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Report to those charged with governance (ISA 260) 2013/14

Bury Metropolitan Borough Council

15 July 2014

Contents

The contacts at KPMG in connection with this report are:

Trevor Rees
Partner
KPMG LLP (UK)

Tel: 0161 246 4063
trevor.rees@kpmg.co.uk

Jillian Burrows
Senior Manager
KPMG LLP (UK)

Tel: 0161 246 4705
jillian.burrows@kpmg.co.uk

Adam Langan
Assistant Manager
KPMG LLP (UK)

Tel: 0161 246 4938
adam.langan@kpmg.co.uk

This report is addressed to 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. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gov.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.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Trevor Rees, the appointed engagement lead to the Authority, who will try to resolve your complaint. Trevor is also the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 0303 4448 330.

Section one

Introduction

This document summarises:

- **the key issues identified during our audit of the financial statements for the year ended 31 March 2014 for the Authority; and**
- **our assessment of the Authority's arrangements to secure value for money (VFM) in its use of resources.**

Scope of this report

This report summarises the key findings arising from:

- our audit work at Bury Metropolitan Borough Council ('the Authority') in relation to the Authority's 2013/14 financial statements and those of the Local Government Pension Scheme it administers ('the Fund'); and
- our work to support our 2013/14 value for money (VFM) conclusion.

Financial statements

Our *External Audit Plan 2013/14*, presented to you in March 2014, set out the four stages of our financial statements audit process.

This report focuses on the second and third stages of the process: control evaluation and substantive procedures. Our on site work for these took place during February 2014 (interim audit) and June and July 2014 (year end audit).

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

VFM conclusion

Our *External Audit Plan 2013/14* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission. We have now completed our work to support our 2013/14 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;
- considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2013/14 financial statements of the Authority and the Fund.
- Section 4 outlines our key findings from our work on the VFM conclusion.

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

Acknowledgements

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

Headlines

This table summarises the headline messages for the Authority. Sections three and four of this report provide further details on each area.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 31 July 2014. We will also report that the wording of your Annual Governance Statement accords with our understanding.
Audit adjustments	Our audit identified one audit difference with a total value of £23.4 million which has been adjusted. Our audit has also identified two uncorrected audit differences. One relates to the potential impact of revaluations on the corrected adjustment above. The second relates to assets not revalued in accordance with the Authorities policies (see Appendix 1, rec 2). The impact of the corrected adjustment made on the financial statements is to: ▪ Move £23.4m of assets out of Asset under construction to Operational Assets (£22.4m) and non-operational assets (£1m). We have included full details of both the adjusted and unadjusted difference at Appendix 3. The uncorrected differences in Appendix 3 are an estimate of the potential difference and is not considered material. The Authority have committed to addressing the issue as a matter of urgency in 2014/15. We have raised a number of recommendations in relation to the matters highlighted above, which are summarised in Appendix 1. We have also raised recommendations in relation to the valuation of heritage assets, finance system access rights and the review of bank reconciliations.
Key financial statements audit risks	We review risks to the financial statements of the Authority on an ongoing basis. We identified no significant risks specific to the Authority during 2013/14 with respect to the financial statements.
Accounts production and audit process	The quality of the working papers continues to be of a good standard. We have made a number of suggestions to the Head of Financial Management in relation to the de-cluttering of the financial statements, which have been actioned. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. This is particularly commendable given the early close down and timing of the audit. Whilst the Authority has implemented the recommendation in our *ISA 260 Report 2012/13* relating to the valuation of heritage assets and we have included a further recommendation this year.

Headlines

This table summarises the headline messages. The remainder of this report provides further details on each area.

