

AGENDA FOR

AUDIT COMMITTEE

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To: All Members of Audit Committee

Councillors : R Gold, M Hayes, D Silbiger,
Sarah Southworth, D.Vernon, R Walker, S Walmsley,
M Whitby (Chair) and S Wright

Dear Member/Colleague

Audit Committee

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

| | |
|-----------------------------|---|
| Date: | Tuesday, 25 February 2020 |
| Place: | Lancashire Fusiliers Room - Town Hall |
| Time: | 7.00 pm |
| Briefing Facilities: | 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. |
| Notes: | Please note for Elected Members only there will be Fraud training commencing at 6.30pm. |

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)*

The Minutes of the last meeting of the Audit Committee held on 25 February 2020 are attached.

4 ANNUAL GOVERNANCE STATEMENT 2019/20 *(Pages 7 - 12)*

A report from the Interim Deputy Chief Finance Officer is attached.

5 ACCOUNTING POLICIES REVIEW AND CLOSURE OF ACCOUNTS 2019/20 *(Pages 13 - 32)*

Report from the Interim Deputy Chief Finance Officer attached.

6 ANNUAL AUDIT LETTER FOR 2018/19 *(Pages 33 - 50)*

Report from Mazars is attached.

7 AUDIT STRATEGY MEMORANDUM 2019/20 *(Pages 51 - 70)*

A report from Mazars is attached.

8 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.

9 INTERNAL AUDIT PROGRESS REPORT *(Pages 71 - 120)*

A report from the Audit Manager is attached.

10 INTERNAL AUDIT PLAN 2020/21 *(Pages 121 - 124)*

A report from the Interim Deputy Chief Finance Officer is attached.

Minutes of: **AUDIT COMMITTEE**

Date of Meeting: 19 November 2019

Present: Councillor M Whitby (in the Chair)
Councillors R Gold, M Hayes, N Jones, Sarah Southworth,
R Walker and S Wright

Also in attendance: Karen Murray – Mazars
Ian Pinches - Mazars

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

Apologies for Absence: Councillor D Silbiger and Councillor S Walmsley

AU.231 DECLARATIONS OF INTEREST

Councillor Sarah Southworth declared a personal interest in any item relating to Six Town Housing as she is a Member of the Board of Directors. She also declared a personal interest in any item relating to Persona and Townside Fields as her husband's accountancy business has been awarded the contract to audit both companies.

Councillor S Wright declared a personal interest in any item relating to the Department for Children, Young People and Culture as his wife is employed in a Bury School. He also declared a personal interest in any item relating to Six Town Housing as he is a member of the Board.

AU.232 MINUTES OF THE LAST MEETING

It was agreed that the Minutes of the last meeting held on 17 September 2019 be approved as a correct record and signed by the Chair.

AU.233 MATTERS ARISING

Councillor Walker referred to the question that he had asked in relation to an empty property officer and whether the Council had one.

Mike Woodhouse, Chief Finance Officer reported that he had checked with the Premises Team to establish whether the Council employed an officer in relation to empty properties and it was reported that they didn't.

Mike explained that work was carried out in relation to Six Town Housing properties and getting these turned around but not in relation to privately owned properties.

Councillor Walker asked whether some research could be undertaken to see what value is added by employing an empty property officer.

Mike Woodhouse, Chief Finance Officer made reference to the issue that had been raised around the valuation of property, plant and equipment and explained that he had met with the property team and Mazars in relation to this. The Property

Team were putting together proposals on how to move forward. Mike explained that he had asked that quotes be sought for external support.

It was also explained that valuations will be taking place for the interim audit which needed to be completed before 31 March 2020. This would allow for a new approach to be used.

AU.234 EXTERNAL AUDIT PROGRESS REPORT NOVEMBER 2019

Karen Murray, Partner at Mazars presented the Audit Progress report which provided the Audit Committee with an update on progress made in delivering their responsibilities as the Council's external auditors. The report also highlights key emerging national issues and developments which the Committee may find useful.

Karen explained that the work on the 2018/2019 Audit had been completed and the Audit Report had been issued on 8 November 2019 which provided:

- An unqualified opinion on the Council's 2018/2019 financial statements; and
- An unqualified conclusion on the Council's arrangements during 2018/2019 to deliver value for money in its use of resources.

Work had been completed on the Council's Whole of Government Accounts (WGA) return as required by the National Audit Office. The unqualified conclusion on the Council's WGA submission on 8 November 2019; and

The Audit Completion Certificate to certify the closure of the audit had been issued.

It was explained that a meeting had taken place with Council Officers to carry out a comprehensive debrief of the audit and to identify opportunities to improve the process for 2019/2020.

Karen reported that the 2019/2020 audit was now due to begin and in the next few weeks Mazars will;

- Hold internal planning meetings;
- Hold update meetings with the finance team to agree the arrangements for the interim and final audit visits;
- Discuss emerging technical issues with the Audit team; and
- Review minutes from Council meetings to inform financial audit and value for money conclusion risk assessment.

Karen referred to section 2 of the report making reference to the New Code of Audit Practice 2020/21 which would come in to force no later than 1 April 2020.

There were proposed changes to the way auditors report on arrangements to deliver value for money in the use of resources, changes to timescales and possible changes to the annual audit letter.

- Councillor Walker referred to Value for Money and asked who has the final say on whether something is value for money.

Karen explained that the National Audit Office has issued guidance notes to auditors in relation to this.

Karen stated that she would share this information with the Committee.

Delegated decision:

1. That the contents of the report be noted.
2. That Karen and Ian be thanked for their report.

AU.235 AUDIT COMPLETION LETTER

Karen Murray - Partner - Mazars presented a report summarising the outcome from the local audit work in relation to the 2018-2019 audit year.

The letter is intended to communicate key messages to key external stakeholders including members of the public and will be placed on the Council's website.

Outstanding matters and conclusions reached were detailed within the letter.

The report contained information in relation to the Audit Certificate and the Audit Fee.

Delegated decision:

1. That the contents of Annual Audit Letter be accepted.
2. That the Audit Committee's thanks to Mazars be recorded.

AU.236 FINANCIAL MONITORING REPORT

Mike Woodhead, Chief Finance Officer presented a report updating 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'.

It was reported that the authority is projecting an overspend of £0.467m for the year, based on spending and income information as at 31 August 2019.

It was explained that the Authority's financial position is continually monitored throughout the year, monthly reports are considered by departmental management teams and summaries available to Cabinet Members. A monthly summary is submitted to the Joint Executive Team and discussed with Cabinet Members on budgets within their portfolios.

Four themed Budget Recovery Boards have also been established to oversee the implementation of savings plans, to develop further pipeline schemes, to monitor additional pressures arising in year, and to identify mitigations. A Council –CCG wide system of tracking progress has been implemented and a savings tracker is

updated and shared with senior managers and JET on a fortnightly basis. The four boards are:

- Health and Care
- Corporate Core
- Business Growth and Investment
- Operations and Other Council Services

Other measures include a £1000 per transaction procurement limit, a Budget Control Group that considers requests for filling vacant posts, a review of external staff resources such as contractors and consultants.

Included in the report was information setting out the outturn forecast, commitment accounting, balance sheet monitoring, procurement activity and the minimum level of balances.

Mike reported that the Council was confident that the books would be balanced for the 2019/2020 financial year and that the savings proposals and plans for the following financial year will be robust.

Those present were given the opportunity to ask questions and make comments and the following points were raised:

- Councillor Gold referred to the figure of £467,000 that was set out in the report and asked if this was for the full year.

It was explained that this was the forecast at the second quarter and this would reduce further as more actual figures were known.

- Councillor Wright referred to money being moved from the CCG to help the Council and asked whether the CCG budget would suffer because of this.

Mike Woodhead explained that the agreement came from the CCG and was the contingency from the Better Care Fund and wasn't ring-fenced for specific services. It was acknowledged that the CCG will struggle to balance the books but the Council and CCG were working together and looking at pooling and aligning where possible.

- Councillor Wright referred to the CCG having an Audit Committee also and asked whether there should be joint meetings of the Committees.

It was explained that the current legislation wouldn't allow for a joint committee and until this changed they would be 2 separate legal entities. There was however the possibility of undertaking a joint piece of work.

Karen Murray stated that a joint piece of work could be commissioned but would have to report to each Audit Committee.

- Councillor Gold referred to the £467,000 figure and asked if any further projected figures were available.

It was explained that the figures in the report take account of Quarter 3 & 4. The quarter 5 figures would be less.

- Councillor N Jones referred to the recent rise to the PWLB rates and asked how this had affected the Council's borrowing.

Mike explained that the rates were still very low and wouldn't make borrowing prohibitively expensive. There were also other sources of borrowing at better rates for short term that the Council could consider.

- Councillor Walker referred to 3.2 of the report where it stated that Members would be alerted to potential pressures so that they can monitor the situation and take ownership. Councillor Walker asked who the members would be.

It was explained that this referred to the portfolio holders of the relevant services. It was expected that these Members would be fully aware.

Delegated decision:

That the contents of the report be noted.

AU.237 QUARTERLY GOVERNANCE STATEMENT

Janet Spelzini, Audit Manager 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 July 30 2019.

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, the work of the Governance Panel and Sickness levels across the authority's staff.

The Corporate Risk Register was in the process of being updated and this would be forwarded to the Audit Members when complete.

The Internal Audit team had produced a total of 125 recommendations during the first half of the year with one recommendation being ranked high.

The sickness levels across the Council remained relatively stable.

Those present were given the opportunity to make comments and ask questions and the following points were raised:

- Councillor N Jones asked what work was being done to reduce levels of sickness.

Janet explained that she would ask HR to confirm what strategies were in place.

- Councillor Whitby referred to the future plans for the risk register and asked that the committee receive a presentation on this when any changes are made.

AU.238 FUTURE TRAINING

Councillor Whitby referred to future training requirements of the Committee and explained that reference had been made previously to receiving information relating to the work of the Counter Fraud Team. Councillor Whitby asked whether this was something that the Members of the Committee would welcome.

Delegated decision:

That a presentation on the work and outcomes of the Counter Fraud Team be brought to the 25 February 2020 meeting of the Audit Committee.

