



PUBLIC SECTOR

## **Annual Audit Letter 2008/09**

Bury Metropolitan Borough  
Council

December 2009

AUDIT

# Content

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1. Audit reports issued	

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. 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, who is the engagement partner to the Authority, telephone 0161 246 4053, email [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk) 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 Investigation Officer, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to: [complaints@audit-commission.gov.uk](mailto:complaints@audit-commission.gov.uk). Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421

## Executive Summary

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### Purpose

This Annual Audit Letter (the letter) summarises the key issues arising from our 2008/09 audit at Bury Metropolitan Borough Council (the Council). Although this letter is addressed to the Members of the Council, it is also intended to communicate these issues to key external stakeholders, including members of the public. The letter will also be published on the Audit Commission website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk). It is the responsibility of the Council to publish the letter on its website. Throughout our audit we have highlighted areas of good performance and also provided recommendations to help you improve performance. We have reported all the conclusions in this letter to you throughout the year and a list of all reports we have issued is provided in Appendix 1.

### Scope of our audit

The statutory responsibilities and powers of appointed auditors are set out in the Audit Commission Act 1998. Our main responsibility is to carry out an audit that meets the requirements of the Audit Commission's *Code of Audit Practice* (the *Code*) which requires us to review and report on your:

- *use of resources* - whether you have made proper arrangements for securing economy, efficiency and effectiveness ('value for money') in your use of resources (UoR). Our work in this area is summarised in section 2; and
- *accounts* – the Financial Statements and the Annual Governance Statement, summarised in section 3.

### Key Messages

The key areas which we draw to your attention are:

- Our use of resources assessment, the first under the Audit Commission's new UoR regime, demonstrated that the Council has got sound processes in place in all three themes (managing finances, governing the business and managing resources) and is demonstrating positive outcomes in relation to managing its finances. The Council has been assessed as level 2 (performing adequately) overall.
- We identified no significant issues in the course of the financial statements audit, other than a technical accounting issue which required resolution by us and the Council. This prevented the audit opinion from being issued by 30 September 2009. This issue has now been resolved. As a result, we have issued unqualified audit opinions on both the Council's financial statements and on its arrangements for securing value for money conclusion in 2008/09 on 30 November 2009.

### Comprehensive Area Assessment Framework

The Audit Commission and the other public service inspectorates introduced a new assessment framework during 2009, Comprehensive Area Assessment (CAA). CAA is a new way of assessing local public services in England. It examines how well councils are working together with other public bodies to meet the needs of the people they serve. It's a joint assessment made by a group of six independent watchdogs. Assessments will be made publicly available every year and will provide an annual snapshot of quality of life in the area. The first results will appear on a new 'Oneplace' website.

Work in this area is being led by the local Comprehensive Area Assessment Lead (CAAL). The CAAL has shared draft findings with officers and he is due to formally report in December 2009. Alongside the CAA report, the organisational assessment will be issued which combines the judgements on your use of resources and managing performance assessments.

Any issues arising will be discussed with you and planned into future years audit and assessment activity.

### Financial Standing

The last year has seen the country enter a significant economic recession. The consequence locally, is an increasing demand for public services and the likelihood of reduced levels of central government funding. Together, these provide a significant challenge for local councils as they seek to continue to provide services to local residents, whilst maintaining a sound financial position.

## Executive Summary (continued)

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### Financial standing (continued)

The Council has been dealing with a number of additional financial pressures over the last few years. It has taken action to address these pressures and the issues that they present. The Council recognises that there are further pressures ahead and it has reviewed the sensitivities of the budget in the medium term, taking risks that the Council faces into account.

The impacts of the recession will continue to present a challenge to the Council in the coming financial year. We plan to undertake a review of the Council's medium to long term financial planning processes and its response to the recession over the next few months and will be reporting our findings from this review to the Audit Committee.

Bury Metropolitan Borough Council had no investments in Icelandic financial institutions which suffered at the start of the economic downturn. The Council has a sound investment policy which limits its exposure to higher risk financial organisations.