Control environment	The Authority's organisational and IT control environment is effective overall however we identified issues in relation to: ■ Access rights of some users on the financial system are not in accordance with their job descriptions; and ■ These inappropriate access rights provided some users with the ability to post journals when their ledger access should have been limited to read only. ■ Two bank reconciliations were not reviewed in a timely manner in line with best practice.
Completion	At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas: ■ Audit of Whole of Government accounts. ■ Receipt of confirmation from the Auditors of the Greater Manchester Pension Fund that there are no issues in relation to our Agreed upon Procedures. ■ Receipt of the ISA260 from the Auditors of the Six Town Housing. ■ Final review of the completed financial statements. Before we can issue our opinion we require a signed management representation letter, which covers the financial statements of the Authority. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.
VFM conclusion and risk areas	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 VFM conclusion by 31 July 2014.

Proposed opinion and audit differences

Our audit has identified one corrected audit adjustment. This is presentational and has no material impact on the net worth of the Authority.

Our audit has also identified two uncorrected audit differences relating to the potential impact of revaluations on the corrected adjustment and assets not revalued in year.

Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Audit Committee by 31 July 2014.

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.

Our audit identified one significant audit difference, which we set out in Appendix 3. This has been amended in the final version of the financial statements. Our audit has also identified two uncorrected audit differences.

The corrected audit difference relates to assets totalling £23.4m being incorrectly classified as assets under construction. £22.4m of these assets are operational assets and £1m are non-operational assets. There is no overall impact on the balance sheet as at 31 March 2014, as this is simply a disclosure change. There is a 2013-14 depreciation charge and potentially a 2012-13 charge associated with the movement of these assets into the correct categories, but the value is considered trivial and falls below the threshold for reporting.

The uncorrected audit differences relate to three specific issues affecting revaluations of assets, which we have agreed do not need correcting due to the immaterial impact on the accounts:

- When an asset is moved out of assets under construction into operational assets it should be revalued in line with Authority policy. As the Authority has experienced a significant downward revaluation of its assets in year, it is likely that there would have been an impairment impact of the assets that have been re-categorised by the audit adjustment above.
- The two non-operational assets should potentially have been impaired down to a NIL value due to the nature of the intended use of these assets.
- In addition there is a further group of assets that have not been revlaued within the five year timescale set out in the accounting policy.

Again, due to the overall downward revaluation it is likely that for this group of assets there would have been an impairment impact.

We have not included the unadjusted difference in the tables below as the estimated impact is not considered material to the accounts and will be addressed when the assets are revalued in 14/15 (Appendix 3).

Movements on the General Fund 2013/14

£m	Pre-audit	Post-audit	*Ref (App.3)*
Deficit on the provision of services	(15,594)	(15,594)	
Adjustments between accounting basis & funding basis under Regulations	6,645	6,645	
Transfers to/ from earmarked reserves	7,719	7,719	
Decrease in General Fund	**(1,230)**	**(1,230)**	

Balance Sheet as at 31 March 2014

£m	Pre-audit	Post-audit	*Ref - App.3*
Property, plant and equipment	604,390	604,390	*1,2*
Other long term assets	55,042	55,042	
Current assets	85,898	85,898	
Current liabilities	(47,736)	(47,736)	
Long term liabilities	(447,862)	(447,862)	
Net worth	**249,730**	**249,730**	
General Fund	15,688	15,688	
Other usable reserves	63,874	63,874	
Unusable reserves	170,168	170,168	
Total reserves	**249,730**	**249,730**	

Section three

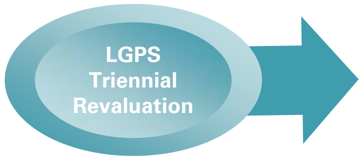
Key financial statements audit risks

We have worked with officers throughout the year to discuss specific risk areas. We identified three areas of risk as well as two areas of audit focus. The Authority addressed the issues appropriately.

In our *External Audit Plan 2013/14*, presented to you in March 2014, we identified a risk in relation to the triennial review of the Pension Scheme affecting the Authority's 2013/14 financial statements. We also identified two areas of audit focus. We have now completed our testing of these areas and set out our evaluation following our substantive work.