AU.239 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.240 INTERNAL AUDIT PROGRESS REPORT

The Audit Manager presented a report updating Members on the work being carried out by Internal Audit, as measured against the Annual Plan for 2019/20. Appended to the report were summaries of final reports issued during the second quarter of the year and the set of performance indicators up to 30 September 2019.

Delegated decision:

That the report be accepted.

AU.241 MEMBERS' FEEDBACK

The Audit Manager presented a report providing feedback to Committee Members in the form of responses to specific issues raised in relation to Audit Reports and queries. This included; details of cash transactions on large cash transactions and by providing follow-ups to audit that had been revisited since the Audit Committee meeting in September 2019.

COUNCILLOR M WHITBY
Chair

(Note: The meeting started at 7.00 pm and ended at 8.00 pm)

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| REPORT FOR DECISION | |
| Agenda Item | |

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| Agenda Item | |
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MEETING: **AUDIT COMMITTEE**

DATE: **25 FEBRUARY, 2020**

SUBJECT: **ANNUAL GOVERNANCE STATEMENT 2019/20**

REPORT FROM: **INTERIM DEPUTY CHIEF FINANCE OFFICER**

CONTACT OFFICER: **LISA KITTO**

TYPE OF DECISION: Non key.

FREEDOM OF INFORMATION/STATUS: **In the public domain**

SUMMARY:

OPTIONS & RECOMMENDED OPTION Members are recommended to note the report and the key dates in compiling the annual governance statement.

IMPLICATIONS:

| | |
|---|---|
| Corporate Aims/Policy Framework: | Yes |
| Financial Implications and Risk Considerations: | There are no financial implications arising from this report. |
| Statement by the Joint Chief Finance Officer (S151 Officer): | The annual governance statement is a statutory requirement. |
| Equality/Diversity implications: | None. |
| Considered by Monitoring Officer: | Yes |
| Are there any legal implications? | No |
| Staffing/ICT/Property: | There are no direct resource implications arising from the report. |
| Wards Affected: | The work of Internal Audit impacts on all of the Council's wards and Township Forums. |

TRACKING/PROCESS**DIRECTOR: Mike Woodhead**

| Chief Executive/ Strategic Leadership Team | Cabinet Member/Chair | Ward Members | Partners |
|--|-------------------------|------------------|----------|
| | ✓Chair | | |
| Scrutiny | Cabinet | Committee | Council |
| | | Audit 25/02/2020 | |

1.0 BACKGROUND

- 1.1 The preparation and publication of an Annual Governance Statement is necessary to meet the statutory requirement set out in Regulation 6 of the Accounts and Audit Regulations 2015. This report sets out the action plan / timetable to ensure compliance with the production of an Annual Governance Statement for 2019/20.

2.0 ISSUES

- 2.1 The Accounts and Audit Regulations 2015 set out requirements related to the Council's systems of internal control, and the annual review and reporting of those systems.
- 2.2 The Regulations require Councils to have a sound system of internal control which facilitates the effective exercise of the Council's functions and which include the arrangements for the management of risk.
- 2.3 In addition, the Regulations require the Council to conduct a review at least once in a year of the effectiveness of its systems of internal control. Following the review the Council must approve an Annual Governance Statement which then accompanies its Statement of Accounts. This assurance statement is made by the Chief Executive and Leader of the Council.
- 2.4 The Annual Governance Statement (AGS) should be prepared in accordance with "proper practices" as set out in the CIPFA/SOLACE publication "Delivering Good Governance in Local Government Framework" and supporting guidance associated with this.
- 2.5 The deadline for completing the AGS is 31 July in line with the deadline for approval of the accounts. In addition, in accordance with best practice, a full draft version of the AGS will be shared with the Accounts and Audit Committee in advance of this.

3. Governance

- 3.1 The CIPFA/SOLACE framework provides a structure to assist authorities with their approach to governance and the production of the AGS. The framework and supporting guidance was updated for in 2016 and in producing the 2019/20 AGS, the guidance will be taken into account through the process.
- 3.2 Authorities are required to review their governance arrangements against the principles contained in the Framework. The Framework, as to be applied for the 2019/20 AGS, adopts seven core principles that must be considered when defining good governance:
- Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
 - Ensuring openness and comprehensive stakeholder engagement.
 - Defining outcomes in terms of sustainable economic, social and environmental benefits.
 - Determining the interventions necessary to optimise the achievement of the intended outcomes.
 - Developing the Entity's capacity, including the capability of its leadership and the individuals within it.
 - Managing risks and performance through robust internal control and strong public financial management.
 - Implementing good practices in transparency, reporting, and audit to deliver effective accountability.
- 3.3 In order to meet the expectations of the Corporate Governance framework, local authorities are expected to do the following:
- Review their existing governance arrangements against the Framework.
 - Maintain a local code of governance, including arrangements for ensuring its ongoing application and effectiveness.
 - Prepare an **Annual Governance Statement** (As required in the Accounts and Audit Regulations 2015) in order to report publicly on the extent to which they comply with their own code on an annual basis, including how they have monitored the effectiveness of their governance arrangements in the year, and on any planned changes in the coming period.

4. Process to Support the Annual Governance Statement

- 3.1 The proposed timetable for producing the AGS reflects input from Members and Officers to the process.
- 3.3 The following arrangements are in place to enable the production of the AGS in 2019/20:

a) Annual Review of Corporate Governance (Assurance Gathering process)

An assurance mapping exercise to identify potential sources of assurance available will be carried out with the aim of:

- Mapping systems / processes in relation to which assurance is required in accordance with the existing CIPFA framework.
- Identifying existing sources of assurance to confirm that key controls / risks are operating / managed effectively. Sources include:

- **Management Controls** including legal compliance, performance management, and risk and financial reporting functions operating at corporate and directorate level;
- **Internal assurance** including Internal Audit, other compliance functions and internal review work;
- **External assurance** e.g. External auditor and other inspectorates, partner's compliance functions etc.

In addition, as part of this process, the Council's Corporate Governance Code will be reviewed and updated where applicable to ensure it reflects changes including the updated CIPFA/SOLACE guidance.

b) Production and Approval of the Annual Governance Statement

- Input from Members and Officers to produce and approve the 2019/20 AGS includes:
 - Directors and senior managers to contribute to the content of the Statement.
 - Directors and senior managers to review the adequacy/robustness of the Statement.
 - Chief Executive and Leader to agree the draft AGS.
 - Draft Annual Governance Statement to accompany the draft accounts to be provided to the External Auditor.
 - Draft Annual Governance Statement to be shared with the Audit Committee.
 - Audit Committee to approve the final version of the AGS, which is signed by the Chief Executive and Leader, and accompanies the Council's final accounts.

3.4 The planned timetable for the process of producing the AGS is in Appendix A. This may be subject to change following any further guidance from CIPFA.

4. Benefits of the Process

- 4.1 It is noted that whilst there is a legislative requirement to complete the AGS, the information provided by the exercise is of benefit to the Council as it enables an assessment of governance arrangements across the Council, and identifies where strengths and areas for development exist in those arrangements. Where significant governance issues are identified, progress can be monitored as required through the year (and reflected within the following year's AGS).
- 4.2 It is recognised that the proposed approach is considerably different to previous years and there is likely to be a significant amount of work to update the Council's AGS. Progress and potential areas for future development will be identified and reported to the committee to support and improve the process in future years.

Lisa Kitto
Interim Deputy Chief Finance Officer

List of Background Papers:
None

Contact Details:-

Document Pack Page 11

Lisa Kitto, Interim Deputy Chief Finance Officer
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Email: l.kitto@bury.gov.uk

Action Plan to enable the production of the Annual Governance Statement for 2019/20

| Actions Required | Completion date |
|--|------------------|
| <ul style="list-style-type: none"> Audit Committee to receive report outlining the Authority's approach to the Annual Governance Statement for 2019/20. | 25 February 2020 |
| <ul style="list-style-type: none"> Obtain assurance on risk management processes / management of strategic risks – final update of Strategic Risk Register for 2019/20 to be agreed by the Joint executive Team. | March 2020 |
| <ul style="list-style-type: none"> Production of the Annual Head of Internal Audit Report and opinion – based on work completed by the Audit and Assurance Service during 2019/20 providing assurance relating to key systems, procedures and controls in place across the Council. | May 2020 |
| <ul style="list-style-type: none"> Review and evaluation of the Authority's actual position in relation to its Corporate Governance Code. Complete collation of evidence to support the production of the draft Statement. | April/May 2020 |
| <ul style="list-style-type: none"> Production of a first draft of the Annual Governance Statement and updated Corporate Governance Code for review by / comment from senior officers. | May 2020 |
| <ul style="list-style-type: none"> Draft Annual Governance Statement for 2019/20 to be agreed by the Chief Executive and Leader and shared with the External Auditors and Audit Committee. | May/June 2020 |
| <ul style="list-style-type: none"> Final Annual Governance Statement 2019/20, signed by the Chief Executive and Leader, to be submitted to accompany the final accounts and approved by the Accounts and Audit Committee. | July 2020 |



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| Agenda | |
| Item | |

MEETING: AUDIT COMMITTEE

DATE: 25 FEBRUARY, 2020

SUBJECT: ACCOUNTING POLICIES USED IN THE PREPARATION OF THE STATEMENT OF ACCOUNTS 2019/20 AND APPROACH TO THE CLOSURE PROCESS

REPORT FROM: INTERIM DEPUTY CHIEF FINANCE OFFICER

CONTACT OFFICER: LISA KITTO

MEETING: AUDIT COMMITTEE

DATE: 25 FEBRUARY, 2020

SUBJECT: CLOSURE OF ACCOUNTS 2019/20

REPORT FROM: INTERIM DEPUTY CHIEF FINANCE OFFICER

CONTACT OFFICER: LISA KITTO

TYPE OF DECISION: Non key.

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

SUMMARY: This report sets out the process for the production of the statement of accounts 2019/20 including a review of the accounting policies.

OPTIONS & RECOMMENDED OPTION Members are asked to:

- Note the accounting policies to be used in the production of the statement of Accounts 2019/20

IMPLICATIONS:

Corporate Aims/Policy Framework: Yes

Financial Implications and Risk Considerations:

There are no financial implications arising from this report.

