>2013/14 Qtr2</b>	<b>2013/14 Qtr3</b>
Adult Care Services	15.1	14.0	13.2	<b>13.3</b>
Chief Executive's	6.3	7.3	7.6	<b>7.4</b>
Children's Services	8.3	8.5	8.6	<b>9.0</b>
Communities & Neighbourhoods	9.6	9.4	9.9	<b>10.9</b>
<b>Total days lost per FTE</b>	<b>9.4</b>	<b>9.4</b>	<b>9.5</b>	<b>9.9</b>

*Note – the quarterly figures are calculated on a rolling 12 month basis and do not reflect the quarter in isolation.*

3.7.3 To put some context to the figures – currently, Children's Services employ 58% of all Council staff, with Communities & Neighbourhoods employing 21%, Adult Care Services 14% and Chief Executive's the remaining 7%.

3.7.4 The conclusions that we can draw from the table is that the Council's sickness levels have risen by 5% over the year to date. The increases have occurred over three Departments with the one exception of Adult Care Services, which saw a fall of 12%.

3.7.5 Going forward, sickness absence figures will continue to be reported to the Audit Committee in future quarterly updates.

**4.0 Conclusion**

- 4.1 This report provides an assurance, and presents evidence that the Council reviews its internal control / governance mechanisms on a continuous basis.
- 4.2 There have been no significant internal control issues during the period covered by this report.
- 4.3 The control environment will continue to be monitored throughout the year, and the Audit Committee will continue to receive updates on a quarterly basis.

**Barrie Strothers**  
**Head of Internal Audit**

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***Background documents:***

Risk Registers

Internal Audit Reports

Gifts & Hospitality Register

Minutes of Governance Panel

***For further information on the details of this report, please contact:***

Mr B Strothers, Head of Internal Audit

Tel. 0161 253 5084

Email: [b.e.strothers@bury.gov.uk](mailto:b.e.strothers@bury.gov.uk)



**Corporate Risk Register – Period October – December 2013.**

Ref	Risk Event	Risk Owner	Impact (New)	Likelihood (New)	Quarter 1 Status	Quarter 2 Status	Quarter 3 Status	Quarter 4 Status	Measures
1	The potential liability facing the Council in respect of Equal Pay significantly weakens the Council's financial position	Mike Owen / Guy Berry	2	1	2	2	2		Risk substantially addressed as most cases have now been settled. To remain on register till exercise complete.
2	There is no robust financial strategy or change management strategy to address effectively the significant funding reductions that the Council faces over the next 3 years and beyond in order to ensure there is a sustainable and balanced budget	Steve Kenyon	4	2	6	6	8		Risk mitigated as balanced budget is in place for 2013/14, and significant savings options have been identified for 2014/15.  These actions are counterbalanced by uncertainty around Comprehensive Spending Review (June 2013); hence scores remain unchanged.  Impact of CSR to be reported when analysed.
3	The budget strategy fails to address the Council's priorities and emerging issues, e.g. demographic and legislative changes	Mike Owen/Steve Kenyon	4	2	6	6	8		Income pressures largely addressed in 2013/14 budget. Demand pressures remain a risk and will be monitored / managed through Star Chamber process.

Ref	Risk Event	Risk Owner	Impact (New)	Likelihood (New)	Quarter 1 Status	Quarter 2 Status	Quarter 3 Status	Quarter 4 Status	Measures
4	The budget strategy does not reflect, or respond to, national policy developments, e.g. Council Tax Support scheme and changes to the Business Rates regime	Mike Owen/Steve Kenyon	4	3	12	12	12		Monitoring arrangements in place – to be addressed monthly and through Star Chamber process.
5	The Council's asset base is not operated to its maximum effect to deliver efficiency savings and ensure priorities are fulfilled. Ineffective use of assets presents both a financial and a performance risk.	Mike Owen	2	2	6	6	4		Asset Management Plan now in place; office accommodation moves took place Summer 2013.
6	The Council needs to be prepared for the impact of the Localism Act; this presents both opportunities, e.g. power of competency & community right to challenge	Jayne Hammond			2	2	Risk Removed		A process for dealing with applications has been approved by Cabinet; none received to date.
7	The amount of money received from the NHS to manage public health is insufficient to meet the performance outcomes expected by Government	Pat Jones-Greenhalgh	2	2	6	6	4		Settlement now received giving greater certainty; risk remains around performance of contracts inherited from PCT.

Ref	Risk Event	Risk Owner	Impact (New)	Likelihood (New)	Quarter 1 Status	Quarter 2 Status	Quarter 3 Status	Quarter 4 Status	Measures
8	The Council fails to manage the expectations of residents, service users & other stakeholders in light of funding reductions	Mike Owen	3	2	3	3	6		Widespread consultation took place re: Budget / Plan for Change. Consultation taking place in respect of individual service reviews.
09	The Government's changes to Council Tax Benefit impact adversely upon the Public / Vulnerable People. Also budgetary risk to the Council in the event of claimant numbers rise	Mike Owen	3	3	9	9	9		Impact on residents being managed through Welfare Reform Board. Budgetary impact to be assessed through monthly monitoring / Star Chamber process.
10	Changes resulting from the wider Welfare reform agenda impact adversely upon the public / vulnerable people.	Mike Owen	3	3	9	9	9		Welfare Reform Board coordinating action plan with partner organizations (e.g. Six Town, CAB)
11	That the scale and pace of Public Sector reform impacts adversely upon key Council Services, compounded by the loss of capacity following staff leaving the Council (420+ since 2010)	Mike Kelly	4	2	8	8	8		Workforce Development Plan now in place and individual service workforce plans being developed to ensure continuity / succession planning.

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# REPORT FOR DECISION



<b>Agenda Item</b>	
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**MEETING:** **AUDIT COMMITTEE**

**DATE:** **3<sup>rd</sup> MARCH 2014**

**SUBJECT:** **GIFTS & HOSPITALITY**

**REPORT FROM:** **ASSISTANT DIRECTOR OF RESOURCES (FINANCE & EFFICIENCY)**

**CONTACT OFFICER:** **S. Kenyon (Assistant Director of Resources)**

**TYPE OF DECISION:** **NON-KEY DECISION**

**FREEDOM OF INFORMATION/STATUS:** This paper is within the public domain

**SUMMARY:** This report presents Members with an update on the system to declare, monitor & report gifts and hospitality offered to / received by staff and Members.

The report presents a summary of declarations made for the period October 2013 to December 2013.

**OPTIONS & RECOMMENDED OPTION** The Committee is asked to note the contents of the report.

**IMPLICATIONS:**

<b>Corporate Aims/Policy Framework:</b>	Do the proposals accord with Policy Framework? Yes.
<b>Statement by s151 Officer:</b>	An effective process to record, monitor, and report offers of gifts and hospitality serves to protect both staff and the Authority against allegations of improper conduct.
<b>Statement by Executive Director of Resources:</b>	A robust mechanism to control offers of gifts and hospitality is a fundamental aspect of the Council's corporate governance / ethical framework

**Equality/Diversity implications:** No

**Considered by Monitoring Officer:** Yes

**Are there any legal implications?** No

**Staffing/ICT/Property:** No

**Wards Affected:** No

**Scrutiny Interest:** Scrutiny may wish to examine registers of Gifts & Hospitality received

**TRACKING/PROCESS**

**EXECUTIVE DIRECTOR: Mike Owen**

Chief Executive/ SLT	Caninet Member/Chair	Ward Members	Partners
Scrutiny Committee	Cabinet	Committee	Council
		Audit 3/3/14	

1. **INTRODUCTION**

- 1.1 A robust mechanism to control offers of gifts and hospitality is a fundamental aspect of the Council’s corporate governance / ethical framework.
- 1.2 The Council’s Local Code of Corporate Governance reinforces this through the core principle of “Promoting the values of the authority and demonstrating the values of good governance through behaviour”.
- 1.3 The Audit Committee approved a report outlining the “web-based” system for declarations at its meeting of 19<sup>th</sup> April 2007, and has received regular updates at subsequent meetings.
- 1.4 This report summarises declarations made for the period October to December 2013.

