



Interim Audit Report 2016/17



Bury Metropolitan Borough Council

April 2017

Contents

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Page

Report sections

| | |
|--------------------|---|
| — Introduction | 3 |
| — Headlines | 4 |
| — Interim audit | 6 |
| — VFM arrangements | 8 |

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This document summarises the key findings arising from our work to date in relation to the audit of the Authority's 2016/17 financial statements and the 2016/17 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 Authority's 2016/17 financial statements; and
- our work to support our 2016/17 value for money (VFM) conclusion up to March 2017.

Financial statements

Our *External Audit Plan 2016/17*, presented to you in January 2017, set out the four stages of our financial statements audit process.

During January to March 2017 we completed our planning and control evaluation work. This covered:

- review of the Authority's general control environment, including gaining an understanding of the Authority's IT systems and testing general IT controls;
- testing of certain controls over the Authority's key financial systems;
- review of relevant internal audit work to inform our risk assessment; 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 2016/17* explained our risk-based approach to VFM work, which is set out in the Code of Audit Practice and supporting guidance published by the NAO. We have completed some early work to support our 2016/17 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;

- considering the results of any relevant work by the Authority, inspectorates and other review agencies in relation to these risk areas; and
- identifying what additional risk-based work we will need to complete.

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 2016/17 financial statements and follows up the recommendations made in our 2015/16 ISA260 report.
- Section 4 outlines our key findings from our work on the VFM arrangements work.

Acknowledgements

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



Significant Audit Risks

Significant changes in the pension liability due to LGPS Triennial Valuation

- During the year, the Local Government Pension Scheme for Greater Manchester (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2016 in line with the Local Government Pension Scheme (Administration) Regulations 2013. The Authority's share of pensions assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation.
- The pension liability numbers to be included in the financial statements for 2016/17 will be based on the output of the triennial valuation rolled forward to 31 March 2017. For 2017/18 and 2018/19 the actuary will then roll forward the valuation for accounting purposes based on more limited data.
- There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data is provided to the actuary by Tameside Metropolitan Borough Council who administer the Pension Fund.

Preliminary assessment and work undertaken

- As part of our audit, we will agree any data provided by the Authority to the actuary, back to the relevant systems and reports from which it was derived, in addition to checking the accuracy of this data.
- We will also liaise with Grant Thornton who are the auditors of the Pension Fund, where this data was provided by the Pension Fund on the Authority's behalf to check the completeness and accuracy such data.
- This work will be carried out at final audit, we therefore have nothing to report at the date of writing this report.

Significant Audit Risks

Valuation of PPE

- The Council policy for asset revaluation is to 're-value 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'. The NBV of the fixed assets as at 31 March 2016 was £584.2m.
- At the 31 March 2016, there were 46 assets which remained 'unvalued' (in line with rolling five year programme) due to resource constraints in property management. The results of these valuations were available as at the end of June, however these values because of the timing, were not incorporated into the financial statements. This resulted in an unadjusted misstatement of £755k.
- The Authority have made good progress developing their processes to ensure the programme of revaluation is up-to-date and the carrying value of the asset base is materially accurate. However, given the historical issues identified with fixed asset revaluations in the past and the significance of the value to the financial statements we have identified this as a significant audit risk.

Preliminary assessment and work undertaken

- We have held conversations with the Authority's internal valuer and capital accountant to discuss the approach to valuations for the 2016/17 accounts. They confirmed that the rolling valuation programme is progressing to plan and no issues are noted to date.
- As part of the year-end exercise, the Authority have agreed to carry out an impairment exercise in line Code requirements.
- We will review the output of the rolling valuation programme and impairment exercise at final audit.

Headlines messages - Audit risks (cont.)

Significant Audit Risks

Agresso System Upgrade

- The Authority have implemented a significant upgrade to their general ledger system, Agresso (now Unit 4), in February 2017.
- The upgrade involved data migration of financial data and for this reason we recognised this as a significant risk which is pervasive to the financial statements.

Preliminary assessment and work undertaken

- The Authority provided evidence of the working group in place to project manage the implementation and we have reviewed a sample of project highlight reports that monitored the risks and progress of implementation.
- Internal Audit have carried out testing to ensure the transfer of the ledger information is complete and accurate.
- We have reviewed the work of internal audit to inform our risk assessment and consulted with our internal Technology Risk Consulting (TRC) team to determine the approach to testing the data migration as part of the General IT controls testing.
- The upgrade timeline went to plan and no significant issues were identified during the upgrade. We reviewed and re-performed the work of internal audit and concluded the ledger data migration was complete and accurate.
- We have therefore satisfied ourselves that the financial information we will be relying on for the purpose of our audit is complete and accurate.

Additional Significant Audit Risk identified

Fixed Asset Register Module Upgrade

- The Authority informed us of their plan to upgrade the fixed asset register through the use of a fixed asset module in Unit 4. The Authority implemented the module in at the end of March 2017.
- The asset data was loaded twice into test environment, depreciation proposal run in test & sent to accountants to cross-check against their budgets. No issues were identified by the validation checks carried out by the Authority.
- The intention is depreciation for 2016/17 & year end postings will be run in Unit 4, the general ledger will be updated through the FA module and other movements for the year will also be captured through the module.

Preliminary assessment and work undertaken

- Our initial review of the validation checks suggest that the upgrade was successful.
- However, we are mindful that it is expected general ledger information which we will rely on for the purpose of the audit will be generated directly from the fixed asset module in Unit 4.
- We will therefore need to review the previous fixed asset register in detail and sample a number of assets to confirm the financial data transferred across is complete and accurate.
- Given this links to the significant risk identified over PPE (see page 4), we will need to assure ourselves that the impact of valuation exercise is appropriately reflected in the new fixed asset module and subsequent balance in the financial statements.
- This will form part of year end audit procedures in June 2017.

