

# Audit Completion Report

Bury Metropolitan Borough Council

Year ended 31 March 2021



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Members of the Audit Committee

Bury Metropolitan Borough Council  
Knowsley Place  
Knowsley Street  
Bury  
BL9 0SW

December 2021

Dear Audit Committee Members

## **Audit Completion Report – Year ended 31 March 2021**

We are pleased to present our Audit Completion Report for the year ended 31 March 2021. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented in September 2021. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate. We would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 07721234043.

Yours faithfully

Signed: `{{_es_:signer1:signature}}`

Karen Murray

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# 01

Section 01:

**Executive summary**

# 1. Executive summary

## Principal conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2020/21 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards on Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

In section 4 of this report we have set out our conclusions and significant findings from our audit. This section includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of controls
- Net defined benefit liability valuation (Group)
- Valuation of property, plant and equipment including investment properties
- Valuation of Airport Shareholding

Section 5 sets out internal control recommendations and section 6 sets out audit misstatements; unadjusted misstatements total £2,153k. Section 7 outlines our work on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources.

## Status and audit opinion

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2021.

At the time of preparing this report, significant matters remaining outstanding as outlined in section 2. We will provide an update to you in relation to the significant matters outstanding through issuance of a follow up letter.

Subject to the satisfactory conclusion of the remaining audit work, we have the following conclusions:



### Audit opinion

We anticipate issuing an unqualified opinion, without modification, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.



### Value for Money

We have not yet completed our value for money arrangements work and will report our findings in our Auditor's Annual Report later in the year. On the basis of the work completed to date we do not have any significant weaknesses in arrangements to report at this time in relation to the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources. However we are considering whether there is a risk of significant weakness in relation to the Council's arrangements for financial reporting. Further detail on our value for money arrangements work is provided in section 7 of this report.



### Whole of Government Accounts (WGA)

We have not yet received group instructions from the National Audit Office in respect of our work on the Council's WGA submission. We are unable to commence our work in this area until such instructions have been received.



### Wider powers

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. No such correspondence from electors has been received.

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# 02

Section 02:

**Status of the audit**

# 2. Status of the audit

Our work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below.

Audit area	Status	Description of the outstanding matters
Property, plant & equipment		We are awaiting responses to a number of queries relating to our PPE testing from both the Council's finance team and the external valuer.
Leases		We are awaiting responses on a number of queries relating to leases.
Financial Instruments		We are awaiting a revised financial instruments note which correctly reflects the amendments required to the accounts.
Cash Flow Statement		We are yet to complete our testing of the revised cash flow statement
Collection Fund		The NNDR precept reflected in the Collection Fund is not consistent with the approved budget precept value. The finance team is currently investigating this.
Debtors		We are waiting for evidence to support one debtor balance selected for our sample testing.
Income		We have not yet received all of the evidence to support the income items selected for sample testing.
Financial statements, AGS and letter of representation		We will complete our final review of the financial statements (including the Group accounts) upon receipt of the signed version of the accounts and letter of representation.
Review and closure procedures		Completion of audit closure procedures including final manager and partner review and Mazars quality control processes in respect of the audit.

Likely to result in material adjustment or significant change to disclosures within the financial statements.

Potential to result in material adjustment or significant change to disclosures within the financial statements.

Not considered likely to result in material adjustment or change to disclosures within the financial statements.



# 03

Section 03:

**Audit approach**



# 3. Audit approach

## Changes to our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in September 2021. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

## Materiality

Our provisional materiality at the planning stage of the audit was set at £10,900k using a benchmark of 2% of gross revenue expenditure at surplus/ deficit on provision of services level. No changes to the materiality level set at the planning stage have been made.

## Use of experts

The table below sets out the experts used by both management and the audit team during 2020/21. The only update to note since the audit strategy memorandum is the additional valuation expert used by management being Carter Jonas in respect of the valuation of Council Dwellings. The additional expert was required due to the in-house valuer not keeping adequate records of the workings behind the valuation given within his report.