2. **PROGRESS TO DATE**

- 2.1 Comprehensive guidance relating to gifts and hospitality is included within the “Employee’s Code of Conduct”; issued to every member of staff and available on the intranet.
- 2.2 Guidance on the “Corporate HR” area of the intranet has been revised to make it more readily accessible.

- 2.3 A "web based" mechanism for Members to record declarations has been developed jointly by Internal Audit and the Corporate HR Division, and implemented with effect from September 2007.
- 2.4 The system now allows officers and members to record potential "conflicts of interest", for example where a member of staff may be related to contractors working for the Council.
- 2.5 A separate mechanism applies for teachers; registers are maintained at school buildings, reported to Boards of Governors, and examined by Internal Audit.
- 2.6 Analysis of registers completed for the period reveals the following;

<b>Department</b>	<b>Number of Declarations</b>	<b>Lowest Value (£)</b>	<b>Highest Value (£)</b>	<b>Average Value (£)</b>
EDS	1	20	20	20
Childrens Services	1	10	10	10
Adults Services	2	10	50	30
Chief Executives	3	4	30	15
Members	3	35	70	47
Conflicts of Interest	0	n/a	n/a	n/a
<b>Total</b>	<b>10</b>	<b>4</b>	<b>70</b>	<b>27</b>

### **3. ISSUES**

- 3.1 Whilst the use of a web based register is efficient, managers must ensure a procedure is in place for staff without access to intranet.

### **4. RISKS**

- 4.1 The system only picks up declarations made by staff; clearly it is the items which are not being declared that are potentially inappropriate.
- 4.2 The overall internal control framework, the anti-fraud strategy, the Council's Whistleblowing Policy, and the work of Internal Audit all offer additional assurance in this respect.

### **5. FUTURE ACTIONS**

- 5.1 Departmental managers are responsible for the operation of the register in their area, however compliance with the declaration process will be continually monitored by the Internal Audit Section.

### **6. RECOMMENDATIONS**

- 6.1 Members are requested to;
  - (a) affirm their support for the importance of registering gifts and hospitality
  - (b) endorse the current approach for declaring offers of gifts / hospitality

(c) note the declarations made to date.

**Steve Kenyon**  
**Assistant Director of Resources (Finance & Efficiency)**

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***Background documents:***

Registers available for inspection if requested.

***For further information on the details of this report, please contact:***

Mr S Kenyon, Assistant Director of Resources (Finance & Efficiency)  
Tel. 0161 253 6922,  
Email: S.Kenyon@bury.gov.uk





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# Certification of grants and returns 2012/13

Bury Metropolitan Borough Council

December 2013

DRAFT

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

**Trevor Rees**  
*Partner*

Tel: 0161 246 4063  
trevor.rees@kpmg.co.uk

**Rachel Lindley**  
*Manager*

Tel: 0113 231 3551  
rachel.lindley@kpmg.co.uk

**Adam Langan**  
*Assistant Manager*

Tel: 0161 246 4938  
adam.langan@kpmg.co.uk

	<b>Page</b>
■ <b>Headlines</b>	2
■ <b>Summary of certification work outcomes</b>	3
■ <b>Fees</b>	5

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

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<p><b>Introduction and background</b></p>	<p><b>This report summarises the results of work on the certification of the Council's 2012/13 grant claims and returns.</b></p> <p>In 2012/13 we certified:</p> <ul style="list-style-type: none"> <li>– Four returns with a total value of £132m.</li> </ul>	<p>-</p>
<p><b>Certification results</b></p>	<p><b>We issued unqualified certificates for all grants and returns.</b></p>	<p>Pages 3 – 4</p>
<p><b>Audit adjustments</b></p>	<p><b>Adjustments were necessary to one of the Council's grants and returns as a result of our certification work this year.</b></p> <ul style="list-style-type: none"> <li>■ The housing and council tax benefit claim was amended due to benefits system having incorrectly calculated the cap limits. The full population of cases affected by this system error was tested and resulted in an adjustment of £2,660 on Rent Rebate subsidy claimed; and</li> <li>■ There were 2 additional minor amendments to the housing and council tax benefit claim identified by the benefits team due to errors with individual cases.</li> <li>■ In 11/12 the claim was qualified due to rent rebate underpayment.</li> </ul>	<p>Pages 3 – 4</p>
<p><b>The Council's arrangements</b></p>	<p><b>The Council has good arrangements for preparing its grants and returns and supporting our certification work.</b></p> <p>All claims were submitted for audit on time and with good quality working papers. This has helped us keep our fee within the indicative value recommended by the Audit Commission.</p>	<p>Page 5</p>
<p><b>Fees</b></p>	<p><b>The Audit Commission changed its fee regime for certifying grants and returns in 2012/13, and set an indicative fee for the Council of £12,700. We have delivered the audit within this fee:</b></p> <ul style="list-style-type: none"> <li>■ This represents a £11,490, 47%, reduction on the 2011/12 audit fee; and</li> <li>■ We expect this to reduce further next year as the number of claims that we audit will reduce.</li> </ul>	<p>Page 6</p>



Overall, we certified four grants and returns:

- Three were unqualified with no amendment;
- One was unqualified but required some amendment to the final figures; and

Detailed comments are provided overleaf.

Detailed below is a summary of the key outcomes from our certification work on the Council's 2012/13 grants and returns, showing where either audit amendments were made as a result of our work or where we had to qualify our audit certificate.

A qualification means that issues were identified concerning the Council's compliance with a scheme's requirements that could not be resolved through adjustment. In these circumstances, it is likely that the relevant grant paying body will require further information from the Council to satisfy itself that the full amounts of grant claimed are appropriate.

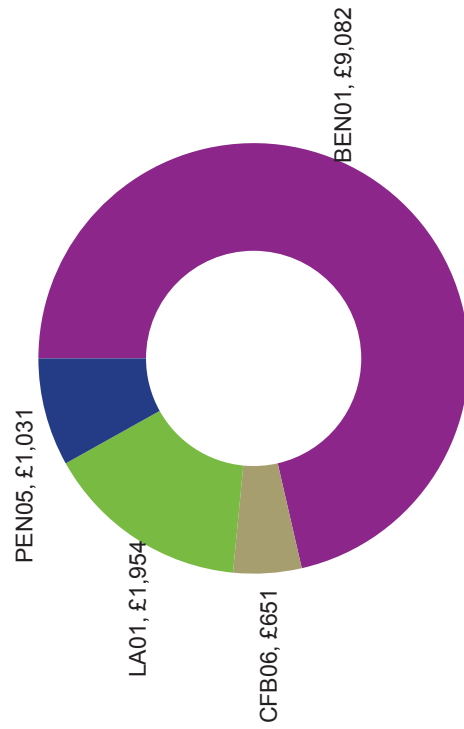
	Comments overleaf	Qualified certificate	Significant adjustment	Minor adjustment	Unqualified certificate
Housing & Council Tax Benefit	1				
Pooling of Housing Capital Receipts					
National Non Domestic Rates return					
Teachers' Pensions return					
		-	-	1	3

This table summarises the key issues behind each of the adjustments or qualifications that were identified on the previous page.

Ref	Summary observations	Amendment
1	<p><b>Housing and Council Tax Benefit</b></p> <ul style="list-style-type: none"> <li>■ The Civica Open Revenues benefits system in use at the Council had experienced issues during 2012/13 which had resulted in the claim being misstated. This was due to the subsidy cap limits had being incorrectly applied on the system and this fault was common across many councils who used the Civica Open Revenues system. This resulted in a reduction of total subsidy claimed of £2,571;</li> <li>■ The Benefits team identified four instances of issues with individual cases where, due to system issues, overpayments had not been produced. These cases were manually amended and resulted in a net reduction in total subsidy claimed of £37;</li> <li>■ In all cases the full population that could be affected by the error were tested and the exact misstatement was identified, therefore an amendment to the claim could be made and no qualification letter was required;</li> <li>■ None of the above issues were repeat errors from the previous year. Additional testing was performed on the issues identified in the previous years and no further issues were identified.</li> </ul>	-£2,608

Our overall fee for the certification of grants and returns has been contained within the original estimate.

