

External audit report 2016/17

Bury Metropolitan Borough Council

July 2017



Summary for Audit Committee

Financial statements 2017

This document summarises the key findings in relation to our 2016-17 external audit at Bury MBC. We previously reported on our interim work in our *External Audit Interim Report 2016/17* in April 2017.

This report focusses on our on-site work which was completed in June 2017 on the Authority's significant risk areas, as well as other areas of your financial statements. Our findings are summarised on pages 4 – 9.

Our report also includes additional findings in respect of our control work which we have identified since we issued our interim report.

Subject to all outstanding queries being resolved to our satisfaction we anticipate issuing an unqualified audit opinion on the Authority's financial statements before the deadline of 30 September. These outstanding items include:

- Impairment/Revaluation review of the un-revalued population of assets in 2016/17
- Final review of our work
- Whole of Government accounts

Based on our work, we have raised 2 recommendations. Details on our recommendations can be found in Appendix 1.

Use of resources

We have completed our risk-based work to consider whether in all significant respects the Authority has proper arrangements to ensure has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We therefore anticipate issuing an unqualified value for money opinion.

See further details on page 16.

Public Interest Report

We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.

Acknowledgements

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

We ask the Audit Committee to note this report.



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This report is addressed to Bury Metropolitan Borough council (the Authority) and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

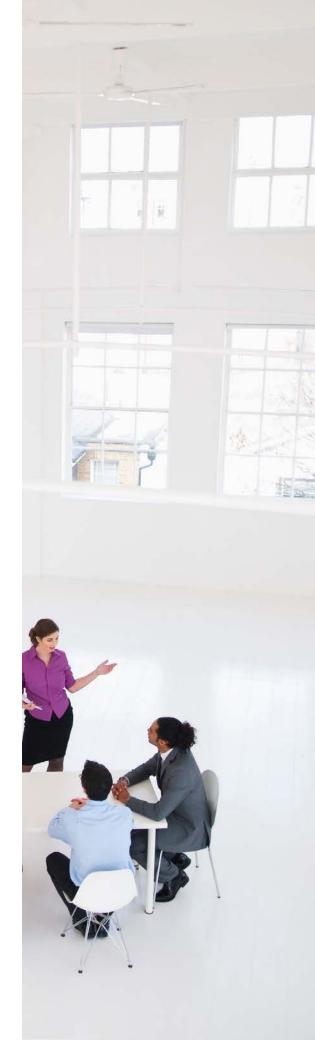
External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically,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

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Rashpal Khangura, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 694 8981, or by email to andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.



We anticipate issuing an unqualified audit opinion on the Authority's 2016/17 financial statements by 30 September 2017. We will also report that your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE ('Delivering Good Governance in Local Government') published in April 2016.

For the year ending 31 March 2017, the Authority has reported a deficit of the provision of services of £27m. The impact on the General Fund has been a decrease in the General Fund.



Significant audit risks

Our *External Audit Plan 2016/17* sets out our assessment of the Authority's significant audit risks. We have completed our testing in these areas and set out our evaluation following our work:

Significant audit risks

Work performed

1. Significant changes in the pension liability due to LGPS Triennial Valuation (Authority and Pension Fund)

Why is this a risk?

During the year, 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 share of pensions assets and liabilities for each admitted body is determined in detail, and a large volume of data is provided to the actuary to support this triennial valuation.

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 [Pension Administrator], who administer the Pension Fund.

Our work to address this risk

We have reviewed the process used to submit payroll data to the Pension Fund and have found no issues to note. We have also tested the year-end submission process and other year-end controls. Whilst we found that there was no formal management review of actuarial assumptions, Management has subsequently confirmed that the assumptions used by the actuary are appropriate and assumptions are reviewed by the Pension Fund.

We have also substantively agreed the total figures submitted to the actuary to the ledger with no issues to note. We have relied on the work completed by the Greater Manchester Pension Fund audit team to gain assurance over the controls that take place at the Pension Fund.

2. Valuation of PPE

Why is this a risk?

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 identified this as a significant audit risk.