Item of account	Management's expert	Our expert
Long Term Investments: Valuation of Share Holding in Manchester Airport Holdings Ltd	BDO	Mazars internal Valuations Team
Investment Property: Valuation of Manchester Airport Land	Jacobs	Mazars internal Valuations Team
Property, Plant & Equipment and Investment Property	Bury in-house valuation team, Align Property Partners and Carter Jonas	We will use available third party information to challenge the key valuations assumptions
Defined Benefit Liability	Hymans Robertson Actuaries	PwC (Consulting actuary on behalf of the National Audit Office)
Financial Instruments: Fair Value Disclosures	Link Asset Services	We will review the methodology used by the expert to gain assurance that the fair value disclosures are materially correct



# 3. Audit approach

## Group audit approach

Within our audit strategy memorandum, we set out the targeted procedures which we planned to perform on the three group components:

- Six Town Housing Ltd,
- Bury MBC Townside Fields Ltd and
- The Persona Group of Companies.

There has been no change to our planned procedures to the group accounts.

We have received the subsidiaries financial information and the Council's consolidation working papers, but we have yet to complete our audit procedures on the group accounts.

We will report back to the committee within our follow up letter our findings in relation to the group audit procedures.



# 04

## Section 04: **Significant findings**

## 4. Significant findings

In this section we outline the significant findings from our audit. These findings include:

- our audit conclusions regarding other significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 16 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

### Significant risks

#### Management override of controls

#### Description of the risk

This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.

Management at various levels within an organisation is in a unique position to perpetrate fraud because of the 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.

#### How we addressed this risk and our observations

We addressed this risk through performing audit work over:

- Accounting estimates impacting 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.

Based on the work carried out to date, there are no matters to bring to the Committee's attention in respect of our work on management override of controls.

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## 4. Significant findings

### Significant risks (continued)

#### Valuation of the Council's defined benefit pension liability (Group)

##### Description of the risk

The net pension liability represents a material element of the Council and the Group balance sheet. The Council and its consolidated subsidiaries are admitted bodies of Greater Manchester Pension Fund, which had its last triennial valuation completed as at 31 March 2019.

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 pension obligations are not reasonable or appropriate to the Council's or the subsidiaries' circumstances. This could have a material impact to the Council and Group net pension liability in 2020/21

##### How we addressed this risk and our observations

Our audit procedures included:

- Obtaining an understanding of the skills, experience and qualifications of the actuary, and considering the appropriateness of the instructions to the actuary from the Council.
- Obtaining confirmation from the auditor of the Greater Manchester Pension Fund that the controls in place at the Pension Fund are free from material deficiencies.
- Reviewing a summary of the work performed by the Pension Fund auditor on the Pension Fund investment assets, and evaluating whether the outcome of their work would affect our consideration of the Council's share of Pension Fund assets.
- Reviewing the actuarial allocation of Pension Fund assets to the Council by the actuary, including comparing the Council's share of the assets to other corroborative information.
- Reviewing the appropriateness of the Pension Asset and Liability valuation methodology applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This includes comparing them to expected ranges, utilising information provided by PwC, consulting actuary engaged by the National Audit Office.
- Agreeing the data in the actuarial valuation reports provided by the Pension Fund Actuary to the pension accounting entries and disclosures in the Council's financial statements (including single entity and group disclosures).

There are no matters to bring to the Committee's attention in respect of our work on the valuation of the Council's Group defined benefit pension liability.

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## 4. Significant findings

### Significant risks (continued)

#### Valuation of Council Property, Plant & Equipment and Investment Properties

#### 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 four 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 which reflect the significant impact of the valuation judgements and assumptions and the degree of estimation uncertainty.

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

#### How we addressed this risk and our observations

Our audit procedures included:

- Obtaining an understanding of the skills, experience and qualifications of the valuers, and considering the appropriateness of the Council's instructions to the valuers.
- Obtaining an understanding of the basis of valuation applied by the valuers in the year.
- Obtaining an understanding of the Council's approach to ensure that assets not subject to revaluation in 2020/21 are materially fairly stated.
- Obtaining an understanding of the Council's approach to ensure that assets revalued through 2020/21 are materially fairly stated at the year end.
- Sample testing the completeness and accuracy of underlying data provided by the Council and used by the valuer as part of their valuations.
- Using relevant market and cost data to assess the reasonableness of the valuation as at 31 March 2021.
- Using our Mazars internal valuation expert to assess the reasonableness of the Manchester Airport land valuation.
- Testing the accuracy of how valuation movements were presented and disclosed in the financial statements.
- Testing a sample of items of capital expenditure in 2020/21 to confirm that the additions are appropriately valued in the financial statements.