Breakdown of certification fees 2012/13



Breakdown of fee by grant/return		
	2012/13 (£)	2011/12 (£)
Housing and Council Tax Benefit	9,082	13,050
Housing subsidy	-	3,160
Pooling of Housing Capital Receipts	651	2,410
National Non Domestic Rates return	1,954	3,275
Teachers' Pensions return	1,013	2,295
<b>Total fee</b>	<b>12,700</b>	<b>24,190</b>

The Audit Commission changed its fee regime for certifying grants and returns in 2012/13. It set an indicative fee for the Council of £12,700. Based on the actual work we carried out the actual fee we charged was in line with the indicative fee.



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# External Audit Plan 2013/14

Bury Metropolitan Borough  
Council

March 2014



The contacts at KPMG in connection with this report are:

**Trevor Rees**  
*Partner*

*KPMG LLP (UK)*

Tel: 0161 246 4063  
trevor.rees@kpmg.co.uk

**Jillian Burrows**  
*Senior Manager*  
*KPMG LLP (UK)*

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

**Adam Langan**  
*Assistant Manager*  
*KPMG LLP (UK)*

Tel: 0161 246 4938  
adam.langan@kpmg.co.uk

	<b>Page</b>
<b>Report sections</b>	
■ Introduction	2
■ Headlines	3
■ Our audit approach	5
■ Key financial statements audit risks	11
■ VFM audit approach	15
■ Audit team, deliverables, timeline and fees	19
<b>Appendices</b>	
1. Balance of internal controls and substantive testing	23
2. Independence and objectivity requirements	24
3. Quality assurance and technical capacity	25
4. Materiality	27

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.audit-commission.gov.uk](http://www.audit-commission.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. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk), who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3<sup>rd</sup> Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to [complaints@audit-commission.gsi.gov.uk](mailto:complaints@audit-commission.gsi.gov.uk). Their telephone number is 0303 444 8330.

This document describes how we will deliver our audit work for Bury Metropolitan Borough Council.

### Scope of this report

We are pleased to be appointed as your external auditors for 2013/14. This document supplements our *Audit Fee Letter 2013/14* which was issued to the Executive Director of Finance and Resources in April 2013. It describes how we will deliver our financial statements audit work for Bury Metropolitan Borough Council ('the Authority'). It also sets out our approach to value for money (VFM) work for 2013/14. We are required to satisfy ourselves that your accounts comply with statutory requirements and that proper practices have been observed in compiling them. We use a risk based audit approach.

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

### Statutory responsibilities

Our statutory responsibilities and powers are set out in the *Audit Commission Act 1998* and the Audit Commission's *Code of Audit Practice*.

The *Code of Audit Practice* summarises our responsibilities into two objectives, requiring us to review and report on your:

- *financial statements (including the Annual Governance Statement)*: providing an opinion on your accounts; and
- *use of resources*: concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The Audit Commission's *Statement of Responsibilities of Auditors and Audited Bodies* sets out the respective responsibilities of the auditor and the Authority.

### Structure of this report

This report is structured as follows:

- Section 2 includes our headline messages, including any key risks identified this year for the financial statements and Value for Money audit.
- Section 3 describes the approach we take for the audit of the financial statements.
- Section 4 provides further detail on the financial statements audit risks.
- Section 5 explains our approach to VFM work.
- Section 6 provides information on the audit team, our proposed deliverables, the timescales and fees for our work.

### Acknowledgements

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

Section two  
**Headlines**



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

<p><b>Audit approach</b></p>	<p>The Council has brought forward the close down of the accounts in order to have the statutory accounts approved by the Audit Committee on 15th July 2014. As a result the timing of our audit has been brought forward by 3 weeks. Our overall audit approach is unchanged from last year.</p> <p>Our work is carried out in four stages and the timings for these, and specifically our on site work, have been agreed with Andrew Baldwin (Head of Finance).</p> <p>Our audit strategy and plan remain flexible as risks and issues change throughout the year. We will review the initial assessments presented in this document throughout the year and should any new risks emerge we will evaluate these and respond accordingly.</p>
<p><b>Key financial statements audit risks and areas of audit focus</b></p>	<p>We have completed our initial risk assessment for the financial statements audit and have identified the following significant risk:</p> <ul style="list-style-type: none"> <li>■ LGPS Triennial Valuation – the Local Government Pension Scheme has undergone a triennial valuation in year. A large volume of data is provided by the Authority to the actuary in order to carry out this triennial valuation and inaccuracies in this data affect the actuarial figures in the accounts. As part of our audit, we will test the accuracy of the data provided by the Council and review the balances disclosed in the accounts against information provided by the actuary.</li> </ul> <p>We have also identified the following areas of audit focus:</p> <ul style="list-style-type: none"> <li>■ Savings Plan – the Authorities performance against budget and VFM requirements in the context of the substantial savings required in current and future years due to further reductions to local authority funding . In conjunction with our VFM work and as part of our audit we will perform procedures to critically assess the authorities performance in controlling and managing its saving plan; and</li> <li>■ Early Accounts Closedown – the potential that the Authority may need to include more estimates in the final accounts such as accruals and pension balances due to the early close down of accounts. This will be reflected in our audit approach and consideration will be given to the supporting evidence provided for such estimates.</li> </ul> <p>These are described in more detail on pages 11 to 14. We will assess the Authority’s progress in addressing these risk areas as part of our interim work and conclude this work at year end.</p>
<p><b>VFM audit approach</b></p>	<p>We have completed our initial risk assessment for the VFM conclusion and have not identified any significant risks at this stage.</p>

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

**Audit team, deliverables, timeline and fees**

We have refreshed our audit team this year. Jillian Burrows has returned as the Senior Manager and Adam Langan is the new Assistant Manager. Jillian was Senior Manager on the Bury MBC audit four years ago. Adam has worked on the Bury MBC Audit for the past three years.

Our main year end audit is currently planned to commence on 9<sup>th</sup> June. Upon conclusion of our work we will again present our findings to you in our *Report to Those Charged with Governance (ISA 260 Report)*.

The planned fee for the 2013/14 audit is £154,170. This is unchanged from the position set out in our *Audit Fee Letter 2013/14*.