Our work to address this risk

We met with the Authority's internal valuer and capital accountant in March 2017 to discuss the approach to valuations for the 2016/17 accounts. They confirmed that the rolling valuation programme was progressing to plan. (cont. overleaf)



Significant audit opinion risks

Work performed

2. Valuation of PPE

Our work to address this risk (cont)

At final audit, we reviewed the output of the rolling valuation programme and critically assessed the Authority's formal consideration of indications of impairment and surplus assets within its estate, including the process undertaken.

Whilst the Authority were able to evidence a formal review of the impairment through the revaluation work, we requested the Authority provide a formal assessment outlining what consideration had been given to assets not due for revaluation in year and whether there were any material movements since 2015/16. As at the time of writing this report this assessment has not yet been provided for audit and therefore we have not yet been able to conclude that there have not been any indications of material changes in value of the 'unvalued' population. We will provide the Audit Committee with an update at the meeting on the 20th July 2017.

We noted the rolling programme of valuation was complete and the Authority are now fully on-track with regard to timing of asset revaluations. This is a marked improvement on prior years.

We have substantively tested a sample of additions, confirming the appropriateness over capitalisation of this expenditure in line with accounting standards.

We also:

- Assessed the competence, capability, objectivity and independence of the internal valuer;
- considered the adequacy of the disclosures about the key judgements and degree of estimation involved in concluding that there has been no material movement in the value of land and buildings (not revalued in year) since 31 March 2016.

As above upon receipt of the valuers assessment of the un-revalued asset population we will critically assess the calculation of market value indices movements and re-perform this calculation to confirm that no material movement in the value of land and building assets is indicated.

We have not identified any significant issues in respect of other work completed to date, however we have included a recommendation with respect of the timeliness of the impairment and indices review provided for audit.

Significant audit opinion risks

Work performed

3. Finance Ledger (Agresso) upgrade

Why is this a risk?

The Authority 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.

Our work to address this risk

A sample of project highlight reports were reviewed to evidence the working group set up to project manage the implementation to monitor risks and progress of implementation.

Internal Audit carried out testing to ensure the transfer of the ledger information is complete and accurate.

We 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.

Our testing of the ledger data migration identified no significant issues and we were able to gain assurance over the completeness and accuracy of the process. We have therefore satisfied ourselves that the financial information we relied on for the purpose of our audit was complete and accurate.



Significant audit opinion risks

Work performed

4. Fixed Asset Register Module Upgrade

Why is this a risk?

The Authority informed us of their plan to upgrade the fixed asset register through the use of a fixed asset module in Unit 4 during the interim audit. The Authority implemented the module at the end of March 2017.

The same risks apply as the general ledger upgrade with respect of the completeness and accuracy of the data migration. There are also associated risks with the functionality and reporting with the new module.

To mitigate this, the asset data was loaded twice into the test environment, the depreciation proposal run was tested & then sent to accountants to cross-check against their budgets. No issues were identified by the validation checks carried out by the Authority.

Depreciation for 2016/17 & year-end postings were run in Unit 4 and the general ledger was updated through the FA module.

Our work to address this risk

We agreed the prior year fixed asset register balances, uploaded into the Unit 4 Fixed Asset module, back to prior year accounts and workings on the prior year audit file. We then confirmed the balances in the financial data transferred across was complete and accurate.

We assured ourselves that the impact of valuation exercise was appropriately reflected in the new fixed asset module and subsequent balances in the financial statements.

Considerations required by professional standards

Fraud risk of revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our External Audit Plan 2016/17 we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.



Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

There are no matters arising from this work that we need to bring to your attention.

Other areas of audit focus

We identified an area of audit focus. This is not considered as significant risks as there are less likely to give rise to a material error. Nonetheless this is an area of importance where we would carry out substantive audit procedures to ensure that there is no risk of material misstatement.

Other areas of audit focus

Our work to address the areas

1. Disclosures associated with retrospective restatement of CIES, EFA and MiRS

Background

CIPFA has introduced changes to the 2016/17 Local Government Accounting Code (Code):

- Allowing local authorities to report on the same basis as they are organised by removing the requirement for the Service Reporting Code of Practice (SeRCOP) to be applied to the Comprehensive Income and Expenditure Statement (CIES);
- Introducing an Expenditure and Funding Analysis (EFA) which provides a direct reconciliation between the way local authorities are funded and prepare their budget and the CIES. This analysis is supported by a streamlined Movement in Reserves Statement (MiRS) and replaces the current segmental reporting note.