Additionally, we considered the risk of management override of controls, which is a standard risk for all organisations.

Our 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, did not identify any issues

Key audit risk	Findings
	During the year, the Local Government Pension Scheme for Greater Manchester (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2013 in line with the Local Government Pension Scheme (Administration) Regulations 2008. The Authority's share of pensions assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation. As part of our audit, we agreed the data provided to the actuary back to the systems and reports from which it was derived, and we tested the accuracy of this data. We liaised with Grant Thornton, who are the auditors of the Pension Fund. At the date of this report we are still awaiting their response to our agreed upon procedure request. However we do not anticipate any major issues arising from this work.

Key financial statements audit risks (continued)

We have also considered the two areas of significant risk that professional standards require auditors to consider at all organisations.

Key audit risk	Findings
Management override of controls	Management is typically in a powerful position to perpetrate fraud owing to 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. In line with our methodology, we have carried out appropriate controls testing and substantive procedures, including the review of journal entries, accounting estimates and significant transactions that are unusual or are outside the normal course of business. There were no adverse findings from our reviews.
Fraudulent Revenue Recognition	We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebutted this risk and did not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

Key financial statements audit risks (continued)

We have also considered the two areas of audit focus specific to the Authority in 2013/14

Area of audit focus	Findings
Savings plan	The Authority achieved an under spend against budget of £406,000 for the year ended 31 March 2014. In doing so they delivered the full £10 million savings identified in the ‘plan for change’. The ‘plan for change’ for 2014/15 has been subject to full consultation and has been approved by Members. The plan clearly sets out the actions required to generate the savings identified of £9.7m for the year. Going forward the Authority has estimated a revised combined savings requirement of nearly £31m for 2015/16 and 2016/17. The proportion of cuts that will have to be made in 2015/16 and future years are such that there will be an impact on front-line services. The Authority has a Medium Term Financial Strategy already in place, and is in the process of developing an overall budget strategy for the coming two years, including detailed budget options for 2015/16 and 2016/17. A full consultation is planned to take place towards the end of 2014. We have considered the future savings plans in relation to our work over going concern (financial statements audit) and financial resilience (VFM conclusion) and are satisfied that management have taken appropriate measures in developing and implementing the plan.
Early close down	The Authority brought forward the close down of the accounts in order to have the statutory accounts approved by the Audit Committee on 15th July 2014. This increased the risk of the need to include more estimates in the production of final accounts such as accruals and pension balances. Our standard audit procedures are designed to identify material misstatements in the accounts. We placed an increased focus on cut-off to ensure that items were included in the correct period. As part of our final accounts audit we will also reviewed the methodology the assumptions and calculations of all estimates included in the final accounts. Our audit work has not identified any errors which are as a direct consequence of an earlier accounts production timetable.

Organizational and IT control environment

Your organisational environment is effective overall. We noted an area for further improvement in relation to IT controls: access to systems and data.

Work completed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit.

We obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

We undertook work on journal entries on the ledger system and as a result of identifying access control issues we extended this testing to review access rights of finance system users.

Key findings

We consider that your organisational controls are effective overall. Our review of access to systems and data identified issues in relation to:

- Access rights of some users on the financial system are not in accordance with their job descriptions; and
- These inappropriate access rights provided some users with the ability to post journals when their ledger access should have been limited to read only.

This weaknesses meant that we needed to alter our audit strategy in relation to journal testing and we undertook a review of a full year sample.

Recommendations are included in Appendix 1.

Aspect	Assessment
Organisational controls:	
Management's philosophy and operating style	3
Culture of honesty and ethical behaviour	3
Oversight by those charged with governance	3
Risk assessment process	3
Communications	3
Monitoring of controls	3
IT controls:	
Access to systems and data	2

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

Controls over key financial systems

The controls over the key financial systems are sound.