Statement by the Joint Chief Finance Officer (S151 Officer):

The proposed approach is in line with best practice as part of the annual closure process.

Equality/Diversity implications:

None.

Considered by Monitoring Officer:

Yes

Are there any legal implications?

No

Staffing/ICT/Property:

There are no direct resource implications arising from the report.

Wards Affected:

The work of Internal Audit impacts on all of the Council's wards and Township Forums.

Scrutiny Interest:

None

TRACKING/PROCESS**DIRECTOR: Mike Woodhead**

| Chief Executive/ Strategic Leadership Team | Cabinet Member/Chair | Ward Members | Partners |
|--|-------------------------|---------------------|----------|
| | ✓Chair | | |
| Scrutiny | Cabinet | Committee | Council |
| | | Audit 25/02/2020 | |

1.0 BACKGROUND

The Chief Finance Officer is responsible for the preparation of the council's statement of accounts in accordance with proper accounting practices, for each financial year ending 31 March. These practise primarily comprise the Code of Practice on Local Council Accounting in the United Kingdom (CIPFA and the Local Council (Scotland) Accounts Advisory Committee (LASAAC)) supported by the International Financial Reporting Standards (IFRS).

In preparing the statement of accounts, the Chief Finance Officer is responsible for selecting suitable accounting policies and ensuring they are applied consistently. Accounting policies are the specific principles, conventions, rules and practices applied in preparing and presenting the financial statements and set out how transactions are recognised, presented and measured in the accounts.

Whilst there has been no change in the substance of the accounting policies, the policies have been streamlines in line with the latest guidance by the Chartered Institute of Public Finance and Accountancy (CIPFA). The aim of which is to provide clearer and more transparent information. A summary of the accounting policies is set out at Appendix A.

In preparing for the 2019/20 statement of Accounts, the Council is seeking to address some of the issues raised by the external auditors in their Management Letter relating to the 2018/19 Statement of Accounts. A verbal update on the work to date as well as the planned work will be provided at the meeting. The aim of this is to provide assurance to the committee that the issues raised have, or are being addressed to ensure a successful audit for 2019/20.

Lisa Kitto
Interim Deputy Chief Finance Officer

List of Background Papers:

None

Contact Details:-

Lisa Kitto, Interim Deputy Chief Finance Officer

Tel. 0161

Email: l.kitto@bury.gov.uk

ACCOUNTING POLICIES FOR THE 2019/20 STATEMENT OF ACCOUNTS**1. General Principles****1.1 Basis of preparation**

The Statement of Accounts summarises the Council's transactions for the 2019/20 financial year and its position at the year end of 31 March 2020. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Council Accounting in the United Kingdom 2019/20 (the Code) supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments. The accounts have been prepared on a going concern basis, under the assumption that the Council will continue in existence for the foreseeable future.

1.2 Events after the Balance Sheet Date

Events may occur between the balance sheet date and the date when the Statement of Accounts is authorised for issue, which may have a bearing upon the financial results of the past year. Two types of events can be identified:

- Conditions existing at the end of the reporting period:
 - The Statement of Accounts would be adjusted to reflect such events.
- Conditions arising after the end of the reporting period:
 - The Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes to the accounts of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

1.3 Group Accounts

The Council has material interest in external entities that are classified as subsidiaries and which are consolidated into the Council's group accounts on a line by line basis, after eliminating intra group transactions.

An entity could be material but still not consolidated if all of its business is with the Council and eliminated on consolidation – i.e. the consolidation would mean that the group accounts are not materially different to the single entity accounts.

1.4 Pooled Budgets

The Council is the host partner of the pooled funds in respect of Health and Social care and the Better Care Fund. The arrangements are made in accordance with section 75 of the National Health Service Act 2006 and allows budgets to be pooled between authorities and health and social care organisations.

The arrangements are accounted for as joint operations and, therefore, the Council accounts for its share of the funds' assets, liabilities, expenditure and income.

1.5 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

2. Accounting policies for income and expenditure

2.1 Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received.

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made. Interest receivable on investments and payable on borrowings is accounted for respectively as income and

expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract

- Revenue and expenditure recognised but cash not received or paid. A debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

2.2 Capital Charges to Revenue for Non-Current Assets

Services, are charged with the following amounts to record the cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service.
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- amortisation of intangible non-current assets attributable to the service.

The Council is not allowed to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in the approved Minimum Revenue Provision policy. Depreciation, revaluation and impairment losses, and amortisation are replaced by Minimum Revenue Provision (MRP). This adjusting transaction is included in the Movement in Reserves Statement with the Capital Adjustment Account charged with the difference between the two amounts.

2.3 Council Tax and Non Domestic Rates income

Council Tax, Retained Business Rates and Business Rates Top-up Grant income included in the Comprehensive Income and Expenditure Statement for the year will be treated as accrued income.

Business Rates, Business Rates Top-up Grant and Council Tax income will be recognised in the Comprehensive Income and Expenditure Statement within the Taxation and Non-Specific Grant Income line. As a billing Council, the difference between the Business Rates and Council Tax included in the Comprehensive Income and Expenditure Statement and the amount required by regulation credited to the General Fund is taken to the Collection Fund Adjustment Account and reported in the Movement in Reserves Statement. Each major preceptor's share of the accrued Business Rates and Council Tax income is available from the information that is required to be produced in order to prepare the Collection Fund Statement.

Business Rates and Council Tax income is recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the Council, and the amount of revenue can be measured reliably.

Revenue relating to Council Tax and Business Rates is measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates

2.4 Depreciation

Depreciation is provided for Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

| Category | Measurement Basis |
|--|--|
| Dwellings | Component Life |
| Other Buildings | Straight line allocation over the useful life of the property as estimated by the valuer. |
| Vehicles, plant, furniture and equipment | straight-line allocation over the useful life of the asset as estimated by a suitably qualified officer. |
| Infrastructure | Straight line allocation up to 25 years |

Revaluation gains are depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

2.5 Employee Benefits

2.5.1 **Benefits Payable During Employment**

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave, paid sick leave, flexi and time off in lieu (TOIL) as well as bonuses and non-monetary benefits (e.g. mobile phones) for current employees and are recognised as an expense for services in the year in which employees render service to the Council.

2.5.2 **Employee Accumulated Absence Accrual**

An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the current accounting year. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday entitlement occurs.

2.5.3 **Termination Benefits**

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the relevant services lines in the Comprehensive Income and Expenditure Statement at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the

amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

2.5.4 Post-Employment Benefits

Employees of the Council are members of three separate pension schemes:

- The Greater Manchester Local Government Pension Scheme, administered by Tameside Metropolitan Borough Council.
- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).
- The NHS Pension Scheme, administered by EA Finance NHS Pension

These schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees working for the Council.

However, the arrangements for the teachers' and NHS schemes means that liability for these benefits cannot be identified specifically to the Council. These schemes are therefore accounted for as if they are a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet.

2.5.5 The Greater Manchester Local Government Pension Scheme

The Greater Manchester Local Government Pension Scheme is accounted for as a defined benefits scheme. The liabilities of the Greater Manchester Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method; an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projections of future earnings for current employees. Liabilities are discounted to their value at current prices, using a discount rate (based on the indicative rate of return on a basket of high quality corporate bonds, Government gilts and other factors).

The assets of the Greater Manchester Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:

- quoted securities – current bid price
- unquoted securities – professional estimate
- unitised securities – current bid price
- property – market value

The change in the net pension liability is analysed into following components:

- current service cost – the increase in liabilities as a result of years of service earned in the current year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
- past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years will be debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs.

- net interest on the net defined benefit liability - the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period, taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.

2.5.6 Remeasurement comprising:

- the return on plan assets – excluding amounts included in net interest on the net defined benefit liability – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Contributions paid to the Greater Manchester Pension Fund - cash paid as employer contributions to the pension scheme in settlement of liabilities; not accounted for as an expense.

Statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve, to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

2.6 Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line

(attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement.

Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Where revenue grants are credited to the Comprehensive Income and Expenditure Statement but have yet to be used to fund revenue expenditure, they are posted to the Revenue Grant Reserve. When eligible expenditure is incurred in future years the grant is transferred back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

2.7 Overheads and Support Services

The costs of support services such as administration and management are charged to services in accordance with the Council's arrangements for accountability and performance

2.8 Provisions, Contingent Liabilities and Contingent Assets

2.8.1 Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made) the provision is reversed and credited back to the relevant service revenue account.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim) it is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

2.8.2 Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

2.8.3 Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

2.9 Revenue Expenditure Funded from Capital under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of Council Tax.

2.10 Revenue Recognition

Revenue is defined as income arising as a result of the Council's normal operating activities and where income arises from contracts with service recipients it is recognised when or as the Council has satisfied a performance obligation by transferring a promised good or service to the service recipient.

Revenue is measured as the amount of the transaction price which is allocated to that performance obligation. Where the Council is acting as an agent of another organisation the amounts collected for that organisation are excluded from revenue

2.11 Value Added Tax (VAT)

Value Added Tax payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

3 Accounting policies for assets and liabilities

3.1 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of a change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

3.2 Fair Value Measurement

The Council measures some of its assets and liabilities at fair value at the end of the reporting period. Fair value is the amount that would be received to sell an asset or paid to transfer a liability at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council uses both in house and external valuers to provide a valuation of its non-financial assets and liabilities, for recognition or disclosure as appropriate, in line with the highest and best use definition within IFRS 13 Fair Value Measurement.

The highest and best use of the asset or liability being valued is considered from the perspective of a market participant. Inputs to the valuation techniques in respect of the Council's fair value measurement of its assets and liabilities are categorised within the fair value hierarchy as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date.
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – unobservable inputs for the asset or liability.

3.3 Financial Instruments

3.3.1 Classification of Financial Instruments

The Council's financial assets and liabilities have been classified as follows:

3.3.2 Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics.

There are three main classes of financial assets measured at:

- amortised cost
- fair value through other comprehensive income (FVOCI), and
- fair value through profit or loss (FVPL).