Our work on the valuation of property, plant and equipment, including investment properties, is not yet complete.

The external valuation expert indicated that a balance of £9.730m should be recognised in Bury's accounts in relation to the Manchester Airport land. However, during the audit, we have become aware of an additional lease element which had not been included by the valuer in their report. Bury's share of the annual income in relation to this lease is £28k per annum and this is considered trivial. However, the capital value of the additional lease is approximately £605k. This means that the Investment Properties balance on the Balance Sheet has been understated by this amount. This has not been adjusted for in the financial statements.

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## 4. Significant findings

### Key areas of management judgement and enhanced risks

#### Valuation of investment in Manchester Airport Holdings Limited

##### Description of the risk

The Council uses an external valuation expert to determine the value of its investment in Manchester Airport Holdings Limited at 31 March 2021. The valuation is determined according to a methodology and applying assumptions. Council officers challenge the valuation assumptions and reach judgements on the valuation to include in the financial statements.

##### How we addressed this risk and our observations

Our approach to auditing the investment in Manchester Airport Holdings Limited includes the involvement of the Mazars in-house valuation team.

The Mazars in-house valuation team reviewed the methodology and key assumptions used by management's expert, considering the appropriateness of the methodology and the reasonableness of the assumptions used.

Our audit work has provided the assurance sought and has not identified any material issues to bring to your attention.

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## 4. Significant findings

### Qualitative aspects of the Council's accounting practices

Draft accounts were received from the Council on 2 August. However, the draft accounts were not prepared to the required quality standard and contained a number of significant internal inconsistencies. This indicates the draft statements had not been subject to an appropriate quality control review by the Finance Team before they were published on the Council's website for inspection.

Once our audit commenced, it became clear that the working papers and supporting information required to support the audit were not always available. Furthermore, we initially experienced significant delays in receiving information and responses to queries from the Finance Team. This is disappointing given the progress the Finance Team had made in the previous year to improve the arrangements for the closedown and preparation of the financial statements.

We have had the full co-operation of management throughout the process. Given the initial difficulties we were experiencing in the light of the quality of the draft statements and supporting working papers, we escalated our concerns immediately to the Director of Finance. She, supported by her Deputy, took immediate action to ensure resources and capacity within the Finance team were refocused. This has included undertaking a quality review of information supplied during the course of the audit.

We have reviewed the Council's accounting policies and disclosures and concluded they comply with the 2020/21 Code of Practice on Local Authority Accounting, appropriately tailored to the Council's circumstances.

### Significant difficulties during the audit

During the course of the audit we encountered a number of difficulties including:

- The Council's in-house valuer was unable to provide any evidence to support the £251.1m valuation for council dwellings included in the statements. We have been told that the supporting records were lost although it is unclear how such a loss could have occurred. The Director of Finance needed to commission an external valuer to re-perform the valuation in order to ensure the accounts were materially correct with regard to these properties.
- The Council used an external valuer to provide valuations of the Council's non-HRA operational land and buildings. The initial valuation report provided to support the work done included an error in the split of values between land and buildings. The valuer had to provide a revised valuation report to correct this.
- During our testing of the Council's asset valuations we identified that a number of assets had been classified as investment properties but which were actually operational assets. Although the Council's valuers had valued these assets on the basis that they were operational, so the value in the financial

statements was correct, they were included in the statements in the wrong place. It is unclear how or why these assets had been reclassified to investment properties in the fixed asset register. As we have not identified any other misclassifications within the fixed asset register we do not believe this to be a systemic issue.

- Note 3 to the accounts provides an analysis of income and expenditure by nature. This note did not reconcile to the income and expenditure included Comprehensive Income and Expenditure Statement by £72.8m.
- In 2020/21 central government provided for a statutory override to be applied to remove the deficit balance on the Council's Dedicated Schools Grant from the Council's usable reserves and to reclassify this in unusable reserves. This "ring-fencing" of the deficit within unusable reserves improves the Council's overall financial sustainability. Management did not apply the statutory override in the draft financial statements.