### Future Issues

- From 2010/11 local government bodies are required to prepare their financial statements under International Financial Reporting Standards (IFRS) and therefore the Council will need to be preparing for this transition.
- We understand most large local authorities are going to meet the criteria to be included in the Carbon Reduction Commitment scheme. Authorities included in the scheme will need to start reporting their usage from 1 April 2010 and recording these transactions within their financial statements with effect from 1 April 2011. There will be implications for cash flow, energy bills, and investment decisions and these could be significant. There are huge opportunities in addressing sustainability with clear cost reduction opportunities from saving energy which will become more and more significant over time. There are also opportunities to use the sustainability agenda to support the achievement of business challenges. It puts carbon reduction firmly amongst the priority areas for local authorities.
- Sustainability performance - The Treasury is developing guidance for 2010/2011 which will require all public sector bodies to report publicly on sustainability performance in annual reports. CIPFA is in discussion with the Treasury about when and in what form this requirement will be formalised for local authorities. The reported information will be subject to audit and scrutiny. Sustainability reporting will be difficult to implement and many organisations will need to act now to implement new information gathering processes.
- Public expenditure forecasts indicate that there will be significant pressure on local authorities' funding in the medium term. Future financial settlements will be extremely tight, increasing the need for local authorities to have comprehensive efficiency programmes supported by sound financial management arrangements. It is likely that bold measures will be required to generate sufficient savings to mitigate the impact on priority services. More than ever before, officers and Members will need to focus on identifying these significant savings measures and ensuring that robust arrangements are in place to monitor their delivery to ensure they are realised. The Council has a good track record in delivering such efficiency and savings targets but it will be necessary to revisit and update the Council's plans to ensure that these can deliver the levels of savings required for the future.

### Fees

Our planned fee for the audit was £289,000, however, this fee increased to £306,500 following the addition of the review of financial management within Adult Care Services at the request of the Council. We will be charging for the certification of grant claims in line with our original audit plan.

### Acknowledgement

This has been KPMG's fourth year as the Council's external auditor following our appointment by the Audit Commission in 2005. We would like to thank the Council's management and staff for the help, support and co-operation they have provided throughout our audit. We recently agreed our audit plan for our 2009/10 audit and look forward to working closely with the Council in the coming year to deliver this programme of work.

## Section two

# Use of resources

The main elements of our use of resources work are:

- *Use of Resources* - from 2008/09, the Audit Commission introduced a new UoR assessment framework which forms part of the Comprehensive Area Assessment (CAA). This replaced the former UoR assessment which was predominantly focused on processes – the scope of the new regime is wider as it also considers whether public bodies have achieved significant and sustainable outcomes. The UoR assessment comprises three themes which consider:
  - Managing finances: focusing on sound and strategic financial management;
  - Governing the business: focusing on strategic commissioning and good governance; and
  - Managing resources: focusing on the management of natural resources, assets and people.
- *Value for money conclusion* – we issue a conclusion on whether we are satisfied that you have put in place proper arrangements for securing economy, efficiency and effectiveness in your use of resources. This is based on the UoR assessment.
- *Specific risk based reviews* - we carry out specific reviews of issues facing you, based on a risk assessment and from risks raised with us from various sources. This year we undertook reviews and reported to the Council's Audit Committee on:
  - the Council's capital programme management arrangements;
  - Adult Care Services' financial management; and
  - the Council's access to information arrangements.

We have also reported summary findings in relation to our work on the Council's capital development decisions, pay and grading and workforce planning. Our work in relation to the joint piece of work across the Council and Bury Primary Care Trust is nearing completion and will reported to the Council over the next few months.

The findings from this work are summarised in the table below.

Element of work	Key findings								
<b>Use of Resources</b>	<p>Our assessment of Bury Metropolitan Borough Council against the three themes resulted in the following scores on a scale of one (inadequate) to four (performing strongly):</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="background-color: #003366; color: white;">Area</th> <th style="background-color: #003366; color: white;">Score</th> </tr> </thead> <tbody> <tr> <td style="background-color: #d9e1f2;">Managing money</td> <td style="background-color: #d9e1f2;">3</td> </tr> <tr> <td style="background-color: #d9e1f2;">Governing the business</td> <td style="background-color: #d9e1f2;">2</td> </tr> <tr> <td style="background-color: #d9e1f2;">Managing resources</td> <td style="background-color: #d9e1f2;">2</td> </tr> </tbody> </table> <p>In last year's UoR assessment the Council scored level 3 (performing well) overall. It should be noted, however, that direct comparisons cannot be made between the previous UoR scores and those awarded this year due to the differences in each assessment framework.</p> <p>In achieving level 3 in the managing money and managing resources themes the Council has been able to demonstrate that it has achieved significant outcomes and outputs which show that its arrangements are effective and have the intended impact. In achieving level 2 for governing the business the Council has been able to prove that overall it has adequate arrangements in place. Officers have outlined to us a number of areas that they believe may have a positive impact on the this theme in 2009/10 and the Council plans to share with us its initial submissions for the 2009/10 by the end of December. We will keep members updated on progress at the Audit Committee.</p>	Area	Score	Managing money	3	Governing the business	2	Managing resources	2
Area	Score								
Managing money	3								
Governing the business	2								
Managing resources	2								