The Council's business model is to hold investments to collect contractual cash flows i.e. payments of interest and principal. Most of the Council's financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

3.3.3 Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

3.3.4 Financial Assets measured at Fair Value through other Comprehensive Income (FVOCI)

These assets relate to financial instruments where the amounts received relating to them are solely principal and interest but they are held to collect cash and sell the assets. The interest received on these assets is spread evenly over the life of these instruments.

Changes in fair value are posted to Other Comprehensive Income and Expenditure and are balanced by an entry in the Financial Instruments Revaluation Reserve.

When the asset is de-recognised, the cumulative gain or loss previously recognised in Other Comprehensive Income and Expenditure is transferred from the Financial Instruments Revaluation Reserve and recognised in the Surplus or Deficit on the Provision of Services.

3.3.5 Financial Assets Measured at Fair Value through Profit of Loss (FVPL)

These assets relate to financial instruments where the amounts received relating to them are not principal and interest (e.g. equity investments). Dividends received are accounted for at the point they are received.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

An equity instrument that has been classed as FVPL can be designated as FVOCI if it is not held for trading (e.g. a strategic investment). Once this designation has been made it cannot be reversed. This designation would mean that any gains and losses would be held in the Financial Instruments Revaluation Reserve.

3.3.6 Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets held at amortised cost (or where relevant FVOCI), either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

3.3.7 Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings held by the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it

was repaid. When a premium or discount has been incurred and paid in full by a grant from an external body it is accounted for in full in the year that the grant is received. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

3.4 Heritage Assets

The Council's Heritage Assets are held by the Council principally for their contribution to knowledge and/or culture. These include Civic Regalia, Artefacts and various gifts & bequests some of which are held in the Museum and Art Gallery. These are recognised and measured, including treatment of revaluation gains and losses, in accordance with the Council's accounting policies on Property Plant and Equipment.

The land and building assets identified to date include Radcliffe Tower, the Dungeon and Rodger Worthington's grave. As there is no available valuation for these assets they have been reported at nominal value as recommended by the Council's property valuer.

However, some of the measurement rules are relaxed allowing the Council's Heritage Assets to be included on the Balance Sheet at their insured value where available. Where insurance valuations are not available there is a narrative disclosure.

Heritage assets are deemed to have an indefinite life, therefore are not depreciated as the charge made would be minimal and immaterial. Nevertheless, where there is evidence of physical deterioration to a Heritage Asset, or doubts arise to its authenticity, the value of the asset has to be reviewed.

3.5 Investment Property

Investment properties are those assets that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the highest and best use value of the asset. Investment properties are not depreciated, and an annual valuation programme ensures that they are held at highest and best use value at the Balance Sheet date. Gains and losses on revaluation are charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and charged to the Capital

Adjustment Account and (for any sale proceeds greater than £10,000) the Useable Capital Receipts Reserve.

3.6 Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as Lessee

Operating Leases:

Rental paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The Council as Lessor

Operating Leases:

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

3.7 Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

3.7.1 Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred. The Council has a £15,000 de-minimis limit for the recognition of Capital Expenditure.

3.7.2 Measurement

Assets are initially measured at cost, comprising:

- the purchase price.
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Assets that are being constructed by the Council will initially be recognised at cost. The Council does not capitalise borrowing costs incurred in the cost of acquisition, construction and completion of qualifying assets.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Assets are then carried in the Balance Sheet using the following measurement bases:

| Category | Measurement Basis |
|---|--|
| Community assets, infrastructure assets and assets under construction | Depreciated historical cost |
| Dwellings | Current value, determined using the basis of existing use value for social housing (EUV-SH). |
| Surplus Assets | Fair value, determined by the measurement of the highest and best use value of the asset |
| All Other operational Assets | Current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV). |

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value. For non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Assets included on the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Surplus or Deficit on the Provision of Services where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).

- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant Portfolio line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

3.7.3 Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist, and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant Portfolio line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant Portfolio line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

3.7.4 Component Accounting

Component accounting is applied only to housing stock in accordance with the analysis provided by the valuer.

3.7.5 Disposals

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

The written-off asset value of disposals is not a charge against the General Fund, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. If the disposal relates to housing assets a proportion of the capital receipt is payable to the Government (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances). The balance of receipts is required to be credited to the Useable Capital Receipts Reserve and can then only be used for new capital investment or set aside to reduce

the Council's underlying need to borrow (the capital financing requirement). Receipts are transferred to the Useable Capital Receipts Reserve from the General Fund Balance in the Movement in Reserves Statement.

3.8 Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

Certain reserves are held to manage the accounting processes for non-current assets, financial instruments, local taxation, retirement and employee benefits and do not represent usable resources for the Council. These reserves are further explained in the relevant policies.

3.9 Schools

In line with accounting standards and the Code on group accounts and consolidation, all maintained schools are considered to be entities controlled by the Council. Rather than produce group accounts the income, expenditure, assets, liabilities, reserves and cash flows of each school are recognised in the Council's single entity accounts.

The Council has the following types of maintained schools under its control:

- Community
- Voluntary Aided
- Voluntary Controlled
- Foundation

Schools' non-current assets (school buildings and playing fields) are recognised on the Balance Sheet where the Council directly owns the assets, where the Council holds the balance of control of the assets or where the school or the school governing body own the assets or have had rights to use the assets transferred to them through a licence arrangement.

When a maintained school converts to an Academy, the school's non-current assets held on the Council's Balance Sheet are treated as a disposal. The carrying value of the asset is written off to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

The written-off asset value is not a charge against the General Fund, as the cost of non-current asset disposals resulting from schools transferring to an Academy is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

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Annual Audit Letter

Bury Metropolitan Borough Council

Year ended 31 March 2019





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Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Council and we take no responsibility to any member or officer in their individual capacity or to any third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for Bury Metropolitan Borough Council for the year ended 31 March 2019. Although this letter is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

| Area of responsibility | Summary |
|--|---|
| Audit of the financial statements | <p>Our auditor's report issued on 8 November 2019 included our opinion that the financial statements:</p> <ul style="list-style-type: none"> • give a true and fair view of the Council's financial position as at 31 March 2019 and of its expenditure and income for the year then ended; and • have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19. |
| Other information published alongside the audited financial statements | <p>Our auditor's report issued on 8 November 2019 included our opinion that:</p> <ul style="list-style-type: none"> • The other information in the Statement of Accounts is consistent with the audited financial statements. |
| Value for Money conclusion | <p>Our auditor's report concluded that we are satisfied that in all significant respects, that the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.</p> |
| Reporting to the group auditor | <p>In line with group audit instructions issued by the NAO in June 2019, we reported to the group auditor in line with the requirements applicable to the Council's WGA return on 8 November 2019.</p> |
| Statutory reporting | <p>Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Council.</p> <p>The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts. We have not received any such objections in respect of the Council's accounts for the year ended 31 March 2019.</p> |

2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements

Unqualified

The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2019 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, issued to the Council on 8 November 2019, stated that, in our view, the financial statements give a true and fair view of the Council's financial position as at 31 March 2019 and of its financial performance for the year then ended.

Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2019:

| | | |
|---------------------------------|--|-------------|
| Financial statement materiality | Our financial statement materiality is based on 2.0% of Gross Revenue Expenditure at Surplus/deficit on Provision of Services level. | £11,790,000 |
| Trivial threshold | Our trivial threshold is based on 3% of financial statement materiality. | £357,000 |
| Specific materiality | We have applied a lower level of materiality to the following area of the accounts: Senior officers remuneration. | £5,000 |

2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Council's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit Panel within the Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

| Significant risk | Description of the risk |
|---------------------------------|--|
| Management override of controls | In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits. |
| | How we addressed this risk We addressed this risk through performing audit work over: <ul style="list-style-type: none"> Accounting estimates impacting on amounts included in the financial statements; Consideration of identified significant transactions outside the normal course of business; and Journals recorded in the general ledger and other adjustments made in preparation of the financial statements. |
| | Audit conclusion We have not identified any significant matters arising from our testing of the risk of management override of controls. |

2. AUDIT OF THE FINANCIAL STATEMENTS

Significant risk

Valuation of
Property, Plant,
and Equipment

Description of the risk

The CIPFA Code requires that where assets are subject to revaluation, their year end carrying value should reflect the fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued in a five year cycle.

The valuation of Property, Plant & Equipment involves the use of a management expert (the valuer), and incorporates assumptions and estimates which impact materially on the reported value. There are risks relating to the valuation process.

As a result of the rolling programme of revaluations, there is a risk that individual assets which have not been revalued for up to four years are not reported at their materially correct fair value. In addition, as the valuations are undertaken through the year there is a risk that the fair value of the assets is materially different at the year end.

How we addressed this risk

In relation to the valuation of property, plant and equipment we have:

- Critically assessed the valuer's scope of work, qualifications, objectivity and independence to carry out the Council's programme of revaluations;
- Considered whether the overall revaluation methodology used by the Council's valuer was in line with industry practice, the CIPFA Code of Practice and the Council's accounting policies;
- Critically assessed the appropriateness of the underlying data and the assumptions used in the valuer's calculations, based on our expectations by reference to sector and local knowledge;
- Assessed the movement in market indices between the revaluation dates and the year end to determine whether there had been material movements over that time;
- Critically assessed the treatment of the upward and downward revaluations in the Council's financial statements with regards to the requirements of the CIPFA Code of Practice;
- Requested the Council to provide us with its documented assessment of the value of those assets not subject to revaluation in the year. We then critically assessed the approach the Council adopted to ensure that assets not subject to revaluation in 2018/19 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council's valuers;
- Tested a sample of items of capital expenditure in 2018/19 to confirm that the additions were appropriately valued in the financial statements.

Audit conclusion

Testing has provided material assurance in relation to this risk. However, we identified a number of issues which were reported to Those Charged with Governance.

We recommend improvements in arrangements and we report unadjusted misstatements.

2. AUDIT OF THE FINANCIAL STATEMENTS

Significant risk

Valuation of
defined benefit
pension liability

Description of the risk

The Council is an admitted body of Greater Manchester Pension Fund, which had its last triennial valuation completed as at 31 March 2016.

The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Council's overall valuation.

There are financial assumptions and demographic assumptions used in the calculation of the Council's valuation, such as the discount rate, inflation rates and mortality rates. The assumptions should also reflect the profile of the Council's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.