However, there is a minor best practice improvement point in respect of review of bank reconciliations.

Work completed

We review the outcome of internal audit's work on the financial systems to influence our assessment of the overall control environment, which is a key factor when determining the external audit strategy.

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

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

Key findings

The controls over the key financial systems are sound. We noted a minor best practice point in relation to the review of bank reconciliations.

- Improvement point 1: We tested two monthly bank reconciliations for June and September 2013. Both were signed as reviewed more than 31 days after the month in which the reconciliation related to. Best practice would suggest that the reconciliations should be reviewed within 31 days of month end to ensure that any discrepancies arising are corrected on a timely basis.

Recommendations are included in Appendix 1.

Financial system	Controls Assessment
Property, Plant & Equipment	❸
Cash	❸
Pensions Liabilities	❸

Key:
- ❶ Significant gaps in the control environment.
- ❷ Deficiencies in respect of individual controls.
- ❸ Generally sound control environment.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 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 2014, 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 Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 4 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 S151 officer for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

We have asked management for specific representations to be made in relation to Heritage assets and the assets not revalued as documented in Appendix 1 and 3.

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 2013/14 financial statements.

VFM conclusion

Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Background

Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Authority has proper arrangements in place for:

- securing financial resilience: looking at the Authority's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Authority is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Authority to mitigate these risks and plan our work accordingly.

The key elements of the VFM audit approach are summarised in the diagram below.

Work completed

We performed a risk assessment earlier in the year and have reviewed this throughout the year.

We have not identified any significant risks to our VFM conclusion and therefore have not completed any additional work.

Set out below are details of our VFM risk assessment.

Conclusion

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

VFM criterion	Met
Securing financial resilience	✓
Securing economy, efficiency and effectiveness	✓

Appendix 1: Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

Priority rating for recommendations		
❶ *Priority one*: 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.	❷ *Priority two*: 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.	❸ *Priority three*: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	❶	**Assets under construction** The balance sheet contains £26.495m of assets under construction. A review of these assets has identified that the majority of these assets are categorised incorrectly: • £22.4m should be transferred to operational assets • £992k should be transferred to non-operational assets. This error arises as a consequence of the Authority not having a clear policy in place in relation to the 'trigger' points for when assets are moved from assets under construction into operational assets. As a result of this incorrect categorisation, there is a 2013-14 and potentially a 2012-13 depreciation charge associated with the movement of these assets into the correct categories. However, the value is considered trivial falls below the threshold for adjustment. Furthermore, the assets which should be classified as non-operational should potentially have been impaired down to a NIL value due to the nature of the intended use of these assets. This is included as an unadjusted audit difference. We have included a further unadjusted audit difference in relation to assets that should have been revalued when moved to operational assets, in line with the downward revaluation experienced by the Council on its assets revalued in year (Appendix 3).	Agreed. The Authority will review and clarify its policy of reclassifying its assets and what the 'trigger' points should be. A re-valuation of assets re-classified from assets under construction will be performed during 2014-15 to ensure the fair values are included in the balance sheet at year end. **Responsible Officer:** Principal Management Accountant **Due Date:** With immediate effect