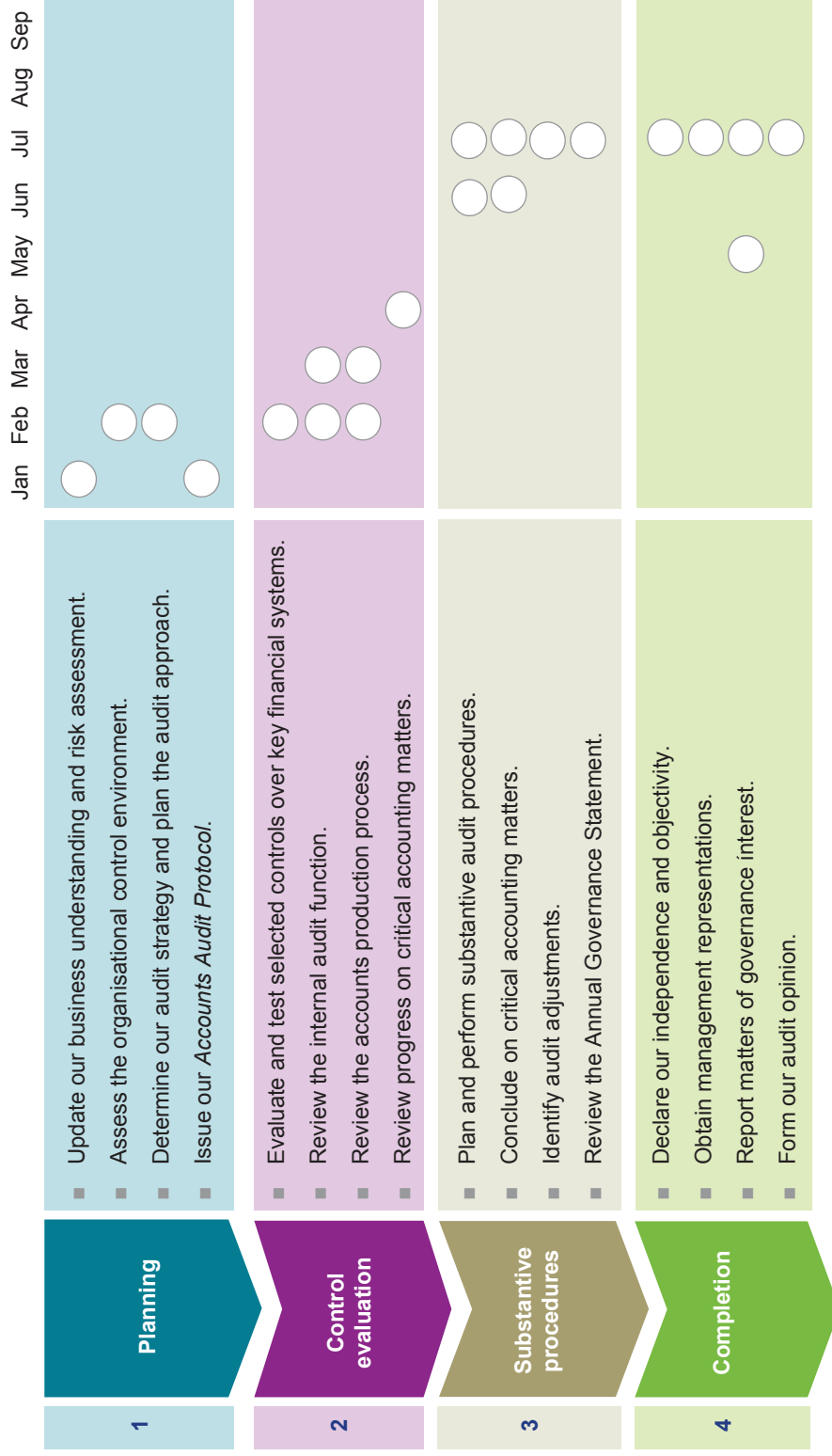


## Section three Our audit approach

We undertake our work on your financial statements in four key stages during 2014:

- **Planning**  
(January to February).
- **Control Evaluation**  
(February to April).
- **Substantive Procedures**  
(June to July).
- **Completion** (July).

We have summarised the four key stages of our financial statements audit process for you below:



## Section three Our audit approach – planning

During January and February 2014 we complete our planning work.

We assess the key risks affecting the Authority's financial statements and discuss these with officers.

We assess if there are any weaknesses in respect of central processes, including the Authority's IT systems, that would impact on our audit.

### Planning

- Update our business understanding and risk assessment.
- Assess the organisational control environment.
- Determine our audit strategy and plan the audit approach.
- Issue our *Accounts Audit Protocol*.

Our planning work takes place in January and February 2014. This involves the following aspects:

In particular risk management, internal control and ethics and conduct have implications for our financial statements audit. The scope of the work of your internal auditors also informs our risk assessment.

The Authority relies on information technology (IT) to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations. Whilst we undertake some general IT controls work, we also focus on testing the specific applications and reports that are pivotal to the production of the financial statements.

### Audit strategy and approach to materiality

Our audit is performed in accordance with International Standards on Auditing (ISAs) (UK and Ireland). The Engagement Lead sets the overall direction of the audit and decides the nature and extent of audit activities. We design audit procedures in response to the risk that the financial statements are materially misstated. The materiality level is a matter of judgement and is set by the Engagement Lead.

In accordance with ISA 320 'Audit materiality', we plan and perform our audit to provide reasonable assurance that the financial statements are free of material misstatement and give a true and fair view. Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.

An indicative level of materiality for 2013/14 is £10.789 million. This is based on the prior year Statement of Accounts and on our understanding of the projected outcome for the current year. This figure is a guide only. The overriding objective is to preserve the true and fair view presented by the financial statements and we will consider any audit differences, individually and cumulatively, in that context. See appendix 4 for further details.

### Business understanding and risk assessment

We update our understanding of the Authority's operations and identify any areas that will require particular attention during our audit of the Authority's financial statements.

We identify the key risks affecting the Authority's financial statements. These are based on our knowledge of the Authority, our sector experience and our ongoing dialogue with Authority staff. Any risks identified to date through our risk assessment process are set out in this document. Our audit strategy and plan will, however, remain flexible as the risks and issues change throughout the year. It is the Authority's responsibility to adequately address these issues. We encourage the Authority to raise any technical issues with us as early as possible so that we can agree the accounting treatment in advance of the audit visit.

We meet with the head of financial management on a bi-monthly basis to consider issues and how they are addressed during the financial year end closedown and accounts preparation.

### Organisational control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would impact on our audit.

**We will report on any significant matters arising from the work of the auditors of Six Town Housing which we seek to rely on to support our audit of the Authority's group accounts.**

**We will issue our *Accounts Audit Protocol* following completion of our planning work.**

#### **Group audit**

In addition to the Authority we deem Six Town Housing to be significant in the context of the group audit.

To support our audit work on the Authority's group accounts, we seek to place reliance on the work of Baker Tilly who are the auditors to this subsidiary. We will liaise with them in order to confirm that their programme of work is adequate for our purposes and they satisfy professional requirements.

We will report the following matters in our *ISA 260 Report*:

- any deficiencies in the system of internal controls or instances of fraud which the subsidiary auditors identify;
- any limitations on the group audit, for example, where the our access to information may have been restricted; and
- any instances where our evaluation of the work the subsidiary auditors gives rise to concern about the quality of that auditor's work.

#### **Accounts audit protocol**

At the end of our planning work we will issue our *Accounts Audit Protocol*. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide during our interim and final accounts visits.

We met with Andrew Baldwin to discuss mutual learning points from the 2012/13 audit. These will be incorporated into our work plan for 2013/14. We revisit progress against areas identified for development as the audit progresses.



**During February to April 2014 we will complete our interim audit work.**

**We assess if controls over key financial systems were effective during 2013/14. We work with your internal audit team to avoid duplication.**

**We work with your finance team to enhance the efficiency of the accounts audit.**

**We will report any significant findings arising from our work to the Audit Committee.**

Our interim visit on site will be completed during 24<sup>th</sup> February – 7<sup>th</sup> March. During this time we will complete work in the following areas:

**Control Evaluation**

- Evaluate and test controls over key financial systems identified as part of our risk assessment.
- Review the work undertaken by the internal audit function on controls relevant to our risk assessment.
- Review the accounts production process.
- Review progress on critical accounting matters.

**Review of internal audit**

Where we intend to rely on internal audit's work in respect of the key financial systems identified as part of our risk assessment, auditing standards require us to review aspects of their work. This includes re-performing a sample of tests completed by internal audit. We will provide detailed feedback to the Head of Internal Audit at the end of our interim visit.

**Accounts production process**

We raised no recommendations in our 2012/13 Report to Those Charged with Governance (ISA 260 Report) relating to the accounts production process. The Council has brought forward the accounts production process in order to have the statutory accounts approved by the Audit Committee on 15th July 2014. A detailed accounts close down plan has been developed by the Head of Financial Management in order to meet this deadline.

**Critical accounting matters**

We will discuss the work completed to address the specific risks we identified at the planning stage. Wherever possible, we seek to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

**Controls over key financial systems**

We update our understanding of the Authority's key financial processes where our risk assessment has identified that these are relevant to our final accounts audit and where we have determined that this is the most efficient audit approach to take. We confirm our understanding by completing walkthroughs for these systems. We then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Where our audit approach is to undertake controls work on financial systems, we seek to rely on any relevant work internal audit have completed to minimise unnecessary duplication of work. Our audit fee is set on the assumption that we can place reliance on their work. We have a joint working protocol and have met with the Head of Internal Audit to discuss the principles and timetables for the managed audit process for 2013/14.

## Our audit approach – substantive procedures

**During June to August 2014 we will be on site for our substantive work.**

**We complete detailed testing of accounts and disclosures and conclude on critical accounting matters, such as specific risk areas. We then agree any audit adjustments required to the financial statements.**

**We also review the Annual Governance Statement for consistency with our understanding.**

**We will present our *ISA 260 Report to the Audit Committee* in July 2014.**

Our final accounts visit on site has been provisionally scheduled for the period 9<sup>th</sup> June to the 10<sup>th</sup> July. During this time, we will complete the following work:

### Substantive Procedures

- Plan and perform substantive audit procedures.
- Conclude on critical accounting matters.
- Identify and assess any audit adjustments.
- Review the Annual Governance Statement.