There is a risk that the assumptions and methodology used in valuing the Council's pension obligation are not reasonable or appropriate to the Council's circumstances. This could have a material impact to the net pension liability in 2018/19.

How we addressed this risk

In relation to the valuation of the Council's defined benefit pension liability we have:

- Critically assessed the competency, objectivity and independence of the Greater Manchester Pension Fund's Actuary, Hymans Robertson;
- Liaised with the auditors of the Greater Manchester Pension Fund and gained assurance that the controls in place at the Pension Fund are operating effectively. This included the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS19 valuation was complete and accurate;
- Reviewed the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This included comparing them to expected ranges, utilising information provided by PWC, consulting actuary engaged by the National Audit Office;
- Agreed the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements.

Audit conclusion

We have concluded that the estimate of the pensions liability is materially accurate.

Management have reviewed the basis of the estimate for the liability following the outcome of two recent court cases. These cases give rise to an additional liability of in respect of the Council and consolidated entities, with the total for the consolidated group being £4.989m. Management have decided not to amend the accounts on the grounds of materiality. This issue has been appropriately reported via the Audit Completion Report.

2. AUDIT OF THE FINANCIAL STATEMENTS

Enhanced Risk

Description of the risk

Valuation of
Manchester
Airport Investment

The Council's shareholding in the Manchester Airport Holdings Group Limited (MAHG Ltd.) has been valued by a firm of financial experts, engaged by management, based on assumptions about financial performance, stability, and key business projections. The figure disclosed in your accounts in relation to MAHG Ltd. is at fair value.

There is a risk that the assumptions and methodology used by your experts are not appropriate and we will need to obtain assurance that accounting entries are not materially misstated.

How we addressed this risk

We have addressed this risk by:

- Assessing the scope of work, qualifications, objectivity and independence of the expert engaged to carry out the valuation assessment of the airport shares; and
- Utilising the services of our internal valuation expert to review the work completed by management's expert and to evaluate the appropriateness of the assumptions applied to arrive at the figure in the financial statements.

Audit conclusion

We have assurance that the valuation of the Council's shareholding is materially correct.

Significant difficulties during the audit

During the course of the audit we encountered some significant difficulties with the accounts initially presented for audit, most notably in relation to the compliance with the Code, the capital accounting arrangements, and responses to audit. This meant there was extensive and unexpected effort required to obtain sufficient, appropriate audit evidence, including in respect of the following, which is indicative rather than exhaustive.

General compliance with the Code

Our detailed technical review of the accounts, undertaken on receipt, identified:

- several areas of material non-compliance with the Code in relation to disclosure and presentation;
- the use of incorrect or non-compliant terminology throughout leading to uncertainty over treatment and required accounting entries; and
- omitted Notes and supporting analyses.

In addition, and as set out in section 4 of this report, there were material amendments required in relation to the Statements such as the:

- incorrect presentation of amounts relating to levies;
- inappropriate application of statutory override when consolidating the group pension figures; and
- omission of the comparator Note for Property, Plant and Equipment.

There were also significant, but not individually material, classification issues such as those relating to the interest in land at Manchester Airport.

As some of these issues required prior period adjustment, the inclusion of a third balance sheet (the position at 01 April 2017) was also required.

2. AUDIT OF THE FINANCIAL STATEMENTS

Accounting for Property Plant & Equipment

Accounting for Property Plant & Equipment is one of the more technically difficult areas of the Council's accounts. It is also one of the areas of highest value and therefore is identified by us as an area where there is a significant risk of material error. Our audit work identified a number of issues:

- the fixed asset register did not initially reconcile to the ledger and accounts disclosures;
- the instructions to the Council's valuer were last issued in 2014/15 and were therefore out of date. There was no evidence of review or consideration of the work required in the intervening period;
- there was a lack of clarity on the effective date of revaluations undertaken in year - the extant (though dated) instructions to the valuer and valuation certificates were based on 1 April 2018 but finance applied the valuations as at 31 March 2019;
- the consequence of the confusion above the valuation date gave rise to an error in the depreciation charge for 2018/19, as well as the amounts charged through the capital reserves;
- Management had not undertaken a consideration of the value of assets not formally revalued in year to provide assurance that these assets were not materially misstated within the Balance Sheet. This consideration was sought from the valuer at our request. However, the valuers response related only to those assets held at fair value, based on a consideration of the movements in relevant market indices. It did not include a consideration or commentary on those assets held at depreciated replacement cost where factors like the increase in construction costs are also key factors. The potential impact of which this is set out on page 15;
- detailed testing for our sample of specific asset valuations undertaken in the year identified errors in records supporting approximately half of the assets in our sample. Once followed up by Management, this resulted in changes (both increases and decreases) in the asset values included in the accounts for one third of the assets tested. Further information on the potential impact of these errors is set out on page 15; and
- detailed substantive testing identified errors with the classification of assets.

We have identified significant issues with the Council's approach to and controls operating in respect of capital accounting. However, as the errors and uncertainties reflect both increases and decreases to the value of the Property Plant & Equipment portfolio, we are satisfied that the balance sheet is not materially misstated in the 2018/19 Statement of Accounts. However, a considerable amount of work will be required by the Council to improve the arrangements and to correct the underlying records.

Responding to Audit

There is scope for the Council to improve the working papers provided for audit. In many cases, the working papers were voluminous and did not provide clarity over the entries, balances, and other analyses within the financial statements as a whole. This resulted in a higher than usual number of audit queries, created additional work for finance staff and delayed the progress of our audit.

The difficulties we have encountered also demonstrated that there are several areas within the accounts where there is a key person risk relating to some of the most complex entries within the accounts.

Conclusion

Though we have been able to complete our audit, the above issues resulted in a delay to the audit opinion beyond the target date of 31 July 2019 as well as missing the submission date for the WGA return. The delay presents a reputational risk for the Council, particularly if the situation persists, as well as additional work for the finance team and additional audit costs. Management have taken on board the issues raised and we will work with the Council to ensure that the above issues are addressed prior to the next audit cycle.

3. INTERNAL CONTROL RECOMMENDATIONS

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

| Priority ranking | Description | Number of issues |
|-------------------|---|------------------|
| 1 (high) | In our view, there is potential for financial loss, damage to reputation, or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately. | 0 (None) |
| 2 (medium) | In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future. | 1 (One) |
| 3 (low) | In our view, internal control should be strengthened in these additional areas when practicable. | 1 (One) |

3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

Other deficiencies in internal control – Level 2

Description of deficiency

There are weaknesses and lack of clarity in the processes and data used to prepare the valuation of the Council's property, plant, and equipment. Enquiry has also identified weaknesses in the underlying data systems and maintenance of underlying standing data.

Potential effects

The valuation of the asset portfolio of the Council could have a significant variance in valuation as a result of the deficiencies in this area, and could lead to inappropriately valued transactions relating to depreciation, impairment losses, valuation gains, and the potential impact on the capital reserves.

Recommendation

New and revised instructions to be provided to the valuation specialist, with an annual review undertaken and documented where full revision not required. A data corroboration exercise to ensure underlying asset data is materially accurate

Management response

Agreed. The CFO will work with the Council's property management team and finance colleagues to arrange for a comprehensive review of the processes, data and systems regarding asset valuations during Q3, taking advice from external auditors. Revised processes will be in place for Q4.

Other recommendations on internal control – Level 3

Description of deficiency

The work of our Technology Risk Services team have identified a number of weaknesses within the IT security architecture.:

- the active directory allows 30 password attempts to access the network;
- the password policy for some access does not include any complexity, length, or attempt parameters;
- there is no regular periodic review to ensure user access rights are appropriate; and
- we identified 2 cases where some ledger access rights were not restricted in line with expectation.

Potential effects

There is a risk that the network or specific systems could be accessed by illegitimate users, which presents a risk of loss of sensitive data, and access to the network presenting wider network integrity risks. The work undertaken by my colleagues in TRS has not identified any instances of these issues being exploited.

Recommendation

That the IT security architecture is reviewed and strengthened, particularly in light of the enhanced data protection requirements the Council is subject to.

Management response

A detailed review of the Council's IT security architecture will take place during Q3 with recommendations to tighten control and minimise risk.

3. VALUE FOR MONEY CONCLUSION

Value for Money conclusion

Unqualified

Our approach to Value for Money

We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Significant Value for Money risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our Value for Money work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. In our Audit Strategy Memorandum, we reported that we had identified two significant Value for Money risk(s). The work we carried out in relation to significant risks is outlined overleaf.

Our overall Value for Money conclusion

Our auditor's report dated 8 November 2019 includes an unqualified Value for Money conclusion for the 2018/19 financial year.