Appendix 1: Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	❶	*Assets under construction continued* **Recommendation** The Authority needs to undertake a review of its policy and procedures for determining the process for categorisation of assets in the course of construction. The policy should also reflect the appropriate 'trigger' points for moving such assets from this category into other categories. These assets should be revalued during 14/15 to ensure they are included in the balance sheet at the correct valuation at 31 March 2015.	
2	❶	**Asset revaluations** The Authority has experienced some operational issues with the existing property management system. These are now being addressed through the procurement of a new 'Property Data System', scheduled for implementation later in the year. As a result, our audit has identified that 350 assets with a net book value of a £17.9m have not been revalued within the five year timeframe set out within the policy. All of these assets are categorised as operational with valuation bases of existing use, depreciated replacement cost or market value. As a consequence, the depreciation and impairment values included within the financial statements are misstated. Of the 350 assets, 296 assets have a carrying value in the fixed asset register of £0 or £1 so it is not of major concern that these assets were not included in a formal valuation exercise. However, the remaining assets are of a material value so should be included in the asset rolling revaluation program. We have included an unadjusted audit difference in relation to the potential impact of the assets that should have been revalued, in line with the downward revaluation experienced by the Council on its assets revalued in year (Appendix 3).	Agreed. Processes will be reviewed to ensure revaluation of all assets within a 5 year cycle. This will be factored in to the procurement and implementation of the new "Property Data System" later this year. The Authority will prioritise the revaluation of any assets that may have fallen outside the five year cycle of re-valuations. **Responsible Officer:** Head of Property and Asset Management **Due Date:** With immediate effect

Appendix 1: Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
2	❶	*Assets revaluations continued* **Recommendation** The Authority should review its processes to ensure that all assets are revalued within the five year timescale. The assets that have exceeded this timescale for revaluation should be prioritised within the programme in 2014-15 to ensure that their true value is included in the balance sheet at the correct valuation.	
3	❷	**Non-operational assets** The Authority does not have a specific policy relating to the revaluation of non-operational non-investment assets. The depreciation policy in relation to non-operational assets is also not clear. **Recommendation** The Council should review its policy and procedures in relation to non-operational non-investment assets during 2014-15 and ensure that the policy is clearly documented in the financial statements.	The Authority will review its policy and procedures as requested and ensure this is documented accordingly. **Responsible Officer:** Principal Management Accountant **Due Date:** With immediate effect

Appendix 1: Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
4	3	**Heritage assets** The Authority currently has no formal policy in place relating to the valuation of heritage assets. These assets were last valued in 2000 and the current cost on the balance sheet is this valuation uplifted for inflation for insurance purposes. In 2012/13 we recommended that the Authority identified the cost of having the heritage assets revalued. This has been completed and during 2014/15 the civic regalia will be reviewed . Due to the potential cost of the exercise, a decision has been taken not to have art works and museum artifacts revalued. Whilst we appreciate the reasons for this decision, the Authority is exposed to potential financial risks: • Without the establishment of a true market value, the Council is unable to insure these assets at an appropriate value. In the event of loss, theft or damage, the Authority may not be in a position to recover the true worth of these items. • A professional valuation may also provide the Authority with advice around appropriate storage of valuable artworks and artifacts to maintain the market value. Should the Authority be in a position where it is holding artworks of a significant value, current storage facilities may not be appropriate and may be jeopardising the full value of the artworks. **Recommendation** As a minimum, we expect the Authority to establish a robust policy for valuation of these assets in 2014/15. The Authority should also reconsider its decision in relation to the valuation of artworks and museum artifacts to ensure that it is appropriately covered for insurance purposes. For example the Authority could choose to revalue the high value items in its collection to gain assurance over the current valuations.	The Authority's policy on valuation of its heritage assets for the purpose of the financial statements is to use the insurance valuation as described in the recommendation. Whilst this is not a specialised market valuation it is permitted by the Code of Practice and considered an appropriate proxy to a full re-valuation. The Authority has, however, taken steps to undertake a revaluation of heritage assets and obtained quotes from external market. Due to the prohibitive cost attached to a revaluation of its Museum and Art Gallery items and artefacts, and consideration that the cost of the exercise will not be proportional to the value of information that this would provide to the users of the accounts, the Authority will as recommended, be looking to re-value a small number of what it considers to be of greater value items in the Art Gallery during 2014-15. This would also ensure that the insurance value for these items will be up to date. **Responsible Officer:** Principal Management Accountant **Due Date:** With immediate effect