The Authority was required to make a retrospective restatement of its CIES (cost of services) and the MiRS. New disclosure requirements and restatement of accounts require compliance with relevant guidance and correct application of applicable accounting standards.

What we have done

For the restatement, we have obtained an understanding of the methodology used to prepare the revised statements. We have also agreed figures disclosed to the Authority's general ledger and found no issues to note.



Level of prudence

Cautious

Audit difference

Judgements

We have considered the level of prudence within key judgements in your 2016/17 financial statements and accounting estimates. We have set out our view below across the following range of judgements.

Acceptable range 2016/17 2015/16 Subjective areas Commentary **Provisions** We consider the provision accounting treatment and disclosures to be 8 8 proportionate. **PPE: HRA assets** The Authority continues its use of the beacon methodology in line with 8 8 the DCLG's Stock Valuation for Resource Accounting published in November 2016. The Authority has utilised external valuation expert to provide valuation estimates. We have reviewed the instructions provided and deem that the valuation exercise is in line with the instructions. The resulting increase is in line with regional indices provided by Gerald Eve, the valuation firm engaged by the NAO to provide supporting valuation

information.

Proposed opinion and audit differences

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's 2016/17 financial statements following approval of the Statement of Accounts by the Audit Committee on 20 July 2017.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix 4 for more information on materiality) level for this year's audit was set at £8 million. This was a reduction of £0.5m from planning materiality (£8.5m) to reflect reduction in General Fund Reserves as at 31 March 2017. Audit differences below £400k are not considered significant.

We did not identify any material misstatements. We however identified a number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 ('the Code').

We understand that the Authority will be addressing these and updating the accounts as appropriate. We will confirm the required amendments have been made in the final accounts.



Annual governance statement

We have reviewed the Authority's 2016/17 Annual Governance Statement and confirmed that:

 It complies with Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE;

and

 It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

We have made a small number of comments in respect of its format and content which the Authority has agreed to amend where significant.

Narrative report

We have reviewed the Authority's 2016/17 narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.



Accounts production and audit process

Our audit standards (*ISA 260*) require us to communicate our views on the significant qualitative aspects of the Authority's accounting practices and financial reporting.

We also assessed the Authority's process for preparing the accounts and its support for an efficient audit. The efficient production of the financial statements and good-quality working papers are critical to meeting the tighter deadlines.

Accounting practices and financial reporting

The Authority have been working to earlier close downs for a number of years and therefore are well placed for earlier statutory close down next year. The Authority's process for preparing the accounts is well structured.

Completeness of draft accounts

We received a complete set of draft accounts on 2 June 2017.

Quality of supporting working papers

We issued our *Accounts Audit Protocol 2016/17* ("Prepared by Client" request) in April 2017 which outlines our documentation request. This helps the Authority to provide audit evidence in line with our expectations. We followed this up with a meeting with Management to discuss specific requirements of the document request list.

We did not find quality issues in relation to the working papers. There is an opportunity for improvements to be made in providing breakdown and audit trail of underlying transactions which will be reflected in next year's prepared by client protocol.





Response to audit queries

We are pleased to report the Officers have been on the whole very responsive to our queries, apart from the timeliness of the information received with respect of the impairment/revaluation work.

Additional findings in relation to the Authority's control environment for key financial systems

In our External Audit Interim Report 2016/17 tabled in April 2017, we reported that there were some year end controls that we will be testing during our year end audit.

We have since completed the testing of these controls and have found no significant issues to note.

Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in last years ISA 260 report.

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

Appendix 2 provides further details.

Controls over key financial systems

We have tested controls as part of our focus on significant audit risks and other parts of your key financial systems on which we rely as part of our audit. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

We identified one recommendation with relation to the HRA Rental Income controls we believe will improve the effectiveness of the process currently in place.

Further detail and associated recommendations can be found in Appendix 1.



Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2016/17 financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Bury Metropolitan Borough Council for the year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and Bury Metropolitan Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 5 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Head of Financial Management for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

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

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the

- oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

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



Completion

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





Our 2016/17 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have concluded that the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.



Section two: value for money

VFM conclusion

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

Our VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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

Identification of significant VFM risks (if any)



Continually reassess potential VFM risks

Assessment of work by other review agencies

Specific local risk-based work

>

VFM conclusion

Conclude on arrangements to secure VFM

Informed decisionmaking



Overall VFM criteria: In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people

Sustainable resource deployment

VFM conclusion based on



Working with partners and third parties The table below summarises our assessment of the individual VFM risks identified against the three sub-criteria. This directly feeds into the overall VFM criteria and our value for money opinion.

VFM assessment summary			
VFM risk	Informed decision- making	Sustainable resource deployment	Working with partners and third parties
1. Financial standing	\checkmark	\checkmark	\checkmark
2. Ofsted Inspection	✓	✓	✓
Overall summary	✓	✓	✓

In consideration of the above, we have concluded that in 2016/17, the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Further details on the work done and our assessment are provided on the following pages.

In our Interim Report presented to the Audit Committee in April 2017 we also noted the suspensions of the Chief Executive, Monitoring Officer and Director of Children's Services. As part of our VFM audit we considered the subsequent resignations of the Chief Executive and Director of Children's Services and any impact this may have on our audit. We have reviewed the process followed by the Council and reviewed the scope of the independent review undertaken and can confirm that there is no impact on our audit.

Section two: value for money

Significant VFM risks

We have identified two significant VFM risks, as communicated to you in our 2016/17 External Audit Plan. In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

Significant VFM risks

Work performed

1. Financial standing

Why is this a risk?

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 were due demand pressures in Adult Social Care and Children's Services.

The Authority mitigated against the pressures resulting in a £1.67m overspend at 31 March 2017 funded through use of general fund reserves. However, 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.

Summary of our work

We reviewed the 2017/18 and 2018/19 savings plans to see how well developed they are. Our work has involved assessing the arrangements in place for identifying potential savings at the Authority, reviewing key assumptions used by the Council in their savings identification and future budget setting processes. We also considered whether an appropriate governance structure exists to manage this process effectively to support informed decision making.

Based on this work, we have concluded we are satisfied adequate arrangements exist for identifying savings and an appropriate governance structure is in place to manage this process. We are also satisfied with the appropriateness of assumptions used in the budget setting process.

It should be noted that the latest 2017/18 financial position shows as at month 3 the Council are forecasting an overspend of £3.6m for 2017/18. We note the Council have identified reasons for these, as well as actions to address them. Furthermore all additional spending controls introduced in 2016/17 have been continued into 2017/18 and all Executive Directors have been asked to prepare turn-around plans.

It should be noted that with a general fund balance at the end of 2016/17 of £8.4m and a minimum level of general fund reserves of £4.25m, an overspend of £3.6m in 2017/18 would leave the Council only £0.5m above the minimum level of general fund reserves.

Therefore in summary, whilst we are satisfied for 2016/17 that the council has adequate arrangements in place to secure value for money, the financial position of the Council should be closely monitored and appropriate action should continue to be taken to address overspends.



Significant VFM risks	Work performed
2. Ofsted Inspection	Why is this a risk?
	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 was presented to Overview and Scrutiny in June 2016. The inspection took place over a four week period between 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

which could impact performance and reputation.

Summary of our work

We have met with key senior officers and assessed what processes have been put in place to manage the delivery of the action plan including how the Authority monitors performance against it. This involved understanding the governance arrangements in place to and reviewing the progress made by the Council towards the full implementation of all actions included in the plan. We are satisfied that there are adequate arrangements in place in respect of this risk to secure value for money.

appropriate arrangements in place to ensure delivery against the action plan, failure of





Key issues and recommendations

Our audit work on the Authority's 2016/17 financial statements have identified a number of issues. We have listed these issues in this appendix together with our recommendations which we have agreed with Management. We have also included Management's responses to these recommendations.

The Authority should closely monitor progress in addressing the risks, including the implementation of our recommendations. We will formally follow up these recommendations next year.