3. VALUE FOR MONEY CONCLUSION

Significant Value for Money risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our Value for Money work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. In our Audit Completion Report, we reported that we had identified two significant Value for Money risk. The work we carried out in relation to significant risks is outlined below.

| Risk | Work undertaken | Conclusion |
|--|---|---|
| <p>Working with partners and third parties: governance and risk management</p> <p>The Council is working with Bury Clinical Commissioning Group (CCG) and other partners (such as local care providers), to help secure a sustainable health and social care economy.</p> <p>By putting in place arrangements for the Council, care organisations, and the CCG, to work more closely together, it is anticipated that developing new models of care for community health, primary care and social care services will have a significant impact.</p> | <p>We have reviewed the arrangements in place for the Council to work with its partners to deliver the transformation and strategic development of the Borough's health and social care economy, how the governance arrangements have operated, and how the arrangements and risks have been monitored and managed.</p> <p>This has included review of detailed consideration and reporting by internal audit, as well as other sources of information, and direct meetings with senior officers with direct responsibility for the programmes, such as the Executive Director of Children & Young People, the (interim) Executive Director of Communities & Wellbeing, and the Joint Chief Finance Officer for the Council and CCG.</p> <p>The Council has put in place a series of initiatives to provide greater insight, the increased need for key metrics to help identify early intervention measures, and ownership of the financial impact of operational decisions taken. Reports are submitted to the relevant meeting setting out the pertinent issues and decisions are appropriately recorded.</p> <p>There is evidence of appropriate and regular monitoring and reporting, including of financial due diligence around partner and scheme selection criteria.</p> | <p>The arrangements in place to manage this risk are appropriate and effective.</p> |

3. VALUE FOR MONEY CONCLUSION

| Risk | Work Undertaken | Conclusion |
|---|---|---|
| Sustainable Resource Deployment: financial resilience <p>The Council continues to face significant financial pressures over the coming years both in terms of funding and revenue streams available, and increasing demand on services. The Council has a forecast budget gap over the coming years, and will need to deliver a programme of cost savings and management of service delivery in order to address this.</p> <p>The latest funding settlement has recently been announced by central government, as well as some additional amounts made available within the autumn budget statement for specific purposes.</p> | <p>We have reviewed the arrangements in place for the Council to work with its partners to deliver the transformation and strategic development of the Borough's health and social care economy, how the governance arrangements have operated, and how the arrangements and risks have been monitored and managed.</p> <p>This has included review of detailed consideration and reporting by internal audit, as well as other sources of information, and direct meetings with senior officers with direct responsibility for the programmes, such as the Executive Director of Children & Young People, the (interim) Executive Director of Communities & Wellbeing, and the Joint Chief Finance Officer for the Council and CCG.</p> <p>The Council has put in place a series of initiatives to provide greater insight, the increased need for key metrics to help identify early intervention measures, and ownership of the financial impact of operational decisions taken. Reports are submitted to the relevant meeting setting out the pertinent issues and decisions are appropriately recorded.</p> <p>There is evidence of appropriate and regular monitoring and reporting, including of financial due diligence around partner and scheme selection criteria.</p> | <p>The arrangements in place to manage this risk are appropriate and effective.</p> |

4. OTHER REPORTING RESPONSIBILITIES

| | |
|--|----------------------|
| Exercise of statutory reporting powers | No matters to report |
| Completion of group audit reporting requirements | No matters to report |
| Other information published alongside the audited financial statements | Consistent |

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Council's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- Issue a report in the public interest
- Make a referral to the Secretary of State where we believe that a decision has led to, or would lead to, unlawful expenditure, or an action has been, or would be unlawful and likely to cause a loss or deficiency; and
- Make written recommendations to the Council which must be responded to publicly.

We have not exercised any of these statutory reporting powers.

The 2014 Act also requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts. We have received one objection in respect of the Council's accounts for the year ended 31 March 2019 relating to payments made by the Council to a third party. We will consider this matter and respond in due course.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data, and to carry out certain tests on the data. We submitted this information to the NAO on 8 November 2019.

Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Council. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.

5. OUR FEES

Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Audit Panel in January 2019.

Having completed our work for the 2018/19 financial year, we can confirm that our final fees are as follows:

| Area of work | 2018/19 proposed fee | 2018/19 final fee* |
|---|----------------------|--------------------|
| Delivery of audit work under the NAO Code of Audit Practice | £89,882 | TBC |

*The final fee will include an additional charge of £600 in respect of work undertaken on the pension liability regarding GMP and McCloud legal rulings. This is subject to approval by PSAA Ltd.

Fees for other work

We confirm that we have not undertaken any non-audit services for the Council in the year.

6. FORWARD LOOK

Audit Developments

Code of Audit Practice

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. We have responded to the National Audit Office's consultation on the content of the Code (<https://www.nao.org.uk/code-audit-practice/about-code/>)

A new Code will be laid in Parliament in time for it to come in to force no later than 1 April 2020.

Financial Resilience

Government Spending Review

The Council will need to consider the outcome of any such reviews undertaken (following the December 2019 election), into its Medium Term Financial Plan. The Spending Review planned for 2019 was postponed, with Government indicating that any reviews for periods from 2020/21 will be undertaken during 2020. Regardless of the timing and period covered by the Spending Review, the Council recognises the key issue is the management of general reserves to a level that ensures it remains financially resilient and able to deliver sustainable services. It must, therefore, ensure it clarifies and quantifies how it will bridge the funding gap through planned expenditure reductions and/ or income generation schemes.

Local Authority Financial Resilience Index

CIPFA is moving forward with its financial resilience index, which it believes will be a barometer on which local authorities will be judged. We would expect the Council to have at least considered the index once it is formally released.

Commercialisation

The National Audit Office published a report on Commercialisation during 2019. Depending on the Council's appetite for Commercialisation, we would expect the Council to consider the outcome of the report and ensure any lessons learnt are incorporated into business practice.

Further, the UK Debt Management Office's Annual Report, published on 23 July 2019, reported that, as at 31 March 2019, the Public Works Loan Board's loan book was £78.3 billion with 1,308 new loans totalling £9.1 billion advanced during the year. As a result, we expect local authorities to clearly demonstrate:

- the value for money in the use of Public Works Loan Board funds to acquire commercial property
- the arrangements for loan repayment through the updated Statutory Guidance on Minimum Revenue Provision in 2019/20, 2020/21 and beyond.

Financial Reporting

UK Local Government Annual Accounts

The CIPFA/LASAAC Local Authority Code Board specifies the financial reporting requirements for UK local government. A consultation is underway to inform the direction and strategy for local government annual accounts. We will be submitting our response and suggest practitioners also voice their opinion.

Lease accounting

The implementation of IFRS 16 *Leases* in the Code is delayed until 1 April 2020. The Council will need a project plan to ensure the data analysis and evaluation of accounting entries is completed in good time to ensure any changes in both business practice and financial reporting are captured.

CONTACT

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Audit Strategy Memorandum

Bury Metropolitan Borough Council

Year ending 31 March 2020





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8. Our commitment to independence

Appendix A – Key communication points

Appendix B - Forthcoming accounting and other issues

This document is to be regarded as confidential to Bury Metropolitan Borough Council. It has been prepared for the sole use of the Audit Committee as the appropriate sub-committee charged with governance. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

Audit Committee
Bury Metropolitan Borough Council
Bury Town Hall
Knowsley Street
Bury
BL9 0SW

25 February 2020

Dear Sirs / Madams

Audit Strategy Memorandum – Year ending 31 March 2020

We are pleased to present our Audit Strategy Memorandum for Bury Council for the year ending 31 March 2020.

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, Section 8 of this document also summarises our considerations and conclusions on our independence as auditors.

We consider two-way communication with you to be key to a successful audit and important in:

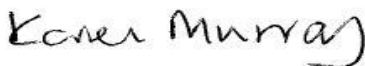
- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Bury Council which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

This document, which has been prepared following our initial planning discussions with management, is the basis for discussion of our audit approach, and any questions or input you may have on our approach or role as auditor.

This document also contains specific appendices that outline our key communications with you during the course of the audit, and forthcoming accounting issues and other issues that may be of interest.

Client service is extremely important to us and we strive to continuously provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 0161 238 9248.

Yours faithfully



Karen Murray, Partner and Engagement Lead

Mazars LLP

1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

Overview of engagement

We are appointed to perform the external audit of Bury Council (the Council) for the year to 31 March 2020. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: <https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/>

Our responsibilities

Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below:

Audit opinion

We are responsible for forming and expressing an opinion on the financial statements.

Our audit is planned and performed so to provide reasonable assurance that the financial statements are free from material error and give a true and fair view of the financial performance and position of the Council for the year.

Value for Money

We are required to conclude whether the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to Value for Money work in section 6 of this report.

Reporting to the NAO

We report to the NAO on the consistency of the Council's financial statements with its Whole of Government Accounts (WGA) submission.

Electors' rights

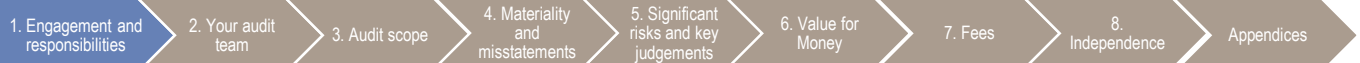
The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

Our audit does not relieve management or those charged with governance, of their responsibilities. The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on management controls that mitigate the fraud risks.

The Council is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. As auditors, we are required to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements and the adequacy of disclosures made.

For the purpose of our audit, we have identified the Audit Committee as those charged with governance.



2. YOUR AUDIT ENGAGEMENT TEAM



Karen Murray, Partner and Audit Engagement Lead

- E: karen.murray@mazars.co.uk
- T: 0161 238 9248



Ian Pinches, Manager

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- M: 07909 977987



Simon Livesey, Assistant Manager

- E: simon.Livesey@mazars.co.uk
- M: 07909 987654

3. AUDIT SCOPE, APPROACH AND TIMELINE

Audit Scope

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those affected by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

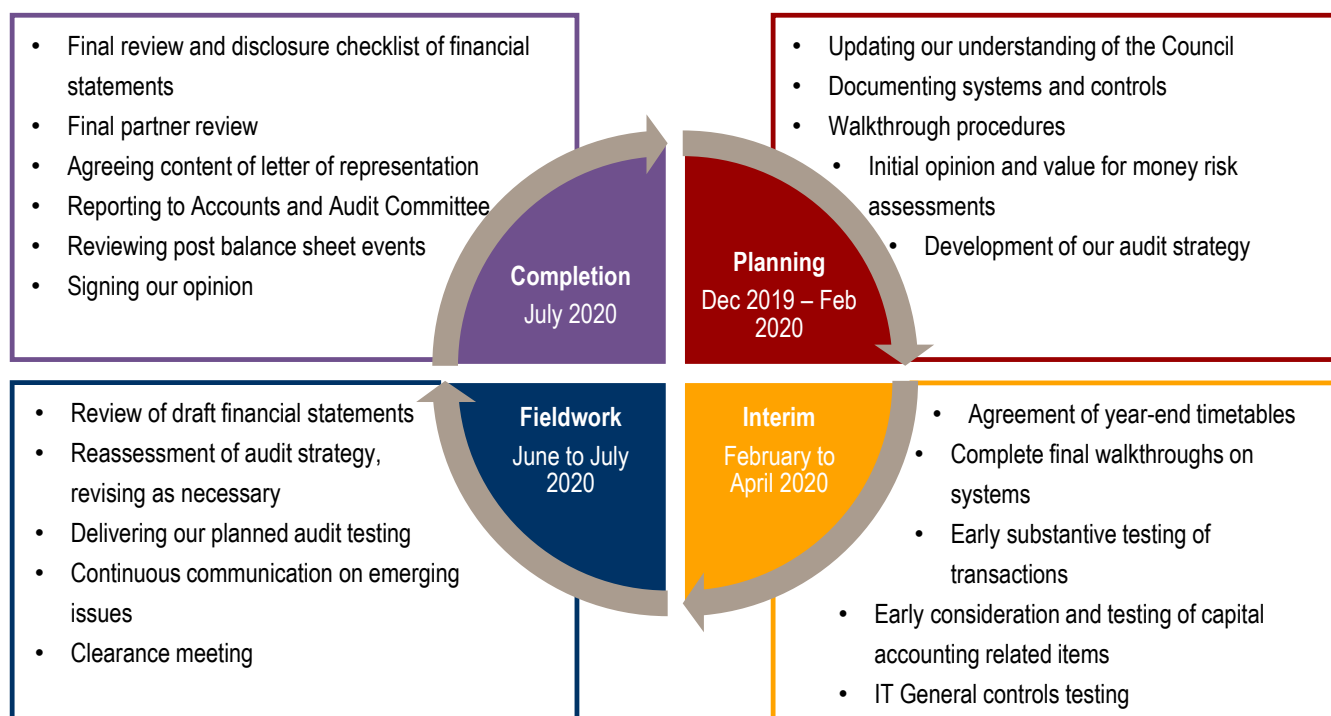
Audit approach

Our audit approach is designed to provide an audit that complies with all professional requirements. It is a risk-based approach primarily driven by the risks we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