Appendix 1: Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
5	3	**Ledger access rights** Our testing of the journals identified that certain employees had inappropriate access rights to post journals. Our extended testing then identified that access rights to the finance system were inappropriate for one more employee within our sample. A further review by the Authority identified that a significant number of users had been allocated inappropriate access rights when compared with their roles and responsibilities. The Authority has reviewed and amended access rights as appropriate. There are some employees with super-user access rights which is not in line with their roles and responsibilities. However, due to an issue with the IT system, this level of access is necessary to enable these employees to undertaken certain tasks within their job description. We have undertaken testing to ensure that there has not been any inappropriate use / abuse of the system in relation to these inappropriate access rights. **Recommendation** Going forward the Authority should undertake periodic reviews of user access rights to ensure that these are in accordance with an employees roles and responsibilities. Furthermore, the Authority should take action to address the issue in relation to super-user access rights is resolved to ensure that system access is at an appropriate level for all employees.	This relates to the ability to transfer income or expenditure from one financial code to another. All users are restricted in the range of codes they can do journals to. Any such movements are reviewed monthly by budget advisors. Reviews have already been undertaken and access rights amended as appropriate. Regular reviews of users access rights will be undertaken in the future, to correctly reflect users roles and responsibilities. A number of budget advisors have "Super" data control access. This gives them the ability to view all financial codes but they are still restricted in their range of actions. "Super" access has had to be given to these users due to a technical issue, whereby if they are given access to just their appropriate range of codes, they are unable to carry out certain functions, e.g. cross-department recharges. The software suppliers are trying to resolve this issue. We wish to assure members that this recommendation relates solely to accounting entries, and that there is no "cash" risk to the Council. **Responsible Officer**: Principal Management Accountant. **Due Date:** With immediate effect.

Appendix 1: Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
6	3	**Bank reconciliations** We tested two monthly bank reconciliations for June and September 2013. Both were signed as reviewed more than 31 days after the month in which the reconciliation related to which is not in line with best practice. **Recommendation** Reconciliations should be reviewed within 31 days of month end to ensure that any discrepancies arising are corrected on a timely basis.	Agreed. The two reconciliations highlighted were 6 days overdue. Arrangements have been put in place to ensure each reconciliation is carried out in a timely manner. **Responsible Officer:** Head of Financial Management **Due Date:** With immediate effect.

Appendix 2: Follow up of prior year recommendations

The Authority has implemented all of the recommendations in our *ISA 260 Report 2012/13.*

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2012/13* and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	1
Implemented in year or superseded	1
Remain outstanding (re-iterated below)	0

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at July 2014
1	❸	**Heritage assets** The majority of the Authority's heritage assets are paintings owned by Bury MBC. These have been valued in 2012/13 financial statements based on a valuation carried out in 2000 (and updated for inflation to 2008) for insurance purposes. **Recommendation** There has been no change in value since this date. The SORP states that valuations should be performed at 'sufficient regularity' therefore we recommend that management revalues these assets for future accounting periods.	**Management Response** Agreed. Arrangements will be put in place to identify the current cost of revaluating the Council's heritage assets in 2013/14 with a view to revaluing for insurance purposes. **Responsible Officer** Assistant Director of Resources (Finance & Efficiency) **Due Date** 31 December 2013	**Implemented** The Authority obtained an quote to determine the cost of revaluating the Council's heritage assets. However it was decided by the Authority not to revalue the bulk of the assets due to the cost associated. Whilst we appreciate this decision we have raised an additional recommendation in relation to this in Appendix 1.

Appendix 3: Audit differences

This appendix sets out the significant audit differences.

For the Authority audit we are reporting all audit differences over £500k.

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.

Corrected audit differences – Authority

The following table sets out the significant audit differences identified by our audit of Bury Metropolitan Borough Council's financial statements for the year ended 31 March 2014. These have been amended in the financial statements.