At the end of our on site work, we will hold a closure meeting, where we will provide a schedule of audit differences and agree a timetable for the completion stage and the accounts sign off.

To comply with auditing standards, we are required to report uncorrected audit differences to the Audit Committee. 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.

### Annual Governance Statement

We are also required to satisfy ourselves that your Annual Governance Statement complies with the applicable framework and is consistent with our understanding of your operations. Our review of the work of internal audit and consideration of your risk management and governance arrangements are key to this.

We report the findings of our final accounts work in our *ISA 260 Report*, which we will issue in July 2014.

### Substantive audit procedures

We complete detailed testing on significant balances and disclosures. The extent of our work is determined by the Engagement Lead based on various factors such as our overall assessment of the Authority's control environment, the effectiveness of controls over individual systems and the management of specific risk factors.

### Critical accounting matters

We conclude our testing of key risk areas identified at the planning stage and any additional issues that may have emerged since.

We will discuss our early findings of the Authority's approach to address the key risk areas with the Head of Financial Management in June and July 2014, prior to reporting to the Audit Committee on 15<sup>th</sup> July 2014.

### Audit adjustments

During our on site work, we will meet with the Head of Financial Management on a weekly basis to discuss the progress of the audit, any differences found and any other issues emerging.

In addition to the financial statements, we also audit the Authority's Whole of Government Accounts pack. We may need to undertake additional work if we receive objections to the accounts from local electors.

We will communicate with you throughout the year, both formally and informally.

#### **Whole of government accounts (WGA)**

We are required to review and issue an opinion on your WGA consolidation to confirm that this is consistent with your financial statements. The audit approach has been agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and issue of our opinion on the pack have not yet been confirmed.

#### **Electors challenge**

The Audit Commission Act 1998 gives electors certain rights. These are:

- the right to inspect the accounts;
- the right to ask the auditor questions about the accounts; and
- the right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the Audit Commission's fee scales.

#### **Reporting and communication**

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Audit Committee. Our deliverables are included on page 19.

#### **Independence and objectivity confirmation**

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 Integrity, Objectivity and Independence requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place which, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Appendix 1 provides further detail on auditors' responsibilities regarding independence and objectivity.

#### **Confirmation statement**

We confirm that as of 3<sup>rd</sup> March 2014 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.

**In this section we set out our assessment of the significant risks to the audit of the Authority's financial statements for 2013/14.**

**We have identified one significant risk at this stage. We have also identified two areas of audit focus.**

**For each significant risk and area of audit focus we have outlined the impact on our audit plan.**

Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our *ISA 260 Report*. These risks are:

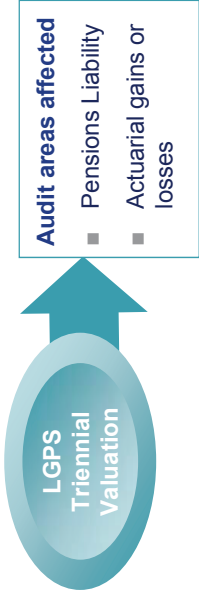
- Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
- Fraudulent revenue recognition – We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

Our initial assessment has identified one risk that is specific to the Authority relating to the local government pension scheme triennial valuation. The table on the following pages sets out the significant risks and areas of audit focus we have identified through our planning work that are specific to the audit of the Authority's financial statements for 2013/14.

We will revisit our assessment throughout the year and should any risks present themselves we will adjust our audit strategy as necessary.

## Key financial statements audit risks (continued)


For each significant risk and area of audit focus we have outlined the impact on our audit plan.

Key audit risks	Impact on audit
 <p><b>Audit areas affected</b></p> <ul style="list-style-type: none"> <li>■ Pensions Liability</li> <li>■ Actuarial gains or losses</li> </ul>	<p><b>Risk</b></p> <p>During the year, the Local Government Pension Scheme for Greater Manchester (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2013 in line with the Local Government Pension Scheme (Administration) Regulations 2008. The Authority's share of pensions assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation.</p> <p>The IAS 19 numbers to be included in the financial statements for 2013/14 will be based on the output of the triennial valuation rolled forward to 31 March 2014. For 2014/15 and 2015/16 the actuary will then roll forward the valuation for accounting purposes based on more limited data.</p> <p>There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts.</p> <p>Most of the data is provided to the actuary by Tameside Council who administer the Pension Fund.</p> <p><b>Our audit work</b></p> <p>As part of our audit, we will need to agree the data provided to the actuary back to the systems and reports from which it was derived, and test the accuracy of this data.</p> <p>We will liaise with Grant Thornton, who are the auditors of the Pension Fund, where this data was provided by the Pension Fund on the Authority's behalf. The Pension Fund may seek to recharge any additional costs arising from this work.</p>



## Key financial statements audit risks (continued)

For each significant risk and area of audit focus we have outlined the impact on our audit plan.

Area of Audit focus	Impact on audit
<div style="text-align: center;">  <p><b>Audit areas affected</b></p> <ul style="list-style-type: none"> <li>■ Reserves and balances</li> <li>■ Provisions</li> <li>■ VFM</li> </ul> </div>	<p><b>Risk</b> As at December 2013, the Authority is forecasting that it will deliver its 2013/14 budget in overall terms.</p> <p>The Authority has identified another £9.7million in savings to be achieved during 2014/15 to address the further reductions to local authority funding. The proposals for these savings were consulted on and approved at council on 19<sup>th</sup> February 2014. The Council has begun working on the approach for a further £16million of savings in 2015/16. These savings are to be made against a backdrop of continued demand pressures across the Authority, and therefore it will become more and more difficult to deliver these savings in a way that secures longer term financial and operational sustainability.</p> <p>If there are any related liabilities at year end, these will need to be accounted for in the 2013/14 financial statements as appropriate.</p> <p><b>Our audit work</b></p> <p>In conjunction with our VFM work we will critically assess the controls the Authority has in place to ensure a sound financial standing, specifically that its Medium Term Financial Plan has duly taken into consideration the potential funding reductions and that it is sufficiently robust to ensure that the Authority can continue to provide services effectively. We will also review how the Authority is planning and managing its savings plans.</p> <p>As part of our final accounts audit we will review the Authority's assessment of any potential liabilities arising from its savings plans against the Code. If applicable, we will review the Authority's provisions, including the methodology, assumptions and calculations.</p>

Section four  
**Key financial statements audit risks (continued)**

For each significant risk and area of audit focus we have outlined the impact on our audit plan.

Area of Audit focus	Impact on audit
<p><b>Audit areas affected</b></p> <ul style="list-style-type: none"> <li>■ Pervasive</li> </ul>	<p><b>Risk</b></p> <p>The Council has brought forward the close down of the accounts in order to have the statutory accounts approved by the Audit Committee on 15th July 2014. As a result the timing of our audit has been brought forward by 3 weeks.</p> <p>The early close down of accounts increases the time pressure on staff and therefore may lead to increased errors and the potential need to include more estimates in the production of final accounts such as accruals and pension balances. The Authority has developed a detailed plan for early close down which include strict deadlines for completion of working papers in order for staff to meet the final deadlines.</p> <p><b>Our audit work</b></p> <p>Our standard audit procedures are designed to identify material misstatements in the accounts. We will place an increased focus on cut-off to ensure that items are included in the correct period. As part of our final accounts audit we will also review the methodology the methodology, assumptions and calculations of all estimates included in the final accounts.</p>

**Our approach to VFM work follows guidance provided by the Audit Commission.**

**Background to approach to VFM work**

In meeting their statutory responsibilities relating to economy, efficiency and effectiveness, the Commission's *Code of Audit Practice* requires auditors to:

- plan their work based on consideration of the significant risks of giving a wrong conclusion (audit risk); and
- carry out only as much work as is appropriate to enable them to give a safe VFM conclusion.

To provide stability for auditors and audited bodies, the Audit Commission has kept the VFM audit methodology unchanged from last year. There are only relatively minor amendments to reflect the key issues facing the local government sector.