### Significant matters discussed with management

During the audit we maintained a regular dialogue with Council officers. Among the matters discussed through these conversations were:

- Accounting treatment for the Council's loan made to Manchester Airport in the year We discussed the Council's treatment of its loan as capital expenditure in the context of the Capital Financing regulations and the specific requirements to be met in order to treat loans to other organisations as capital expenditure. The Council provided a detailed explanation and supporting evidence to confirm that the loan was provided for capital purposes and the expenditure incurred by the Airport would have been capital had the Council incurred it itself.
- Impairments of financial assets We discussed the Council's approach in considering impairments of its financial assets and in particular those impacted by the Covid-19 pandemic. We obtained explanations and evidence to support the Council's approach to impairing its assets including those assets, such as the loans to Manchester Airport, which it has not impaired.
- Accounting treatment of government grants The Council has received material amounts of government grant income in the year, particularly relating to the government's financial support to the Council and business in response to the impact of Covid-19. We had discussions with the Council in respect of their consideration of whether the Council was acting as an agent of the government or as a principal and whether there were any grant conditions which the Council should take into account in recognising the income in its accounts.



# 4. Significant findings

## Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2020/21 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. No such objections have been raised.



# 05

Section 05:

**Internal control recommendations**

# 5. Internal control recommendations

The purpose of our audit was 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 in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or 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
<b>1 (high)</b>	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.	3
<b>2 (medium)</b>	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	3
<b>3 (low)</b>	In our view, internal control should be strengthened in these additional areas when practicable.	1



# 5. Internal control recommendations

## Significant deficiencies in internal control – Level 1

### Description of deficiency

The draft financial statements which were submitted for audit were not to the required standard. A number of material errors within the financial statements were identified during the audit process

### Potential effects

There is a risk that fundamental errors in the Council’s reported financial position could be caused by a reoccurrence of these events.

### Recommendation

Management should undertake a full debrief of the accounts preparation process to identify how the errors in the financial statements occurred.

Management should ensure there is an appropriate arrangement for quality control review in future years.

### Management response

Once the Director of Finance and Deputy Director of Finance were alerted to the number of issues with the accounts the Deputy Director of finance intervened and got more involved with the closedown team and the audit. We also sourced the advice and expertise of colleagues from another Greater Manchester authority who have supported our own team in responding to the audit queries and have mentored and upskilled some of our staff as part of the process

### Management response (continued)

Within the finance restructure there are plans for a Chief accountant post but the restructure will not be ready for its 90 day consultation until the final quarter of this financial year. Therefore, we are in the process of sourcing an interim chief accountant to support with:

- A lessons learnt review from the 20/21 accounts and audit process – a full report will be brought to the next Audit Committee
- A debrief of all the staff involved in this years process and a review of personal development plans to identify if any further training or support is required such as mentoring and coaching
- A complete detailed final accounts closure timetable with assigned tasks to individuals and deadlines that allow for a comprehensive quality check and cross referencing of the accounts. This timetable will not only include those tasks assigned to finance but those that are required from other departments such as valuations etc.
- The 21/22 will undergo a thorough review process by the Chief Accountant, Deputy Director of Finance and then the Director of Finance

The finance restructure takes account of the needs of the business and is very much development and staff training focussed to deliver a high quality service and outcomes and outputs



# 5. Internal control recommendations

## Significant deficiencies in internal control – Level 1

### Description of deficiency

The Council's in-house valuer did not retain any supporting records and evidence to support the work carried out to arrive at the Council Dwellings valuation included within the draft accounts.

### Potential effects

Management have not complied with the requirement to maintain appropriate underlying financial records.

Errors in the valuation cannot be identified.

Additional costs are incurred where revaluations need to be re-performed.

Delays to the audit processes.

### Recommendation

Management should ensure that the experts used understand the requirements of keeping adequate records of work completed in order to evidence the values within the accounts.

### Management response

The Section 151 Officer will support the Director of BGI to ensure the Council has an appropriate skilled and able valuer service (either inhouse or external). Through a programme of soft and hard closes it will identify any remaining issues that are not fully resolved following the lessons learned workshops.

### Management response (continued)

The final accounts timetable described above will also ensure that all individuals assigned a task are fully aware of their deadlines and obligations in undertaking these tasks and the consequences for themselves, their professional standing and also the authority if these are not carried out to the required standards and records retained in accordance with professional and records management requirements.



