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Interim Audit Report 2015/16

Bury Metropolitan Borough Council

April 2016

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This document summarises the key findings arising from our work to date in relation to both the audit of the Authority's 2015/16 financial statements and the 2015/16 VFM conclusion.

Scope of this report

This report summarises the key findings arising from:

- our interim audit work at Bury Metropolitan Borough Council (the Authority) in relation to the 2015/16 financial statements; and
- our work to support our 2015/16 value for money (VFM) conclusion up to March 2016.

Financial statements

Our *External Audit Plan 2015/16*, presented to you in January 2016, set out the four stages of our financial statements audit process.

During January to March 2016 we completed our planning and control evaluation work. This covered:

- review of the Authority's general control environment, including the Authority's IT systems;
- testing of certain controls over the Authority's key financial systems; and
- review of the Authority's accounts production process, including work to address prior year audit recommendations and the specific risk areas we have identified for this year.

VFM conclusion

Our *External Audit Plan 2015/16* explained our approach to VFM work, which follows guidance provided by the National Audit Office. We have completed our planning work to support our 2015/16 VFM conclusion. This included:

- considering the relevance and significance of any potential business risks faced by all local authorities, and other risks that apply specifically to the Authority;
- reviewing the linkages between the financial statements work and other audit work;
- the identification of any significant risks; and

- considering the work of other review agencies.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages in relation to the risks and areas of focus outlined within the audit plan.
- Section 3 sets out our key findings from our interim audit work in relation to the 2015/16 financial statements and follows up the recommendations made in our 2014/15 ISA260 report.
- Section 4 outlines our key findings to date from our work on the VFM arrangements work.

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

Acknowledgements

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



Significant Audit Risks

Revenue and capital consequences of December 2015 floods

- The Authority is continuing to assess the revenue and capital consequences of the flooding.
- Most recent information indicates that approved flood recovery payment applications total £863k. Government funding totalling £1.496m has been received but the Authority acknowledges that not all surveys have yet been undertaken. Calculations suggest that, based on average claims to date, the balance of funding available will be sufficient to cover remaining applications. However, if remaining applications to be reviewed are at the maximum level the funding shortfall is circa £600k.
- The infrastructure losses currently stand at and estimated £3m. Not all surveys are yet complete so the cost is subject to change.
- The Authority has received verbal assurances from Central Government that all costs will be reimbursed.
- During our financial statements audit work we will review the accounting treatment of the funding and expenditure to ensure that it is appropriately recorded in the accounts.

Other areas of audit focus

Minimum Revenue Provision Policy

- The Council have revised the MRP policy in year. An initial review of the proposals suggest that the Council has been prudent in its approach to revise the calculations.
- We will consider whether the method adopted for calculating the MRP Provision is compliant with the Code of Practice and DCLG guidance and confirm any transfer between reserves is compliant with legislation during our financial statements audit..

New model of delivery

- During our interim work we have reviewed the status of the new arrangements in place.
- As part of our financial statements audit work we will ensure that the consolidation of the company is accounted for correctly and that relevant disclosures are made in the financial statements.

Investment property acquisition strategy

- During our interim work we have undertaken a follow up of the recommendations made in our 2014/15 ISA260 in relation to property, plant and equipment. As part of this work we have also reviewed fixed asset classifications within the asset register.
- As part of our financial statements audit work we will ensure that investments appropriately accounted for and that adequate disclosure notes are included.



The Authority's overall process for the preparation of the financial statements is robust.

The Authority has implemented the majority of the high priority recommendations in our ISA 260 Report 2014/15.

Accounts production process

We issued our Accounts Audit Protocol to the Head of Financial Management at the start of February 2016. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide to support our audit work.

We continue to meet regularly with the Head of Financial Management to support the finance team during the financial year end closedown and accounts preparation.

As part of our interim work we specifically reviewed the Authority's progress in addressing the high priority recommendations in our ISA 260 Report 2014/15.

Key findings

We consider that the overall process for the preparation of your financial statements is robust. The processes have enabled the Authority to receive an audit opinion by 31 July for the past two years. The Authority is already compliant with the 2015 Accounts and Audit Regulations which require Local Authorities to publish audited financial statements by 31 July from 2018 onwards.

Given the issues encountered in previous years in relation to plant, property and equipment, we have specifically focussed on the progress made in relation to our 2014/5 recommendations whilst also undertaking our controls work during the interim audit.

The table below sets out the Authority's progress against all high priority recommendations.

Issue	Progress
<p>Payroll – establishment lists:</p> <p>To ensure accuracy and completeness of payroll data, establishment lists should be issued on a monthly basis.</p>	<p>Establishment listings are now circulated on a bi-monthly basis. Testing determined that this control is operating effectively.</p>
<p>Purchase orders – authorised signatory list:</p> <p>An authorised signatory listing should be drawn up immediately.</p>	<p>An authorised signatory list for purchases outside of the P2P process is almost complete.</p>
<p>Assets under construction:</p> <p>The Authority needs to undertake a review of its policy and procedures for determining the process for categorisation of assets in the course of construction. The policy should also reflect the appropriate 'trigger' points for moving such assets from this category into other categories.</p>	<p>The asset under construction policy has been drawn up and agreed during 2015/16.</p>



Issue	Progress
<p>Asset valuations:</p> <p>The Authority should review its processes to ensure that all assets are revalued within the five year timescale. As at 31 March 2015 819 assets had exceeded the timescale for revaluation.</p>	<p>The Authority is still behind schedule on asset revaluations. It has been proposed that the de minimis value for assets valuations be increased from £5,000 to £50,000 to be applied for the 2015/16 year end. However, that still leaves a number of assets greater than the de minimis value where there are no plans to revalue in year.</p> <p>In addition, the classification of assets in the asset register is misleading and there is a risk that assets could be incorrectly accounted for in the analysis within the financial statements.</p> <p>As a result of these findings plant, property and equipment is now an area of audit focus. Further work will be undertaken with officers prior to compilation of the financial statements to evaluate the position. The results of this work will determine whether any revisions are required to our audit approach.</p>



VFM audit stage	Audit approach
VFM audit risk assessment	<p>We have considered the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority.</p> <p>In doing so we consider:</p> <ul style="list-style-type: none"> ■ The Authority’s own assessment of the risks it faces, and its arrangements to manage and address its risks; ■ Information from the Public Sector Auditor Appointments Limited VFM profile tool; ■ Evidence gained from previous audit work, including the response to that work; and ■ The work of other inspectorates and review agencies. <p>There are no issues arising from this assessment to bring to your attention.</p>
Linkages with financial statements and other audit work	<p>There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. At this stage we have not identified any concerns that have an impact on our risk assessment.</p>
Identification of significant risks	<p>If we identify significant VFM risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case. At this stage we have not identified any significant risks.</p>
Assessment of work by other review agencies and Delivery of local risk based work	<p>Depending on the nature of any significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk.</p> <p>We have not identified any significant risks that would give rise to the need for additional work to be undertaken.</p>

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