The approach is structured under two themes, as summarised below.

Specified criteria for VFM conclusion	Focus of the criteria	Sub-sections
The organisation has proper arrangements in place for securing <b>financial resilience</b> .	The organisation has robust systems and processes to: <ul style="list-style-type: none"> <li>■ manage effectively financial risks and opportunities; and</li> <li>■ secure a stable financial position that enables it to continue to operate for the foreseeable future.</li> </ul>	<ul style="list-style-type: none"> <li>■ Financial governance</li> <li>■ Financial planning</li> <li>■ Financial control</li> </ul>
The organisation has proper arrangements for challenging how it <b>secures economy, efficiency and effectiveness</b> .	The organisation is prioritising its resources within tighter budgets, for example by: <ul style="list-style-type: none"> <li>■ achieving cost reductions; and</li> <li>■ improving efficiency and productivity.</li> </ul>	<ul style="list-style-type: none"> <li>■ Prioritising resources</li> <li>■ Improving efficiency and productivity</li> </ul>

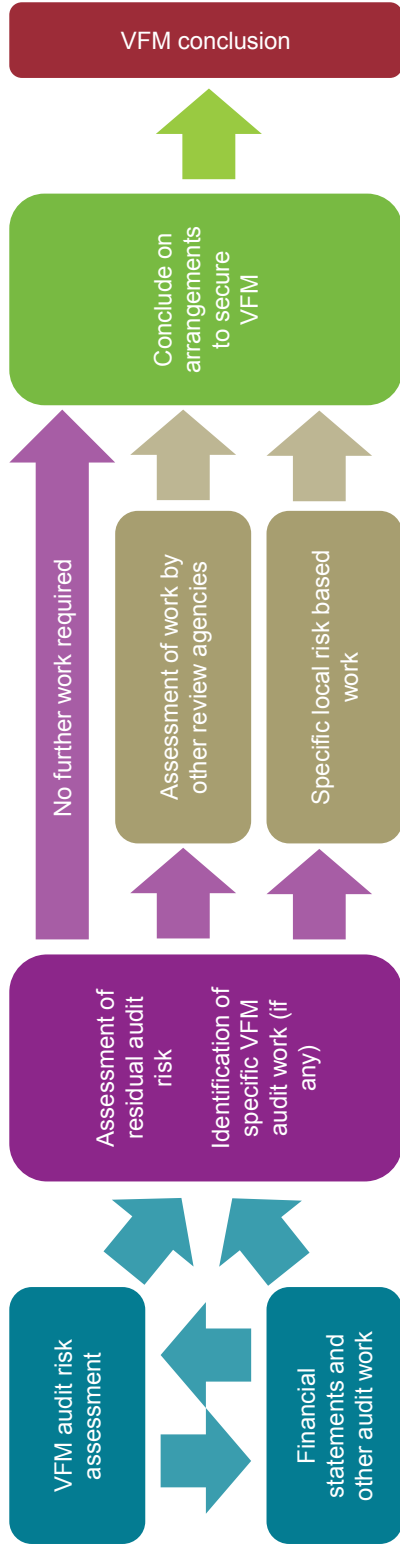


## Section five VFM audit approach (continued)

We will follow a risk based approach to target audit effort on the areas of greatest audit risk.

### Overview of the VFM audit approach

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



Each of these stages are summarised further below.

#### VFM audit stage

##### VFM audit risk assessment

#### Audit approach

We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the *Code of Audit Practice*.

In doing so we consider:

- the Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks;
- information from the Audit Commission's VFM profile tool and financial ratios tool;
- evidence gained from previous audit work, including the response to that work; and
- the work of other inspectorates and review agencies.

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

We will then form an assessment of residual audit risk to identify if there are any areas where more detailed VFM audit work is required.

**VFM audit stage**

**Linkages with financial statements and other audit work**

There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.

We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.

**Audit approach**

**Assessment of residual audit risk**

It is possible that further audit work may be necessary in some areas to ensure sufficient coverage of the two VFM criteria.

Such work may involve interviews with relevant officers and /or the review of documents such as policies, plans and minutes. We may also refer to any self assessment the Authority may prepare against the characteristics.

To inform any further work we must draw together an assessment of residual audit risk, taking account of the work undertaken already. This will identify those areas requiring further specific audit work to inform the VFM conclusion.

At this stage it is not possible to indicate the number or type of residual audit risks that might require additional audit work, and therefore the overall scale of work cannot be easily predicted. If a significant amount of work is necessary then we will need to review the adequacy of our agreed audit fee.

**Identification of specific VFM audit work**

If we identify residual audit risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:

- considering the results of work by the Authority, inspectorates and other review agencies; and
- carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

## Section five VFM audit approach (continued)

Where relevant, we may draw upon the range of audit tools and review guides developed by the Audit Commission.

We will conclude on the results of the VFM audit through our **ISA 260 Report**.

### VFM audit stage

#### Delivery of local risk based work

Depending on the nature of the residual audit risk identified, we may be able to draw on audit tools and sources of guidance when undertaking specific local risk-based audit work, such as:

- local savings review guides based on selected previous Audit Commission national studies; and
- update briefings for previous Audit Commission studies.

The tools and guides will support our work where we have identified a local risk that is relevant to them. For any residual audit risks that relate to issues not covered by one of these tools, we will develop an appropriate audit approach drawing on the detailed VFM guidance and other sources of information.

#### Concluding on VFM arrangements

At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.

If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.

#### Reporting

We will report on the results of the VFM audit through our *ISA 260 Report*. This will summarise any specific matters arising, and the basis for our overall conclusion.

The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.

### Audit approach

Your audit team has been drawn from our specialist public sector assurance department. Jillian Burrows has returned as the Senior Manager and the Assistant Manager this year is Adam Langan. Adam has worked on the Bury MBC Audit for the past 3 years.

Contact details are shown on page 1.

The audit team will be assisted by other KPMG specialists as necessary.



Trevor Rees  
**Partner**

"My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion.  
I will be the main point of contact for the Audit Committee and Chief Executive."



Jillian Burrows  
**Senior Manager**

"I provide quality assurance for the audit work and specifically any technical accounting and risk areas.  
I will work closely with the Partner to ensure we add value.  
I will liaise with the Director of Finance and other Executive Directors."



Adam Langan  
**Assistant Manager**

"I am responsible for the management, review and delivery of the audit.  
I will liaise with the Head of Finance and Head of Internal Audit."

## Section six Audit deliverables

At the end of each stage of our audit we issue certain deliverables, including reports and opinions.

Our key deliverables will be delivered to a high standard and on time.

We will discuss and agree as appropriate each report with the Authority's officers prior to publication.

Deliverable	Purpose	Committee dates
<b>Planning</b>		
<b>External Audit Plan</b>	<ul style="list-style-type: none"> <li>■ Outlines our audit approach.</li> <li>■ Identifies areas of audit focus and planned procedures.</li> </ul>	<b>March 2014</b>
<b>Control evaluation and Substantive procedures</b>		
<b>Report to Those Charged with Governance (ISA 260 Report)</b>	<ul style="list-style-type: none"> <li>■ Details control and process issues.</li> <li>■ Details the resolution of key audit issues.</li> <li>■ Communicates adjusted and unadjusted audit differences.</li> <li>■ Highlights performance improvement recommendations identified during our audit.</li> <li>■ Comments on the Authority's value for money arrangements.</li> </ul>	<b>July 2014</b>
<b>Completion</b>		
<b>Auditor's Report</b>	<ul style="list-style-type: none"> <li>■ Provides an opinion on your accounts (including the Annual Governance Statement).</li> <li>■ Concludes on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).</li> </ul>	<b>July 2014</b>
<b>Whole of Government Accounts</b>	<ul style="list-style-type: none"> <li>■ Provide our opinion on the Authority's WGA pack submission.</li> </ul>	<b>August 2014</b>
<b>Annual Audit Letter</b>	<ul style="list-style-type: none"> <li>■ Summarises the outcomes and the key issues arising from our audit work for the year.</li> </ul>	<b>September 2014</b>

We will be in continuous dialogue with you throughout the audit.