# 5. Internal control recommendations

## Significant deficiencies in internal control – Level 1

### Description of deficiency

As part of our work on PPE and investment properties it was identified that there were 50 assets which were classified within the fixed asset register and the draft accounts as investment properties but which were PPE assets. This suggests a deficiency in the controls around the fixed asset register.

### Potential effects

The incorrect classification of assets within the fixed asset register could lead to the assets being subjected to an incorrect valuation method. This could lead to material misstatements within the accounts.

### Recommendation

Management sure ensure that there is adequate review processes in place to ensure that the assets within the fixed asset register are both classified correctly and valued on the correct basis for the relevant classification.

### Management response

A review of the fixed asset register is planned for the final quarter of this financial year with the support of the interim Chief accountant, additional Capital Support within the finance team and an experienced Unit 4 consultant whom we have recently entered into a contract with to ensure we not only apply the correct classification to assets but that this is reflected in the financial system.

## Other deficiencies in internal control – Level 2

### Description of deficiency

As part of our audit work on debtors and creditors we identified a number of disclosure errors relating to the classification of debtors and creditors over the relevant categories within the notes. This is due to the year end balances in the accounts receivable and accounts payable systems not being analysed.

### Potential effects

This is likely to lead to material disclosure errors within the debtors and creditors notes within the statement of accounts.

### Recommendation

Management should implement processes to ensure that all year end debtors and creditors are correctly analysed.

### Management response

As part of the lessons learned, a process of month end reviews will be undertaken to ensure debtors and creditors are classified correctly. A review of all debtors and creditors held by the council will be undertaken to reduce the risk of material disclosure errors



# 5. Internal control recommendations

## Other deficiencies in internal control – Level 2

### Description of deficiency

As part of our audit review of property, plant and equipment we identified a number of assets within the fixed asset register had an incorrect asset life recorded. This resulted in the depreciation calculation for the year being inaccurate. We also noted that the asset lives for buildings had not been reviewed for a number of years.

### Potential effects

Inaccuracies in the asset lives data within the fixed asset register could lead to depreciation being materially misstated within the financial statements.

### Recommendation

For all asset entries ensure there is a check of reasonableness and accuracy of the asset lives data input into the system prior to posting to prevent inaccuracy in the depreciation calculation.

The instructions provided to the valuer should be request that the valuer provides an indication of the remaining useful lives of the assets subject to revaluation. This will provide assurance over the asset lives that are used are up to date and the resulting depreciation calculation will be more accurate.

### Management response

A review of the fixed asset register is planned for the final quarter of this year with the support of the interim Chief accountant, additional Capital Support identified within the team and an experienced Unit 4 consultant whom we have recently entered into a contract with to ensure we not only apply the correct asset life but will ensure there is a cycle where assets are review periodically to prevent inaccuracy in the depreciation calculations.

## Other deficiencies in internal control – Level 2

### Description of deficiency

Our IT audit work identified some employees who had left the Council but who had retained access to Agresso and the Active Directory.

### Potential effects

Failure to remove user accounts from users who have left presents the risk that activities are performed by those not authorised to perform them.

### Recommendation

Ensure that leavers are communicated to the system custodians promptly and that access is revoked on or before the users' leave date.

### Management response

Linked with an upgrade in the iTrent HR system in April 2022 we will be able to ensure a monthly report is produced and system access is revoked and amended as necessary. A piece of work will be undertaken to review all current status of Agresso users in January 2022.



# 5. Internal control recommendations

## Other recommendations in internal control – Level 3

### Description of deficiency

Our IT audit work identified that disaster Recovery tests were not performed during the year. Further, we noted that the Disaster Recovery site is in close proximity to the primary server.

### Potential effects

A lack of testing disaster recovery plans means any deficiencies in the effectiveness of the Council's resilience may not be detected.

Locating the Disaster Recovery site close to the primary server means that environmental issues affecting the primary server have a higher probability of also affecting the secondary server.

### Recommendation

Disaster Recovery should be tested at least annually to ensure resilience to issues affecting the primary server.

The Council should reposition the disaster recovery server at a greater distance from the primary server. If this is not possible the Council should implement controls to ensure the secondary server is protected from being affected by environmental issues which might affect the primary.

### Management response

We will undertake guidance on this from our IT department , sharing your recommendations.





