Annual Audit Letter 2013/14

Bury Metropolitan Borough Council

28th October 2014

Contents

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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.audit-commission.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.

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Headlines

This report summarises the key findings from our 2013/14 audit of Bury Metropolitan Borough Council (the Authority).

Although this letter is addressed to the Members of the Authority, it is also intended to communicate these issues to key external stakeholders, including members of the public.

Our audit covers the audit of the Authority's 2013/14 financial statements and the 2013/14 VFM conclusion.

VFM conclusion	We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2013/14 on 15th July 2014. This means we are satisfied that you have proper arrangements for securing financial resilience and challenging how you secure economy, efficiency and effectiveness. To arrive at our conclusion we looked at your financial governance, financial planning and financial control processes, as well as how you are prioritising resources and improving efficiency and productivity.
VFM risk areas	The key risk we identified to our VFM conclusion was the extent of savings the Authority is required to achieve in the medium term. We considered the arrangements you have put in place to mitigate this including your medium term financial strategy and overall "Plan for Change". We have reviewed your medium term financial plans and how the delivery of these is monitored to achieve a balanced outturn. We have compared your spending across key services with that of other councils and assessed the impact of this and your financial outturn as presented in your statement of accounts on your financial resilience.
Audit opinion	We issued an unqualified opinion on your financial statements on 15th July 2014. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year.
Financial statements audit	Our audit identified one audit difference with a total value which has been adjusted. 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). Our audit has also identified two audit differences that we were happy remained uncorrected. 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. The uncorrected differences are an estimate of the potential difference and were not considered material. The Authority have committed to addressing the issue as a matter of urgency in 2014/15.
Annual Governance Statement	We reviewed your *Annual Governance Statement* and concluded that it was consistent with our understanding.

Headlines (continued)

We provide a summary of our key recommendations in Appendix 1.

All the issues in this letter have been previously reported. The detailed findings are contained in the reports we have listed in Appendix 2.

Whole of Government Accounts	We reviewed the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts by HM Treasury. We reported that the Authority's pack was consistent with the audited financial statements.
High priority recommendations	We raised two high priority recommendations as a result of our 2013/14 audit work. These are detailed in Appendix 1 together with the action plan agreed by management. Some of these recommendations are now past their due date. We will formally follow up these recommendations as part of our 2014/15 work. ■ The first high priority recommendation relates to 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. ■ The second high priority recommendation relates to the Authority ensuring that all Assets are included in the Authorities 5 year rolling revaluation program.
Certificate	We issued our certificate on 22nd October 2014. The certificate confirms that we have concluded the audit for 2013/14 in accordance with the requirements of the *Audit Commission Act 1998* and the Audit Commission's *Code of Audit Practice*.
Audit fee	Our fee for 2013/14 was £155,640 excluding VAT. This represents a £1,470 increase on the planned audit fee due to the additional work required that would have previously been carried out while certifying the NNDR3 claim form. Further detail is contained in Appendix 3.

Appendix 1: Key issues and recommendations

This appendix summarises the high priority recommendations that we identified during our 2013/14 audit, along with your responses to them.

Lower priority recommendations are contained, as appropriate, in our other reports, which are listed in Appendix 2.

No.	Issue and recommendation	Management response/ responsible officer/ due date
1	**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. **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.	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 (continued)

This appendix summarises the high priority recommendations that we identified during our 2013/14 audit, along with your responses to them.

Lower priority recommendations are contained, as appropriate, in our other reports, which are listed in Appendix 2.

No.	Issue and recommendation	Management response/ responsible officer/ due date
2	**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.	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 2: Summary of reports issued

This appendix summarises the reports we issued since our last *Annual Audit Letter*.

2014

January

February

March

April

May

June

July

August

September

October

November

Certification of Grants and Returns (January 2014)

This report on summarised the outcome of our certification work on the Authority's 2012/13 grants and returns.

External Audit Plan (March 2014)

The *External Audit Plan* set out our approach to the audit of the Authority's financial statements and to work to support the VFM conclusion.

Audit Fee Letter (April 2014)

The *Audit Fee Letter* set out the proposed audit work and draft fee for the 2014/15 financial year.

Auditor's Report (July 2014)

The *Auditor's Report* included our audit opinion on the financial statements, our VFM conclusion and our certificate.

Report to Those Charged with Governance (July 2014)

The *Report to Those Charged with Governance* summarised the results of our audit work for 2013/14 including key issues and recommendations raised as a result of our observations. We also provided the mandatory declarations required under auditing standards as part of this report.

Annual Audit Letter (October 2014)

This *Annual Audit Letter* provides a summary of the results of our audit for 2013/14.

Appendix 3: Audit fees

This appendix provides information on our final fees for 2013/14.

Our final fee for the 2013/14 audit of the Authority was £155,640. This compares to a planned fee of £154,170. The reasons for this variance is:

- An increased fee for the audit of the financial statements reflecting additional costs incurred in carrying out the final accounts audit of £1,470 over and above our initial estimate as at April 2013. This is due to additional work we needed to undertake in relation to the collection fund balances because we are no longer required to certify the NNDR return. This is a national issue which is currently being considered as part of the 2014/15 fee consultation.

Our fees are still subject to final determination by the Audit Commission.

Certification of grants and returns

Our grants work is still ongoing and the fee will be confirmed through our report on the *Certification of Grants and Returns 2013/14* which we are due to issue in January 2015.

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