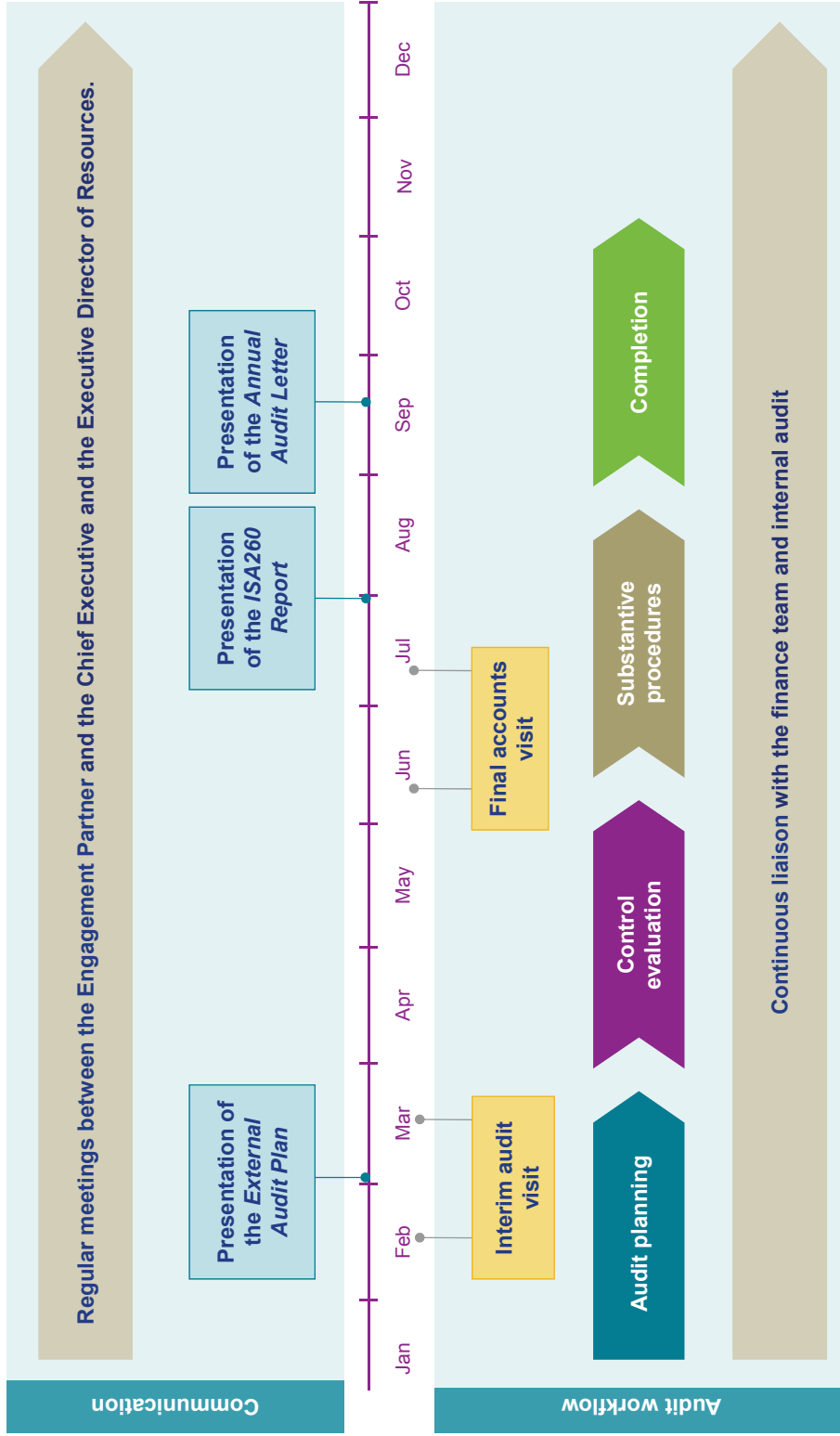
Key formal interactions with the Audit Committee are:

- February – External Audit Plan;
- July – ISA 260 Report;
- December – Annual Audit Letter.

We work with the finance team and internal audit throughout the year.

Our main work on site will be our:

- Interim audit visits during February and March.
- Final accounts audit during June - July.



Key: ● Audit Committee meetings.



The fee for the 2013/14 audit of the Authority is £154,170.

The fee has not changed

from that set out in our *Audit Fee Letter 2013/14* issued in April 2013.

Our audit fee remains indicative and based on you meeting our expectations of your support.

Meeting these expectations will help the delivery of our audit within the proposed audit fee.

#### **Audit fee**

Our *Audit Fee Letter 2013/14* presented to you in April 2013 first set out our fees for the 2013/14 audit. We have not considered it necessary to make any changes to the agreed fees at this stage.

Our audit fee includes our work on the VFM conclusion and our audit of the Authority's financial statements.

The planned audit fee for 2013/14 is £154,170. This is in line with the final 2012/13 audit fee.

#### **Audit fee assumptions**

The fee is based on a number of assumptions, including that you will provide us with complete and materially accurate financial statements, with good quality supporting working papers, within agreed timeframes. It is imperative that you achieve this. If this is not the case and we have to complete more work than was envisaged, we will need to charge additional fees for this work. In setting the fee, we have assumed:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2012/13;
- you will inform us of any significant developments impacting on our audit;
- you will identify and implement any changes required under the *CIPFA Code of Practice on Local Authority Accounting in the UK 2013/14* within your 2013/14 financial statements;
- you will comply with the expectations set out in our *Accounts Audit Protocol*, including:
  - the financial statements are made available for audit in line with the agreed timescales;
  - good quality working papers and records will be provided at the start of the final accounts audit;

- requested information will be provided within the agreed timescales;
- prompt responses will be provided to queries and draft reports;
- internal audit meets appropriate professional standards;
- internal audit adheres to our joint working protocol and completes appropriate work on all systems that provide material figures for the financial statements and we can place reliance on them for our audit; and
- additional work will not be required to address questions or objections raised by local government electors or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.

Meeting these expectations will help ensure the delivery of our audit within the agreed audit fee.

The Audit Commission requires us to inform you of specific actions you could take to keep the audit fee low. Future audit fees can be kept to a minimum if the Authority achieves an efficient and well-controlled financial closedown and accounts production process which complies with good practice and appropriately addresses new accounting developments and risk areas.