# 06

Section 06:

**Summary of misstatements**

## 6. Summary of misstatements

This section outlines the misstatements identified during the course of the audit, above the trivial threshold for adjustment of £327k. The first table outlines the misstatements that were identified during the course of our audit which management has assessed as not being material either individually or in aggregate to the financial statements and does not currently plan to adjust.

The second table outlines the misstatements that have been adjusted by management during the course of the audit.

### Unadjusted misstatements

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Usable Reserves			1,569	
	Cr: Provisions				1,569
<p>Our sample testing of provisions included the 'GMPF additional costs' provision with a value of £600k. The Council was unable to provide any evidence to support this provision. On further investigation, they have confirmed this should be reclassified as a reserve. As we identified this error from sample testing, we have extrapolated the error across the provisions balance to arrive at an estimate of the total value of the potential misstatement within provisions should this error be representative of the entire balance.</p>					
2	Dr: Cost of Services: Gross Income	584			
	Cr: Cost of Services: Gross Expenditure		584		
<p>Sample testing of expenditure identified an error with one item with a value of £20k. It was classified as expenditure but it should have been accounted for as a reduction to income. As we have identified this error as part of a sample we have extrapolated the error across the expenditure population to arrive at an estimate of the total potential misstatement.</p>					
<b>Total unadjusted misstatements</b>		<b>584</b>	<b>584</b>	<b>1,569</b>	<b>1,569</b>

# 6. Summary of misstatements

## Adjusted misstatements

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Unusable Reserves: DSG Reserve			21,407	
	Cr: Usable Reserves: DSG Reserve				21,407
<p>The closing accumulated deficit on the dedicated schools grant fund has been amended to post as unusable reserve (called the Dedicated Schools Grant Adjustment Account) as required by the School and Early Years Finance (England) Regulations 2020</p>					
2	Dr: Creditors			59,501	
	Cr: Debtors				59,501
<p>Both debtors and creditors were overstated in relation to covid grants received. This was because the accounts reflected the full value of the grants and the related expenditure as a creditor and debtor respectively. The correct treatment is to show the net position as either a debtor or a creditor.</p>					
3	Dr: Housing General Fund: Gross Expenditure	3,341			
	Cr: Debtors				3,341
<p>The housing benefit overpayment debtor did not agree to the balance in the underlying system.</p>					



## 6. Summary of misstatements

### Adjusted misstatements (continued)

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
4	Dr: Property, Plant & Equipment: Other Land and Buildings			1,580	
	Cr: Investment Properties				1,580
A number of assets were incorrectly classified investment properties. These have been reclassified as other land and buildings within PPE. The assets are valued on the correct basis to be held as PPE.					
5	Dr: Property, Plant & Equipment: Council Dwellings			15,636	
	Cr: Housing Revenue Account: Gross Expenditure				12,362
	Cr: Revaluation Reserve				3,274
The increase in the value of HRA Dwellings reflects the increase in the value of residential properties between the valuation date of 1 April 2020 and the balance sheet date of 31 March 2021.					
6	Dr: Cost of Services: Gross Expenditure	8,343			
	Cr: Property, Plant & Equipment				8,343
The depreciation calculation was incorrect because the fixed asset register recorded incorrect data on asset lives. The Council have undertaken a review of asset lives within the system and recalculated depreciation.					

## 6. Summary of misstatements

### Adjusted misstatements (continued)

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
7	Dr: Other Operating Expenditure	11,020			
	Dr: Children, Young People & Culture: Gross Expenditure	733			
	Dr: Revaluation Reserve	2,321			
	Cr: Property, Plant & Equipment: Other Land and Buildings				14,073
<p>The Council had not processed the academisation of Prestwich High School. When a school converts to an academy the Council must treat the transfer of the land and building assets to the academy trust as a disposal of PPE assets.</p>					
8	Dr: Cost of Services: Gross Income	4,883			
	Cr: Cost of Services: Gross Expenditure		4,883		
<p>The Council had not eliminated all internal recharges in the preparation of the Comprehensive Income and Expenditure Statement, therefore both income and expenditure were overstated in the draft accounts.</p>					
9	Dr: Investment Properties			605	
	Cr: Unusable Reserves: Capital Adjustment Account				605
<p>The external valuation expert has indicated that a balance of £9.730m should be recognised in Bury's accounts in relation to the land lease. However, during the audit, we have become aware of an additional lease element which had not been included by the valuer in their report. Bury's share of the annual income in relation to this lease is £28k per annum and this is considered trivial. However, the capital value of the additional lease is approximately £605k. This means that the Investment Properties balance on the Balance Sheet has been understated by this amount.</p>					
<b>Total adjusted misstatements</b>		<b>30,640</b>	<b>4,883</b>	<b>98,729</b>	<b>124,486</b>