Section two  
**Use of resources**

Element of work	Key findings
<b>Value for money conclusion</b>	<p>We issued an unqualified value for money conclusion for 2008/09.</p> <p>This means that we are satisfied that you put in place proper arrangements for securing economy, efficiency and effectiveness in your use of resources.</p>
<b>Specific risk based reviews</b>	<p><b>Capital Programme Management</b> – The Council has taken some steps to try to reduce the reported slippage and to improve monitoring of the capital programme to allow issues to be identified at an early stage, such as closer monitoring of the programme at the strategic level and further profiling of the capital programme. Our review identified further actions that the Council could take to make further improvements, such as time built into the project for planning processes and more detailed post evaluation reviews to identify trends in issues encountered.</p> <p><b>Adult Care Services’ financial management</b> – Both the Directorate and the Council as a whole have taken actions over and above standard financial management arrangements to address the risk of further overspending and the need to achieve a significant savings plan. Overall, our review concluded that the steps taken by the Council were reasonable in light of the pressures faced, whilst also recognising that there are areas where further improvements can be made.</p> <p><b>Access to Information</b> – Our review identified a number of areas of good practice operating within the Council, such as its communications network both internally and with other local authorities. We did, however, also identify a number of areas requiring strengthening within the overall arrangements for managing access to information, including making clearer the ownership and responsibility of information access both corporately and at the individual level. We also identified that the Council would benefit from improved management information in terms of supporting requests received and for performance management.</p>

## Financial statements

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### Audit opinion

We issued an unqualified opinion on your accounts on 30 November 2009. This means that we believe the accounts give a true and fair view of the financial affairs of the Council and of the income and expenditure recorded during the year.

Before we give our opinion on the accounts, we are required to report to 'those charged with governance' any significant matters identified. We did this in our report to the Audit Committee meeting on the 22 September 2009 and the key issues are summarised here.

### Accounts production and adjustments to the accounts

- We received a complete set of draft accounts by the 30<sup>th</sup> June deadline supported by good quality working papers.
- Our audit resulted in one adjustment, as a result of a technical accounting issue which was not present at the time of the production of the draft financial statements. This adjustment was material in nature to the financial statements but had no impact on the general fund. All other amendments identified were of a presentational nature.
- Our audit resulted in three recommendations regarding financial systems and controls. The detail of these was set out in our ISA260 report presented to the Audit Committee on 22 September 2009.

### International Financial Reporting Standards

From 2010/11 local government bodies are required to prepare their financial statements under International Financial Reporting Standards (IFRS). There is a transitional process that needs to be followed, starting with assessing the areas where IFRS will require re-statement of prior year financial statements in order to comply with the new standards. Councils will need to effectively manage this transition, ensuring that financial systems and procedures have been reviewed and updated as necessary and that finance staff receive necessary training in order to continue its good track record of producing timely, complete and materially accurate financial statements.

Areas where particular focus will be required include:

- Leases – Collation of records for all current lease contracts and establishing whether these should be classified as operating or finance leases.
- Private Finance Initiative (PFI) – Obtaining models that the Council will use to model the accounting impact of their PFI schemes and generate the appropriate accounting entries.
- Property Plant and Equipment – Ensuring procedures are in place to revalue assets as and when required. The Council will need to agree whether valuations for component assets will be provided through the formal valuation process or by using internal information as and when valuations are completed.
- Employee benefits – Establishing an acceptable methodology which is agreed with the Councils auditors for calculating employee benefit accruals in relation to untaken annual leave, flexi-time and time off in lieu. This should be applied to calculate an opening accrual as at April 2009.

Audit Committee members have been briefed on the impact of the implementation and the Council's preparations for this are well underway. We will continue to liaise with the Council, ensuring that its plans are sufficiently progressed to meet the expected reporting requirements.

## Appendix 1: Audit reports issued

A summary of the reports issued in the year to date is set out below.

Report	Date issued
Audit and Inspection Plan 2008/09	June 2008
Annual Audit Fee letter 2009/10	April 2009
Report to those charged with governance 2008/09	September 2009
Capital programme management	September 2009
Adult Care Services financial management	September 2009
Access to Information	September 2009
Review of Internal Audit	December 2009