#### **Changes to the audit plan**

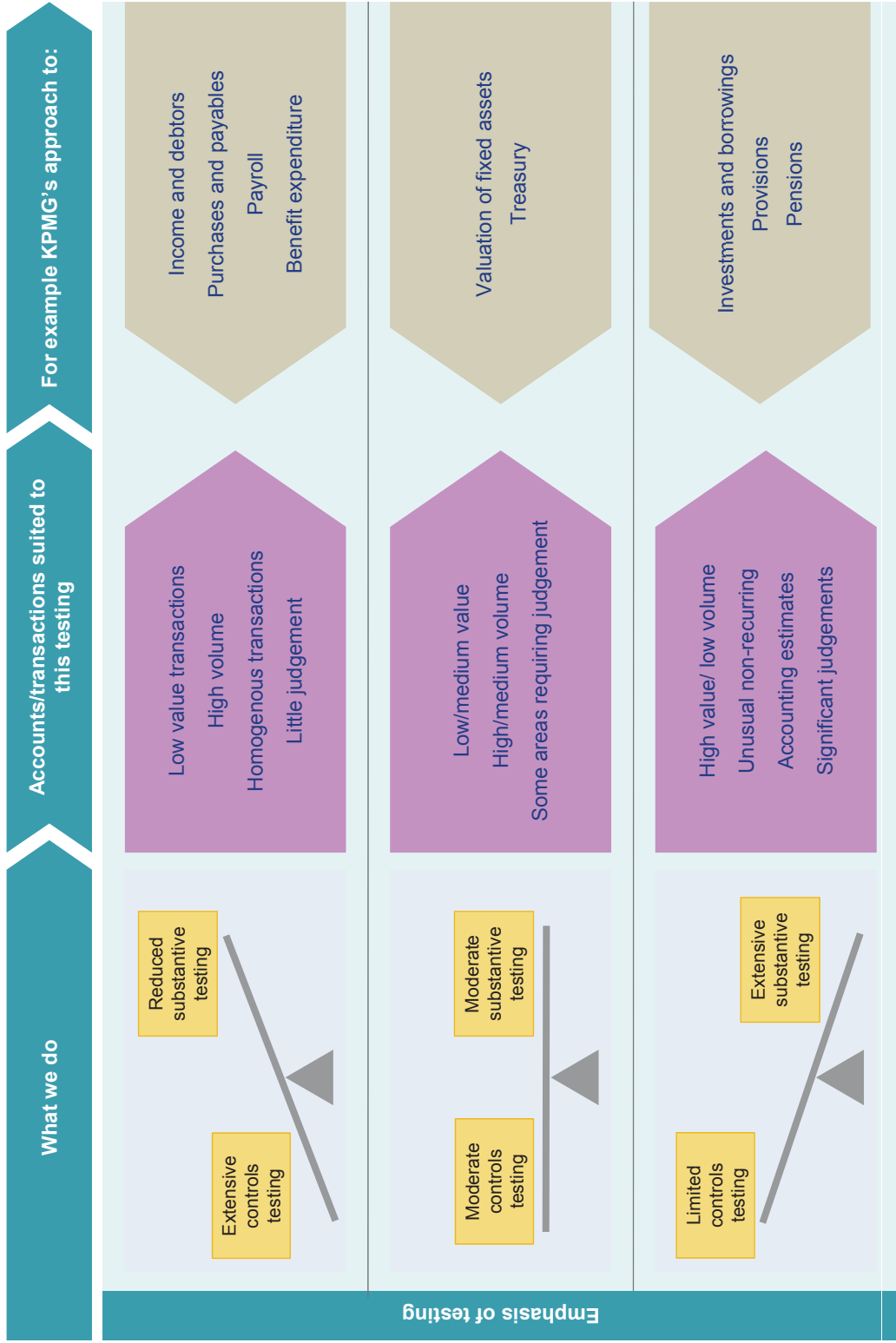
Changes to this plan and the audit fee may be necessary if:

- new significant audit risks emerge;
- additional work is required of us by the Audit Commission or other regulators; and
- additional work is required as a result of changes in legislation, professional standards or financial reporting requirements.

If changes to this plan and the audit fee are required, we will discuss and agree these initially with the Assistant Director of Resources.

# Appendix 1: Balance of internal controls and substantive testing

This appendix illustrates how we determine the most effective balance of internal controls and substantive audit testing.





## Appendix 2: Independence and objectivity requirements

This appendix summarises auditors' responsibilities regarding independence and objectivity.

### Independence and objectivity

Auditors are required by the Code to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the Authority invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under section 35 of the Audit Commission Act 1998.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of Commission-related work, and senior members of their audit teams should not take part in political activity.
- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.

- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Firms are expected to comply with the requirements of the Commission's protocols on provision of personal financial or tax advice to certain senior individuals at audited bodies, independence considerations in relation to procurement of services at audited bodies, and area wide internal audit work.
- Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission.
- Auditors are expected to comply with the Commission's policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the standing guidance.

## Appendix 3: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.

We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

**Tone at the top:** We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drivers of quality through a focused and consistent voice. Trevor Rees as the Engagement Lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

**Association with right clients:** We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

**Clear standards and robust audit tools:** We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudit application has significantly enhanced

existing audit functionality. eAudit enables KPMG to deliver a highly technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's Code of Audit Practice.

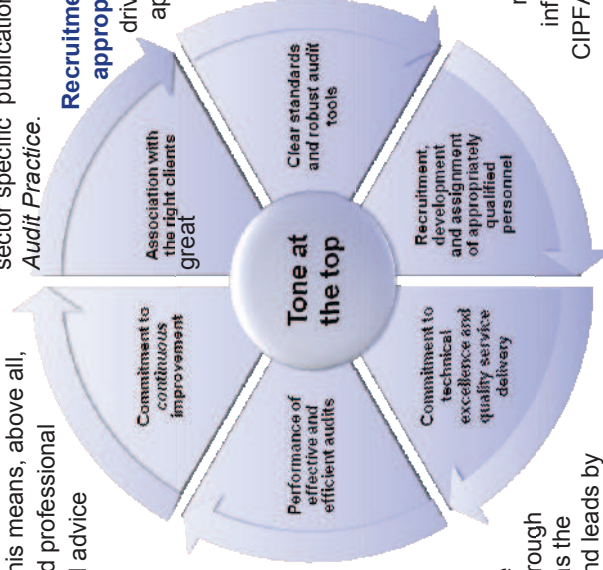
**Recruitment, development and assignment of appropriately qualified personnel:** One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevance experience.

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.

- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.

- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based quarterly technical training.



**We continually focus on delivering a high quality audit.**

**This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.**

**Quality must build on the foundations of well trained staff and a robust methodology.**

**Commitment to technical excellence and quality service delivery:** Our professionals bring you up-to-the-minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes.

**Performance of effective and efficient audits:** We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviours in the performance of effective and efficient audits. The key behaviours that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- timely Engagement Lead and manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgment and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy.

**Commitment to continuous improvement:** We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

**Our quality review results**

We are able to evidence the quality of our audits through the results of National Audit Office and Audit Commission reviews. The Audit Commission publishes information on the quality of work provided by KPMG (and all other firms) for audits undertaken on behalf of them (<http://www.audit-commission.gov.uk/audit-regime/audit-quality-review-programme/principal-audits/kpmg-audit-quality>).

The latest Annual Regulatory Compliance and Quality Report (issued June 2013) showed that we performed highly against the Audit Commission's criteria. We were one of only two firms to receive a combined audit quality and regulatory compliance rating of green for 2012/13.

## Appendix 4: Materiality and reporting of audit differences

**When we determine our audit strategy we set a monetary materiality level for planning purposes.**

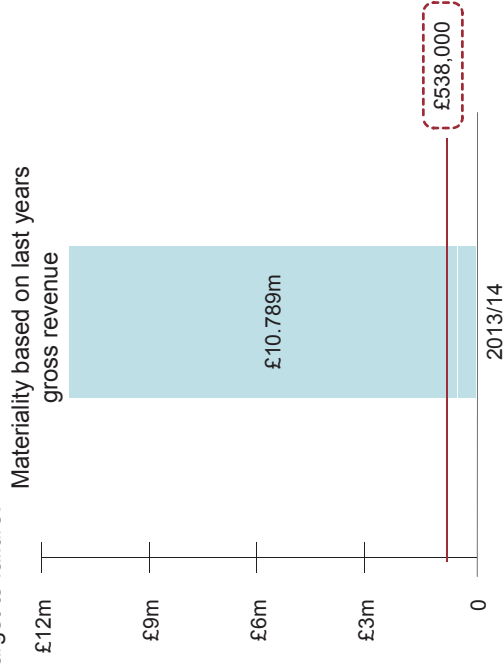
**For 2013/14 we have set this at £10.789 million.**

**We will report all audit differences over £538 thousand to the Audit Committee.**

### Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.



Materiality for planning purposes has been set at £10.789 million for the Authority's standalone accounts, and for the group accounts, which [in both cases] equates to around 2 percent of gross revenues.

We design our procedures to detect errors in specific accounts at a lower level of precision.

### Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £538 thousand.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.



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Public Sector

**Progress statement for the external audit programme  
2013/14**

Report to Bury MBC Audit Committee

03 March 2014

AUDIT

# External Audit Progress Statement

Work description	Work due by	Comment on progress
Financial Statements	July 2014	We carried out planning work during December 2013 and January 2014 and we have used the results of this work to inform our detailed Audit Plan, as presented at this meeting. Our Audit Plan provides information on our audit approach, any financial statement risks we have identified and how we plan to address the risks through our audit work.  Our <i>Report to those Charged with Governance</i> (ISA 260), detailing our audit findings, will be presented to the Audit Committee in July 2014.
Value for Money conclusion	July 2014	Our approach to the Value for Money (VFM) audit is included in the Audit Plan presented to Audit Committee.  Over the next few months we will undertake a risk-focused review your arrangements to secure value for money and ensure financial resilience.



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