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# 6. Summary of misstatements

## Disclosure amendments

Our review of the financial statements identified that a number of amendments were required to the disclosures in the financial statements to ensure compliance with the CIPFA Code. We have summarised the most significant of them below:

- **Expenditure and Income Analysed by Nature note** – the note has been revised to ensure consistency with the CIES.
- **Debtors and Creditors** – the notes analysing these two balances by type were incorrect and a further error within the working papers led to some double counting within the analysis. The overall impact of this increased central government debtors NHS debtors by £1,946k and £6,457k respectively and reduced other local authorities debtors and entities external to government debtors by £196k and £8,205k respectively. The 2019/20 comparators have also been amended.
- **Operating Leases Note (the Council as a lessee)** – the note has been amended:
  - Not later than one year increased by £1,337,000
  - Later than one year and not later than five years increased by £4,746,000
  - Later than five years increased by £11,312,000
- **Operating Leases Note (the Council as a lessor)** – the note, and the previous years comparator, have been amended:
  - Not later than one year increased by £2,701,000
  - Later than one year and not later than five years increased by £7,508,000
  - Later than five years increased by £103,701,000
- **Pensions note** - updated the “reversal of net charges made to the deficit on the provision of services” line to reflect correct figure in line with the Council’s actuarial report.
- **Unusable reserves** – the pensions reserve has been updated to correctly reflect the pension reserve as being equal and opposite to the pensions liability within the pensions note and the actuarial report.
- **HRA income and expenditure statement** - updated to be consistent with the HRA line on the CIES.
- **Capital commitments disclosure** - revised to accurately disclosure the capital spend contractually committed as at 31 March 2021.
- **Capital expenditure and capital financing requirement note** – amended to correct a number of errors.
- A number of other minor amendments have been made to ensure internal consistency within the document and to ensure compliance with the CIPFA Code.

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# 07

Section 07:

**Value for Money**

# 7. Value for Money

## Approach to Value for Money

We are required to consider 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 reporting criteria that we are required to consider. The reporting criteria are:

- **Financial sustainability** - How the Council plans and manages its resources to ensure it can continue to deliver its services
- **Governance** - How the Council ensures that it makes informed decisions and properly manages its risks
- **Improving economy, efficiency and effectiveness** - How the Council uses information about its costs and performance to improve the way it manages and delivers its services

At the planning stage of the audit, we undertake work to understand the arrangements that the Council has in place under each of the reporting criteria and we identify risks of significant weaknesses in those arrangements. Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest significant weaknesses in arrangements exist.

The table overleaf outlines the risks of significant weaknesses in arrangements that we have identified, the risk-based procedures we have undertaken, and the results of our work.

Where our risk-based procedures identify actual significant weaknesses in arrangements we are required to report these and make recommendations for improvement. Where such significant weaknesses are identified, we report these in the audit report.

The primary output of our work on the Council's arrangements is the commentary on those arrangements that forms part of the Auditor's Annual Report. We intend to issue the Auditor's Annual Report in [insert date].

## Status of our work

We are yet to complete our work in respect of the Council's arrangements for the year ended 31 March 2021. At the time of preparing this report, we have not identified any significant weaknesses in arrangements that require us to make a recommendation, however we continue to undertake work on the Council's arrangements.

However we are considering whether there is a risk of significant weakness in relation to the Council's arrangements for financial reporting

Our draft audit report will outline that we have not yet completed our work in relation to the Council's arrangements. As noted above, our commentary on the Council's arrangements will be provided in the Auditor's Annual Report within 3 months of the date of our audit opinion.