If we conclude that appropriately-designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of details (of classes of transactions, account balances, and disclosures) and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 4.

The diagram below outlines the procedures we perform at the different stages of the audit.



3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Where we intend to rely on the work of internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

Management's and our experts

Management makes use of experts in specific areas when preparing the Council's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

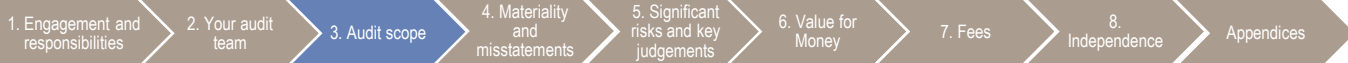
| Items of account | Management's expert | Our expert |
|---|----------------------------|--|
| Defined benefit liability | Hymans Robertson Actuaries | PwC, consulting actuary, on behalf of National Audit Office |
| Property, plant and equipment valuation | Property Services | We will use available third party information to challenge the key valuation assumptions |
| Valuation of shareholding in Manchester Airport Holding Limited | BDO LLP | In-house Mazars valuation team |
| Financial instrument disclosures | Link Asset Services | We will review the valuer's methodology to gain assurance that the fair value disclosures of the Council's financial assets and liabilities are materially correct |

Group audit approach

The Council prepares Group accounts and consolidates three wholly owned subsidiary companies, Bury MBC Townside Fields Limited, Persona Care & Support Limited, and Six Town Housing.

In auditing the accounts of the Council's Group financial statements we need to obtain assurance over the transactions in the Group relating to the Council's subsidiary companies. Our approach will reflect the size and complexity of the transactions with the subsidiary companies that are consolidated into the Council's Group financial statements.

Our plan, based on our cumulative understanding obtained from the 2018/19 audit, and the values reported in the prior year financial statements is that we will obtain assurance from analytical procedures. We do not plan to obtain specific assurance from the component auditors of the Council's subsidiary companies.



4. MATERIALITY AND MISSTATEMENTS

Summary of initial materiality thresholds

| Threshold | Council single-entity materiality |
|---|-----------------------------------|
| Overall materiality | £11,900,000 |
| Performance materiality | £7,735,000 |
| Trivial threshold for errors to be reported to the Accounts and Audit Committee | £357,000 |

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of Gross Revenue Expenditure at Surplus/Deficit on Provision of Services level. We will identify a figure for materiality but identify separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Audit Committee.

We consider that Gross Revenue Expenditure at Surplus/Deficit on Provision of Services level remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark. We have set materiality at 2% of the benchmark based on the 2018/19 audited financial statements for the both the Council and the Group.



4. MATERIALITY AND MISSTATEMENTS (CONTINUED)

Based on the 2018/19 financial statements we anticipate the overall materiality for the year ending 31st March 2020 to be in the region of £11.9m for the audit of the Council's single entity financial statements (£11.8m in the prior year). We will calculate materiality for the group on receipt of the consolidated accounts.

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

We have also calculated materiality for specific classes of transactions, balances or disclosures where we determine that misstatements of a lesser amount than materiality for the financial statements as a whole, could reasonably be expected to influence the decisions of users taken on the basis of the financial statements. We have set specific materiality for the following item of account:

| Item of account | Specific materiality |
|-------------------------------|----------------------|
| Officer Remuneration bandings | £5,000 * |

* Reflecting movement from one salary band to another

Reporting Misstatements Threshold

We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Accounts and Audit Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £357,000 for the Council's single entity financial statements based on 3% of overall materiality.

Reporting to the Audit Committee

To comply with International Standards on Auditing (UK), the following three types of audit differences will be presented to the Audit Committee:

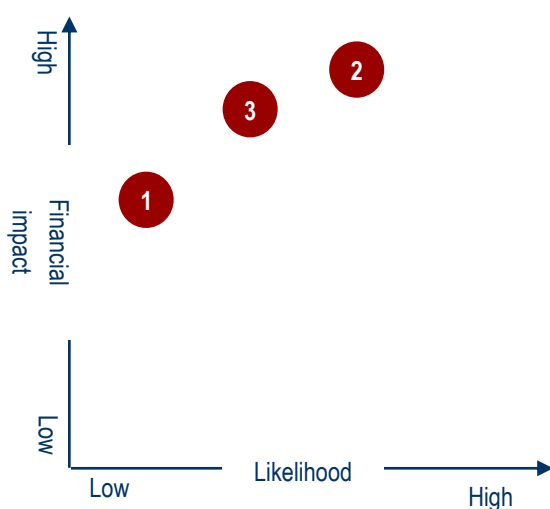
- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).

5. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard, as defined below:

- Significant risk** A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to that risk.
- Enhanced risk** An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks incorporate but may not be limited to:
- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
 - other audit assertion risks arising from significant events or transactions that occurred during the period.
- Standard risk** This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant. We have summarised our audit response to these risks on the next page.



| Risk | |
|------|---|
| 1 | Management override of control |
| 2 | Property, plant and equipment valuation |
| 3 | Defined benefit liability valuation |

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5. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

We provide more detail on the identified risks and our testing approach with respect to significant risks in the table below. An audit is a dynamic process; should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Audit, Governance & Standards Committee.

Significant risks

| | Description of risk | Planned response |
|---|---|--|
| 1 | Management override of controls <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p> | <p>We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.</p> |
| 2 | Property, plant and equipment valuation (Land & buildings and investment properties) <p>The CIPFA Code requires that where assets are subject to revaluation, their year end carrying value should reflect the fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued in a five year cycle.</p> <p>The valuation of Property, Plant & Equipment involves the use of a management expert (the valuer), and incorporates assumptions and estimates which impact materially on the reported value. There are risks relating to the valuation process.</p> <p>As a result of the rolling programme of revaluations, there is a risk that individual assets which have not been revalued for up to four years are not valued at their materially correct fair value. In addition, as the valuations are undertaken through the year there is a risk that the fair value as the assets is materially different at the year end.</p> | <p>There were significant findings relating to this area in respect of the 2018/19 which the Council have taken action to address. To ensure that the items are fairly stated within the financial statements for 2019/20 we will tailor the work required to gain necessary assurances.</p> <p>In relation to the assets which have been revalued during 2019/20, including investment properties, we will assess the Council's valuer's qualifications, objectivity and independence to carry out such valuations, and review the valuation methodology used, including testing the underlying data and assumptions.</p> <p>We will review the approach that the Council has adopted to address the risk that assets not subject to valuation in 2019/20 are materially misstated and consider the robustness of that approach in light of the valuation information reported by the Council's valuers.</p> <p>In addition, we will consider movement in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values have moved materially over that time.</p> |

5. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Significant risks (continued)

| | Description of risk | Planned response |
|---|---|---|
| 3 | <p>Defined benefit liability valuation</p> <p>The net pension liability represents a material element of the Council's balance sheet. The Council is an admitted body of Greater Manchester Pension Fund, which had its last triennial valuation completed as at 31 March 2019.</p> <p>The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Council's overall valuation.</p> <p>There are financial assumptions and demographic assumptions used in the calculation of the Council's valuation, such as the discount rate, inflation rates and mortality rates. The assumptions should also reflect the profile of the Council's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.</p> <p>There is a risk that the assumptions and methodology used in valuing the Council's pension obligation are not reasonable or appropriate to the Council's circumstances. This could have a material impact to the net pension liability in 2019/20.</p> | <p>In relation to the valuation of the Council's defined benefit pension liability we will:</p> <ul style="list-style-type: none"> Critically assess the competency, objectivity and independence of the Greater Manchester Pension Fund's Actuary, Hymans Robertson; Liaise with the auditors of the Greater Manchester Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This will include the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS19 valuation is complete and accurate; Test payroll transactions at the Council to provide assurance over the pension contributions which are deducted and paid to the Pension Fund by the Council; Review the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This will include comparing them to expected ranges, utilising information provided by PWC, consulting actuary engaged by the National Audit Office; Agree the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements. |

Revenue recognition

International Standard on Auditing (ISA) 240 includes a rebuttable presumption that the fraud risk from revenue recognition is a significant audit risk.

We recognise that the nature of revenue in local government differs significantly to the sources of income in the private sector. We also consider that there are limited incentives and opportunities to manipulate the way income is recognised in local government. Based on our understanding of the Council's revenue streams we have rebutted the presumption that revenue recognition is a significant risk at the Council. Our testing of revenue is focused on our standard procedures and does not incorporate specific work on the risk of fraud in recognising revenue.

5. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Key areas of management judgement and enhanced risks

Key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. These areas of management judgement represent other areas of audit emphasis.

| | Description of risk | Planned response |
|---|---|--|
| 1 | <p>Valuation of Airport Shareholding</p> <p>The Council's shareholding in the Manchester Airport Holdings Group Limited (MAHG Ltd.) has been valued by a firm of financial experts, engaged by management, based on assumptions about financial performance, stability, and key business projections. The figure disclosed in your accounts in relation to MAHG Ltd. is at fair value.</p> <p>There is a risk that the assumptions and methodology used by your experts are not appropriate and we will need to obtain assurance that accounting entries are not materially misstated.</p> | <p>We plan to address this risk by:</p> <ul style="list-style-type: none"> Assessing the scope of work/terms of engagement, qualifications, objectivity and independence of the expert engaged to carry out the valuation assessment of the airport shares. Utilising the services of our internal valuation expert to review the work completed by management's expert and evaluate the appropriateness of the assumptions applied to arrive at the figure in the financial statements. |
| 2 | <p>Accounting for Schools</p> <p>The Council continues to account for schools in its single entity financial statements. In addition the Council discloses that it includes in its financial statements the following categories of schools: Community, Voluntary Aided, Voluntary Controlled and Foundation.</p> | <p>We will consider the continued accounting treatment of the Council's schools and its compliance with the requirements of the CIPFA Code and other sector guidance.</p> |

6. VALUE FOR MONEY

Our approach to Value for Money

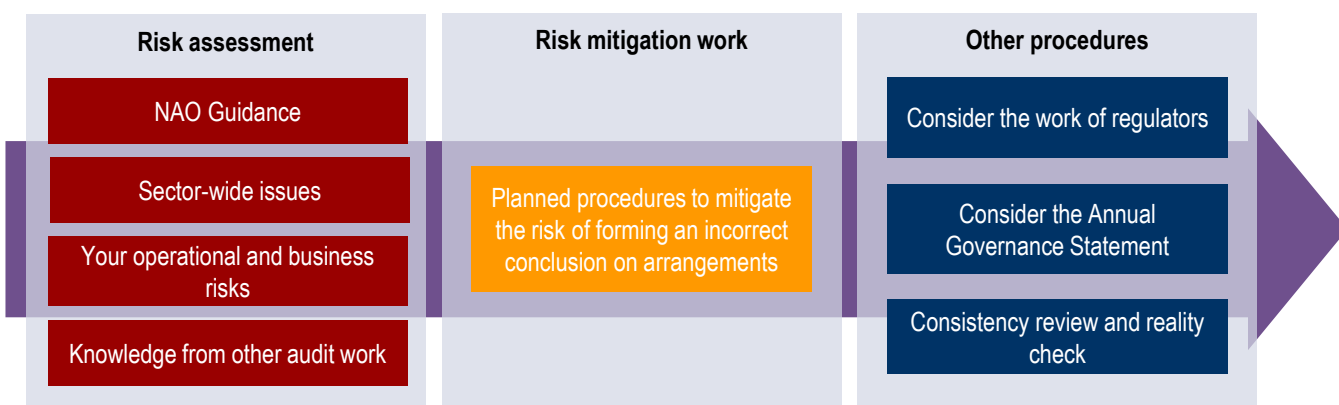
We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out, and sets out the overall criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.'

To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

A summary of the work we undertake to reach our conclusion is provided below:



Significant Value for Money risks

The NAO's guidance requires us to carry out work at the planning stage to identify whether or not a Value for Money (VFM) exists. Risk, in the context of our VFM work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. As outlined above, we draw on our deep understanding of the Council and its partners, the local and national economy and wider knowledge of the public sector.



6. VALUE FOR MONEY (CONTINUED)

For the 2019/20 financial year, we have identified the following significant risks to our VFM work.

| | Description of significant risk | Planned response |
|----|--|--|
| 1. | <p>Financial sustainability</p> <p>The Council set a balanced budget for 2019/20. This took account of the impact of additional monies provided to the Council by central government and included reasonable assumptions in respect of the 2019/20 Funding Settlement. The total standstill (net) budget requirement for the 2019/20 revenue budget was approximated at £150.5m. However, this includes a savings programme of £11.9m for 2019/20 which is underpinned by approximately £4m of additional resources identified within directorates to assist the cash-flow of the programme of savings and £4.5m programme of savings which are already timetabled to be slipped into 2020/21. There are still significant budget pressures within the Council, and a programme of transformation and right-sizing of services is underway.</p> <p>As reported to Council, Cabinet, and relevant committees, the budget has been carrying ongoing slippage within the targeted savings identified in prior years. This failure to deliver agreed savings has contributed significantly to the Council's on-going financial challenges.</p> <p>The budget proposals for 2020/21 and updated MTFS to 2023 are currently being finalised for submission to Council in early 2020. The continuing challenges the Council faces are not new or unique to Bury Metropolitan Borough Council, but do present a significant audit risk in respect of considering the arrangements that the Council has in place to deliver financial sustainability over the medium term.</p> | <p>To address this risk we will:</p> <ul style="list-style-type: none"> Review the Council's outturn against the 2019-20 budgeted position Review the Council's progress in setting a balanced budget for 2020/21 Review the Council's arrangements for identifying savings and other measures to address the funding gap going forward |
| 2. | <p>Working with partners and third parties: governance and risk management</p> <p>By putting in place arrangements for the Council, care organisations, and the CCG, to work more closely together, it is anticipated that developing new models of care for community health, primary care and social care services will have a significant impact.</p> <p>The formal pooling arrangement, s75 agreement, funding framework, and other initiatives where the Council is aligning with the CCG are due to be finalised and receive approval over the coming weeks and months.</p> | <ul style="list-style-type: none"> We will consider the effectiveness of the arrangements in place for the governance and risk management in relation to this area. This will include consideration of key metrics relating to delivery of relevant services. |

7. FEES FOR AUDIT AND OTHER SERVICES

Fees for work as the Council's appointed auditor

At this stage of the audit we expect to need to reflect the scale fee set by PSAA as communicated in our fee letter of 23 April 2019 and other matters listed below:

| Service | 2018/19 fee | 2019/20 fee |
|---|-------------|--------------|
| Audit of the financial statements and VFM conclusion work – scale fee | £89,882 | £89,882 |
| Additional work required to address issues in the 2018/19 draft statements * | £25,430 | - |
| Additional work in response to regulatory recommendations to increase level of audit work on the valuation of property plant and equipment, as well as address significant issues noted in 2018/19. | - | To be agreed |
| Additional work in response to regulatory recommendations to increase level of audit work on defined benefit liability schemes. | - | To be agreed |

*This fee is subject to approval by PSAA Ltd.

In common with all local government external auditors we are required to carry out additional procedures which were not expected when fees were set.

Regulatory recommendations

We continually strive to maintain high standards of audit quality. One mechanism for doing this is to consider the outcome of independent quality reviews, in particular by the Financial Reporting Council, of our audit work and that of other audit suppliers. In particular we are planning increases in the level of work we do on:

- defined benefit pension schemes; and
- valuation of property, plant and equipment

We will discuss the driving factors with Council officers and the audit fee for 2019/20 will be revisited to reflect the increased level of work that was not considered when the scale fee was set. Any agreed additional fee is also subject to detailed scrutiny by the PSAA as part of the approval process.

Fees for non-PSAA work

We have not been engaged by the Council to carry out any additional work over and above the audit of the Council's statutory audit.

Should we be engaged to undertake any additional work we will consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 8.

8. OUR COMMITMENT TO INDEPENDENCE

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually, in writing, that we comply with the Financial Reporting Council's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer-based ethics training;
- rotation policies covering audit engagement partners and other key members of the audit team;
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, and Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Karen Murray in the first instance.

Prior to the provision of any non-audit services Karen Murray will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence. Included in this assessment is consideration of Auditor Guidance Note 01 as issued by the NAO, and the PSAA Terms of Appointment.

No threats to our independence have been identified.

Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

APPENDIX A – KEY COMMUNICATION POINTS

ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

| Required communication | Audit Strategy Memorandum | Audit Completion Report |
|--|---------------------------|-------------------------|
| Our responsibilities in relation to the audit of the financial statements and our wider responsibilities | ✓ | |
| Planned scope and timing of the audit | ✓ | |
| Significant audit risks and areas of management judgement | ✓ | |
| Our commitment to independence | ✓ | ✓ |
| Responsibilities for preventing and detecting errors | ✓ | |
| Materiality and misstatements | ✓ | ✓ |
| Fees for audit and other services | ✓ | |
| Significant deficiencies in internal control | | ✓ |
| Significant findings from the audit | | ✓ |
| Significant matters discussed with management | | ✓ |
| Our conclusions on the significant audit risks and areas of management judgement | | ✓ |
| Summary of misstatements | | ✓ |
| Management representation letter | | ✓ |
| Our proposed draft audit report | | ✓ |

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APPENDIX B – FORTHCOMING ACCOUNTING AND OTHER ISSUES

Financial reporting changes relevant to 2019/20

There are no significant changes in the Code of Practice on Local Authority Accounting for the 2019/20 financial year.

Financial reporting changes in future years

| Accounting standard | Year of application | Commentary |
|---------------------|---------------------|---|
| IFRS 16 – Leases | 2020/21 | <p>The CIPFA/LASAAC Code Board has determined that the Code of Practice on Local Authority Accounting will adopt the principles of IFRS 16 Leases, for the first time from 2020/21.</p> <p>IFRS 16 will replace the existing leasing standard, IAS 17, and will introduce significant changes to the way bodies account for leases, which will have substantial implications for the majority of public sector bodies.</p> <p>The most significant changes will be in respect of lessee accounting (i.e. where a body leases property or equipment from another entity). The existing distinction between operating and finance leases will be removed and instead, the new standard will require a right of use asset and an associated lease liability to be recognised on the lessee's Balance Sheet.</p> <p>In order to meet the requirements of IFRS 16, all local authorities will need to undertake a significant project that is likely to be time-consuming and potentially complex. There will also be consequential impacts upon capital financing arrangements at many authorities which will need to be identified and addressed at an early stage of the project.</p> |

1. Engagement and responsibilities

2. Your audit team

3. Audit scope

4. Materiality and misstatements

5. Significant risks and key judgements

6. Value for Money

7. Fees

8. Independence

Appendices

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