	Impact					
No.	**Income and Expenditure Statement**	**Movement in Reserves Statement**	**Assets**	**Liabilities**	**Reserves**	**Basis of audit difference**
1			Cr Assets under Construction £23.4m			The audit difference relates to £23.4m of assets incorrectly classified as assets under construction. Our audit knowledge of the area identified that these assets were either in use at 31 March 2014 or there are no current plans in place to build on the site. Therefore £22.4m of these assets should be classified as operational assets in the balance sheet and £1m as non-operational assets. There is no net impact on the balance sheet as at 31 March 2014, as this is simply a disclosure change. Our calculations of the depreciation charge associated with this movement indicates that the overall value is below the threshold at which we would require adjustment. This is due to the Authority policy of only commencing depreciation on Assets in the year following addition / reclassification.
			Dr Other Land and Buildings £22.4m			
			Dr Non-Operational Assets £1m			
	-	-	-	-	-	**Total impact of adjustments**

Appendix 3: Audit differences (continued)

This appendix sets out the significant audit differences.

For the Authority audit we are reporting all audit differences over £500k.

Uncorrected audit differences

The following table sets out the uncorrected audit differences identified by our audit of Bury Metropolitan Borough Council's financial statements for the year ended 31 March 2014. We have agreed that these uncorrected differences do not need adjusting due to their immaterial impact on the accounts.

	Impact					
No.	**Income and Expenditure Statement**	**Movement in Reserves Statement**	**Assets**	**Liabilities**	**Reserves**	**Basis of audit difference**
2	Dr Surplus/Deficit on revaluation of PPE £3.7m		Cr Property, Plant and Equipment £3.7m			The uncorrected audit difference relates to the potential revaluation impact on the assets that have been reclassified from AuC (Appendix 1 – Rec 1). When an asset is moved out of assets under construction into operational assets it should be revalued in line with Authority policy. The Authority has experienced a significant downward revaluation of its assets in year and therefore there is potential that the reclassified assets would have also seen a downward revaluation in year. We have therefore calculated this potential revaluation impact based on the Authorities current year experience. The impact is not considered material and will be addressed in 14/15 when the assets are revalued. We have therefore proposed that this remains an uncorrected audit difference.

Appendix 3: Audit differences (continued)

This appendix sets out the significant audit differences.

For the Authority audit we are reporting all audit differences over £500k.

No.	Impact: Income and Expenditure Statement	Impact: Movement in Reserves Statement	Impact: Assets	Impact: Liabilities	Impact: Reserves	Basis of audit difference
3			Cr Property, Plant and Equipment £2.2m		Dr Revaluation Reserve £2.2m	This uncorrected audit difference relates to the potential revaluation impact on the assets identified as not being revalued in year that should have been (Appendix 1 – Rec 2). As for adjustment 2, the Authority has experienced a significant downward revaluation of its assets in year and therefore there is potential that the assets not revalued in year would have also seen a revaluation downwards. We have therefore calculated this potential revaluation impact based on the Authorities current year experience As the majority of these assets have existing revaluation reserve balances any potential downward revaluation would have hit the revaluation reserve as opposed to the Income and Expenditure Statement. The impact is not considered material and will be addressed in 14/15 when the assets are revalued. We have therefore proposed that this remains an uncorrected audit difference.
	Dr £3.7m	**-**	**Cr £5.9m**	**-**	**Dr £2.2m**	**Total impact of uncorrected audit differences**

Appendix 4: Declaration of independence and objectivity

The *Code of Audit Practice* requires us to exercise our professional judgement and act independently of both the Commission and the Authority.

Requirements

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* (the 'Code') which states that:

"Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors' functions, if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired."

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 Audit Commission's *Standing Guidance for Local Government Auditors* ('Audit Commission 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. Audit Commission 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's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Appendix 4: Declaration of independence and objectivity (continued)

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

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

In relation to the audit of the financial statements of Bury Metropolitan Borough Council for the financial year ending 31 March 2014, 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 Audit Commission's requirements in relation to independence and objectivity.

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