Controls over key financial systems



The controls over the majority of the key financial systems are sound.

However, the controls work is still in progress because it is appropriate for elements of this work to be carried out at final audit.

In addition to the controls work we will carry out substantive work at year-end.

Work completed

We have reviewed the outcome of internal audit's work on the financial systems in 2015/16 to influence our assessment of the overall control environment, which is a key factor when determining the external audit strategy. Internal Audit are in the process of carrying out key financial systems testing for 2016/17. This will be reviewed at final audit.

Where we have determined that this is the most efficient audit approach to take, we evaluate the design and implementation of the control and then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Our assessment of a system will not always be in line with your internal auditors' opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

Key findings

Based on the work of your internal auditors, the controls over all of the key financial systems are sound.

We agree with the prior year assessments and are satisfied based on our review of the controls in place that they are sufficient to support are audit conclusion.

We have not yet assessed the controls over all audit areas. Many of the key controls in respect of this areas are operated during the closedown process and our testing will be supplemented by further work during our final accounts visit.

| Financial system | Controls Assessment |
|--------------------------------|---------------------|
| Property, Plant and Equipment | In progress |
| Cash and Cash Equivalents | 3 |
| Pension Assets and Liabilities | In progress |
| Non pay expenditure | 3 |
| Payroll | 3 |
| Housing benefits expenditure | In progress |
| Business rates income | 3 |
| Council tax income | 3 |
| HRA rental income | In progress |

- Keys:
- 1 Significant gaps in the control environment.
 - 2 Deficiencies in respect of individual controls.
 - 3 Generally sound control environment

Section three

Interim audit findings and 2015/16 recommendations follow up



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

The Authority has implemented all of the recommendations in our *ISA 260 Report 2015/16*.

Accounts production process

We issued our Interim Accounts Audit Protocol to the Head of Financial Management at the start of February 2017. 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. The final Accounts Audit Protocol was shared at the start of April.

We will continue to meet with the Head of Financial Management to support them 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 recommendations in our *ISA 260 Report 2015/16*.

Key findings

The Authority continues to incorporate a number of measures into its closedown plan to improve the project management of this complex process.

We consider that the overall process for the preparation of your financial statements is robust.

The Authority has implemented all of the recommendations in our *ISA 260 Report 2015/16* relating to the financial statements in line with the timescales of the action plan. There were no high priority recommendations made in 2015/16.

Section four

Specific VFM risks

We have identified a number of specific VFM risks.

We will carry out additional risk-based work in the following areas:

- Financial Standing
- Ofsted Inspection

We have undertaken some work to date in response to these risks.

Work completed

In line with the risk-based approach, we have

- Assessed the Authority's key business risks which are relevant to our VFM conclusion;
- Identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;
- Considered the results of relevant work by the Authority, other inspectorates and review agencies in relation to these risk areas; and
- Concluded to what extent we need to carry out additional risk-based work.

We note the suspensions of the Chief Executive, Monitoring Officer and Director of Children's Services. We need to understand the scope of any independent review to form a view on whether there is any impact on our audit.

Key findings

Below we set out our interim assessment/preliminary findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion.

We will report our final conclusions in our *ISA 260 Report 2016/17*.

Financial Standing

The Revenue budget approved by Council on 24 February 2016 identified the need to achieve savings of £11.58m in the year to 31 March 2017. At Month 6, the Authority's revenue position was showing a projected overspend of £4.92m. The main variances are due to demand pressures in Adult Social Care and Children's Services. The Authority expect to mitigate the overspend through use of general fund reserves and are identifying options for use of earmarked reserves. In addition, the budget consultation for the three year period 2017 to 2020 estimates further cuts amounting to £32m, with £13.3m of cuts expected in 2017/18. The Authority are therefore under great pressure to meet their financial targets with an ever reducing budget. There is a risk the Authority do not have the appropriate arrangements in place to deliver the required savings putting increasing pressure on the reserve balances in the future.

Preliminary assessment and work undertaken

At M9, the projected overspend had improved from the M6 position to £2.83m. This has resulted from strict spending controls implemented by the senior management. We have assessed the controls for monitoring financial performance and the appropriateness and reliability of the information used through our higher level budgetary controls testing. We have concluded that the Authority has appropriate arrangements in place for monitoring financial performance.

We are currently reviewing the 2017/18 and 18/19 savings to see how well developed they are. This will involve assessing the arrangements in place for identifying potential savings at the Authority and whether an appropriate governance structure exists to manage this process effectively to support informed decision making.

Section four

Specific VFM risks (cont.)

Ofsted Inspection

The Cabinet Member (Children and Families) submitted a report to the June Overview and Scrutiny Committee, presenting the findings of an Ofsted inspection of Bury Council Children's Services for children in need of help and protection, looked after children and care leavers. The inspection took place over a four week period during February and March 2016. The inspection found that there were no widespread or serious failings that may result in or leave children being harmed or at risk of harm. However, the report included eleven recommendations to assist the Council in preparing an action plan to ensure all services to children and young people are rated 'good' or 'outstanding'. There is a risk the Authority does not have appropriate arrangements in place to ensure delivery against the action plan, failure of which could impact performance and reputation.

Preliminary assessment and work undertaken

We will assess what processes have been put in place to manage the delivery of the action plan including how the Authority monitors performance against it. This will involve understanding the governance arrangements in place to and determining how effective these are.



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