Each issue and recommendation have been given a priority rating, which is explained below.



Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk



Issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.



Issues that would, if corrected, improve internal control in general but are not vital to the overall system. These are generally issues of good practice that we feel would benefit if introduced.

The following is a summary of the issues and recommendations raised in the year 2016/17.

2016/17 recommendations summary

Priority	Number raised in our interim report	Number raised from our year-end audit	Total raised for 2016/17
High	0	0	0
Medium	0	2	2
Low	0	0	0
Total	0	2	2





1. HRA Reconciliation

There are two key reconciliations that take place for HRA rental income, ranging from a weekly cash reconciliation between the income received and income recorded in QL (Rents) system, to a quarterly reconciliation between Agresso and the QL system.

When we reviewed the quarterly reconciliation it was not easy to trace where the figures used to perform it had been derived from in the system. We also identified there could be improvements to the timeliness of the reconciliation, noting the quarter two (31 September 2016) reconciliation was not prepared and reviewed until November.

Recommendation

We recommend the Authority establish a means of interfacing the two systems to improve the efficiency of the reconciliations.

The Principal Accountant responsible for reviewing the quarterly reconciliation should ensure this is prepared and reviewed within one month of the quarter end.

Management Response

Accepted

Owner

HRA Principal Accountant **Deadline**

With immediate effect



2. Review of impairment

In March 2017, we met with the Capital Accountant and Internal Valuer to receive an update on the rolling programme of valuation and agree an approach for the year end review of impairment. A full review of assets not valued in the current year was not presented to the audit team whilst onsite. This was subsequently provided to use prior to sign off. There is a risk of material movement in the value of land and buildings (not revalued in year) since 31 March 2016.

Recommendation

For those assets held at current value and not revalued in a particular year, the Authority should carry out a timely review of impairment and use appropriate indices to apply an estimated revaluation for the year.

Management Response

Accepted

Owner

Senior Asset Officer

Deadline

With immediate effect



Follow-up of prior year recommendations

In the previous year, we raised one recommendation which we reported in our External Audit Report 2015/16 (ISA 260). The Authority has implemented all of the recommendations. We re-iterate the importance of the outstanding recommendations and recommend that these are implemented by the Authority.

We have used the same rating system as explained in Appendix 1.

Each recommendation is assessed during our 2016/17 work, and we have obtained the recommendation's status to date. We have also obtained Management's assessment of each outstanding recommendation.

Below is a summary of the prior year's recommendations.

2015/16 recommendations status summary

Priority	Number raised	Number implemented / superseded	Number outstanding
High	0	0	0

Priority	Number raised	implemented / superseded	Number outstanding
High	0	0	0
Medium	1	1	0
Low	0	0	0
Total	1	1	0



1. Asset Valuation

As at 31 March 2016, there were still 46 unvalued assets that had not been revalued in line with rolling valuation programme in place at the Authority. We understand this is due to resource constraints and compared to prior years the Authority's valuers have reduced the number of 'unvalued' assets outstanding at the year end. Valuation certificates for these assets, valued as at 1 April 2016, were received in June 2016 and based on a sample tested there was a downward revaluation of £755k. If this were extrapolated across all the assets we do not consider there to be a risk of material misstatement.

Recommendation

We recommended that the Authority continued to develop a programme that would ensure all assets due for revaluation in year were captured before the financial year-end close. This will ensure the fixed asset balance in the accounts is complete and accurate.

Management original response

Agreed. A programme of Asset Valuations is to be integrated into the new Database System which is currently being implemented and provides a clear target for 2016-17.

Original deadline

With immediate effect.

KPMG's July 2017 assessment

Fully implemented



Audit differences

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the [Audit Committee]). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

A number of minor amendments focused on presentational improvements have also been made to the 2016/17 draft financial statements. The Finance team is committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

Adjusted audit differences

No audit differences were identified.

Unadjusted audit differences

No unadjusted audit differences were identified



Materiality and reporting of audit differences

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

Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.

Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.

Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We reassessed materiality for the Authority at the start of the final accounts audit. It was a reduced by £0.5m from £8.5m to reflect the reduction in General Fund Reserves as at 31 March 2017. Materiality for the Authority's accounts was therefore set at £8m million which equates to around two percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit Committee

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

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

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

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £400k for the Authority.