# Appendices

A: Draft management representation letter

B: Draft audit report

C: Independence

D: Other communications

# Appendix A: Draft management representation letter

To be provided to us on client headed note paper

[Date]

Dear Karen

## **Bury Metropolitan Borough Council and Group - audit for year ended 31 March 2021**

This representation letter is provided in connection with your audit of the financial statements of Bury Metropolitan Borough Council ('the Council') and Group for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code) and applicable law.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy myself that I can properly make each of the following representations to you.

### **My responsibility for the financial statements and accounting information**

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

### **My responsibility to provide and disclose relevant information**

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council and Group you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Director of Finance (Section 151 Officer) that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

### **Accounting records**

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Council, Cabinet and committee meetings, have been made available to you.



# Appendix A: Draft management representation letter (continued)

### Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council and Group's financial position, financial performance and cash flows.

### Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Council and Group in making accounting estimates, including those measured at current or fair value, are reasonable.

### Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no undisclosed contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council and Group have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and applicable law.

### Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Council and Group has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.



# Appendix A: Draft management representation letter (continued)

### Fraud and error

I acknowledge my responsibility as Director of Finance (Section 151 Officer) for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council and Group involving:
  - management and those charged with governance;
  - employees who have significant roles in internal control; and
  - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council and Group’s financial statements communicated by employees, former employees, analysts, regulators or others.

### Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code and applicable law.

I have disclosed to you the identity of the Council and Group’s related parties and all related party relationships and transactions of which I am aware.

### Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

### Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.



# Appendix A: Draft management representation letter (continued)

**Covid-19**

I confirm that the Council and Group has carried out an assessment of the potential impact of the Covid-19 Virus pandemic on the Council and Group, including the impact of mitigation measures and uncertainties, and that the disclosures in the Narrative Report fairly reflects that assessment.

**Going concern**

To the best of my knowledge there is nothing to indicate that the Council and Group will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

**Unadjusted misstatements**

I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. All uncorrected misstatements are included in the Appendix to this letter.

Yours faithfully

Sam Evans  
Director of Finance (Section 151 Officer)



# Appendix B: Draft audit report

To follow once audit has been completed.



# Appendix C: Independence

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.



# Appendix D: Other communications

Other communication	Response
<b>Compliance with Laws and Regulations</b>	<p>We have not identified any significant matters involving actual or suspected non-compliance with laws and regulations.</p> <p>We will obtain written representations from management that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed.</p>
<b>External confirmations</b>	<p>We did not experience any issues with respect to obtaining external confirmations.</p>
<b>Related parties</b>	<p>We did not identify any significant matters relating to the audit of related parties.</p> <p>We will obtain written representations from management confirming that:</p> <ul style="list-style-type: none"> <li>a. they have disclosed to us the identity of related parties and all the related party relationships and transactions of which they are aware; and</li> <li>b. they have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable financial reporting framework.</li> </ul>
<b>Going Concern</b>	<p>We have not identified any evidence to cause us to disagree with the Director of Finance that the Council will be a going concern, and therefore we consider that the use of the going concern assumption is appropriate in the preparation of the financial statements.</p> <p>We will obtain written representations from management, confirming that all relevant information covering a period of at least 12 months from the date of approval of the financial statements has been taken into account in assessing the appropriateness of the going concern basis of preparation of the financial statements.</p>



# Appendix D: Other communications

Other communication	Response
<p><b>Subsequent events</b></p>	<p>We are required to obtain evidence about whether events occurring between the date of the financial statements and the date of the auditor’s report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework.</p> <p>We will obtain written representations from management that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.</p>
<p><b>Matters related to fraud</b></p>	<p>We have designed our audit approach to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement due to fraud. In addition to the work performed by us, we will obtain written representations from management, and the Audit Committee, confirming that</p> <ul style="list-style-type: none"> <li>a. they acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud;</li> <li>b. they have disclosed to the auditor the results of management’s assessment of the risk that the financial statements may be materially misstated as a result of fraud;</li> <li>c. they have disclosed to the auditor their knowledge of fraud or suspected fraud affecting the entity involving:               <ul style="list-style-type: none"> <li>i. Management;</li> <li>ii. Employees who have significant roles in internal control; or</li> <li>iii. Others where the fraud could have a material effect on the financial statements; and</li> </ul> </li> <li>d. they have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the entity’s financial statements communicated by employees, former employees, analysts, regulators or others.</li> </ul>



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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services\*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

\*where permitted under applicable country laws.