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



Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice (the 'Code') which states that:

"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd Terms of Appointment ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 Integrity, Objectivity and Independence ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of ISA (UK&I) 260 'Communication of Audit Matters with Those Charged with Governance' that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately

disclosed. We do this in our Annual Audit Letter.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings.

Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: Instilling professional values, Communications, Internal accountability, Risk management and Independent reviews.

We would be happy to discuss any of these aspects of our procedures in more detail.

Auditor declaration

In relation to the audit of the financial statements of Bury Metropolitan Borough for the financial year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and Bury Metropolitan Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.



Non-audit work and independence

Below we have listed the non-audit work performed and set out how we have considered and mitigated (where necessary) potential threats to our independence.

Summary of non-aud	dit work	
Description of non-audit service	Estimated fee*	Potential threat to auditor independence and associated safeguards in place
VAT advice on sporting services	£2,500	Self-interest : This engagement is entirely separate from the audit through a separate contract, engagement team and lead partner. In addition, the audit fee scale rates were set independently to KPMG by the PSAA. Therefore, the proposed engagement will have no perceived or actual impact on the audit team and the audit team resources that will be deployed to perform a robust and thorough audit.
		Self-review: The nature of this work is to review the assumptions and conclusions reached and to provide insight into areas where tax issues have not been considered. Therefore, it does not impact on our opinion and we do not consider that the outcome of this work will be a threat to our role as external auditors. The existence of a separate team for this work is a further safeguard. Consequently, we consider we have appropriately managed this threat.
		Management threat: This work will be advice and support only – all decisions will be made by the Authority.
		Familiarity : This threat is limited given the scale, nature and timing of the work. The existence of the separate team for this work is the key safeguard.
		Advocacy : We will not act as advocates for the Authority in any aspect of this work. We will draw on our experience in such roles to provide the Trust with a range of approaches but the scope of this work falls well short of any advocacy role.
		Intimidation: not applicable
Pooling Housing £3,000 Receipts Return 2015/16 £2,500		Self-interest : These engagements were entirely separate from the audit through a separate contract and did not impact the financial statements audit in 2016/17. The engagement has had no perceived or actual impact on the audit team and the audit team resources that will be deployed to perform a robust and thorough audit.
Teacher's Pension Audit 2015/16		Self-review: The nature of this work is to review supporting evidence of grant returns. Therefore, it does not impact on our opinion and we do not consider that the outcome of this work will be a threat to our role as external auditors. The existence of a separate team for this work is a further safeguard. Consequently, we consider we have appropriately managed this threat.
		Management threat: All decisions will be made by Authority.
		Familiarity: This threat is limited given the scale, nature and timing of the work.
		Advocacy: We will not act as advocates for the Authority in any aspect of this work.
		Intimidation: not applicable
Total estimated fees	£8,000	
Total estimated fees as a percentage of the external audit fees	7%	

*exclusive of VAT



Audit fees

Audit fees

As communicated to you in our External Audit Plan 2016/17, our scale fee for the audit is £116,730 plus VAT *in 2016/17*), which is the same as the prior year. However, we will be proposing an additional fee of £2,543 due to additional work undertaken in relation to the additional work required in respect of the two new system upgrades. We will agree this fee with management ahead of seeking ratification from the PSAA. See table below for further detail.

Our work on the certification of Housing Benefits (BEN01) is planned for August 2017. The planned scale fee for this is £8,483 plus VAT.

PSAA fee table			
Component of audit	2016/17 (planned fee) £	2015/16 (actual fee) £	
Accounts opinion and use of resources work			
PSAA scale fee set in [2014/15]	116,730	116,730	
Additional work to conclude our opinions (note 1)	2,543	-	
Subtotal	119,273	116,730	
Housing benefits (BEN01) certification work			
PSAA scale fee set in [2014/15]	8,483	9,191	
Total fee for the Authority set by the PSAA	127,756	125,213	

All fees are quoted exclusive of VAT.

Note 1: work undertaken on the two new system upgrades (the General Ledger and Fixed Asset systems).



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