



INFRASTRUCTURE, GOVERNMENT AND
HEALTHCARE

External Audit: Audit
Memorandum – Report
to those charged with
governance

Bolton Metropolitan Borough
Council

27 September 2006

AUDIT

Content

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This report is addressed to the Council and has been prepared for the sole use of the Council. 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 Kevin Wharton, who is the engagement director to the Council, telephone 0161 246 4633, email kevin.wharton@kpmg.co.uk who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 236 4000, email trevor.rees@kpmg.co.uk, who is 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 Team, Nicholson House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SU or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 020 7166 2349, textphone (minicom) 020 7630 0421.

Section one

Executive Summary

This is the first time we have produced an Audit Memorandum in this format for the Authority. It sets out our key findings from all of the audit work that we have performed this year. It has been designed to support the opinions and conclusions that we are required to provide you with. To comply with the requirements of ISA 260 (Communication of Audit Matters with Those Charged with Governance), it is a requirement of the Code of Audit Practice, issued by the Audit Commission, that we provide this summary of our work to those charged with governance (in this case the Constitutional Panel) at the time when they are considering the financial statements. Our findings are divided into two parts:

- *Use of resources*: which is concerned with whether you have sound arrangements in place to ensure value for money in the delivery of your services and deployment of resources. We have also provided you with a draft of the value for money conclusion that we are required to provide within Appendix 1b to this report;
- *Accounts and Statement of Internal Control*: which is concerned with the accounts production process and the associated opinions that we will provide on your financial statements (both full and summary), and explanatory foreword. We have provided you with our draft audit report within Appendix 1a to this report.

Our more detailed findings are presented in sections two and three of this report and are summarised below. Once we have finalised our opinions and conclusions we will prepare our External Audit Annual Report to close our audit work for the 2005/06 year. This annual report will feed directly into the Annual Audit and Inspection Letter to be produced by the Authority's relationship manager.

Use of Resources (section two of this report)

There are three conclusions we can reach, following our use of resources work. These are:

- the arrangements you have in place are adequate;
- the arrangements you have in place are largely adequate, but we wish to draw some matters to your attention;
- you do not have adequate arrangements in place.

For 2005/06 we have concluded that the arrangements you have in place are adequate. This conclusion has been based upon our assessment against the 2005 Use of Resources Key Lines of Enquiry as updated, our audit of data quality management arrangements (which forms part of our 2006/07 Audit and Inspection Plan) and review of your latest Corporate Assessment report.

Accounts and Statement of Internal Control (section three of this report)

We have completed the work on your accounts audit. We are proposing to provide an unqualified opinion on your 2005/06 accounts. In order to complete the accounts audit there are important matters that we have drawn to your attention, these are:

- providing us with a management representations letter. A draft of this has been included as Appendix 4 to this report. We are required by auditing standards to ask management to confirm to us general matters, such as your overall understanding of your financial position.
- we can confirm that there are no uncorrected misstatements which we have to report to you;
- we have provided you a confirmation that we have maintained our independence throughout the audit process, and are therefore in a position to provide your audit opinion.

Within section three we have also provided you with a more general commentary on the completion of the accounts audit, which is supported by performance improvement observations to develop this process going forward in Appendix 2.

Audit status

At the date of issue of this memorandum, our detailed audit work is **almost** complete. If any adjustments are identified between the date of this report and the signing of the accounts, we will communicate these adjustments directly to the Chair of the Constitutional Panel.

Value for Money conclusion

We are required to conclude as to whether you have proper arrangements in place to secure economy, efficiency and effectiveness in your use of resources. We reach this conclusion by considering the various assessments we make during the year. Based upon our work this year, we have issued you with an **unqualified conclusion on your use of resources for the year ended 31 March 2006.**

Introduction

Within our audit plan we outlined the various work streams we use to assess the Authority against 12 criteria specified by the Audit Commission. Our overall assessment draws on our Use of Resources scored judgement from 2005, our audit of data quality (which forms part of our 2006/07 Audit and Inspection Plan) and a review of the Authority's most recent Corporate Assessment.

The table below summarises our assessment against the 12 criteria.

Code criterion	Source of evidence	Score	Assessment
Setting strategic and operational objectives	Our assessment against these criteria is informed by the Audit Commission's latest Corporate Assessment report, dated 2004. We review the relevant Key Lines of Enquiry (KLOEs) specified by the Audit Commission in each case.		Achieved
Consultation with stakeholders			Achieved
Monitoring and scrutiny of performance			Achieved
Data quality	As noted in our 2006/07 Audit and Inspection Plan, we have recently performed a review of the Authority's arrangements to ensure data quality.	Data quality KLOEs, assessed at level 3	Achieved
System of internal control	Our assessment against these criteria is informed by our work on the Audit Commission's Use of Resources KLOEs. The relevant KLOEs and scores for these criteria are, respectively:	KLOE 4.2: level 3	Achieved
Risk management		KLOE 4.1: level 3	Achieved
Managing and improving value for money		KLOE 5.2: level 3	Achieved
Medium term financial planning and budgeting		KLOE 2.1: level 3	Achieved
Managing spending within available resources		KLOE 3.1: level 3	Achieved
Managing performance against budgets		KLOE 2.2: level 3	Achieved
Asset management		KLOE 2.3: level 3	Achieved
Probity and propriety		KLOE 4.3: level 3	Achieved

The Authority has achieved the required levels for all aspects of the value for money criteria and our conclusion is that the Authority has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Accounts and Statement on Internal Control

We have completed the audit work on the accounts to deadline and we expect to issue an unqualified audit opinion by 29 September 2006, following your 27 September 2006 Constitutional Panel meeting. Within this section we draw to your attention the representation letter that we are required by auditing standards to obtain from management. We have also provided you with a summary of the accounts production process and how this can be developed in the future.

Introduction

The table below outlines the seven stage audit process we deployed for our review of your financial statements. The tasks we performed are split between those which are undertaken pre, during and post-accounts production. We have summarised below the tasks which we have performed as part of accounts finalisation:

Work Performed	Accounts production stage		
	Pre	During	Post
1. Business Understanding: review your operations.	✓	✓	-
2. Controls: assess the control framework.	✓	-	-
3. PBC: issue our prepared by client request.	✓	-	-
4. Accounting standards: agree the impact of any new accounting standards.	✓	✓	-
5. Accounts Production: review the accounts production process.	✓	✓	✓
6. Testing: test and confirm material or significant balances and disclosures.	-	✓	-
7. Representations & opinions : seek and provide representations before issuing our opinions.	✓	✓	✓

We report on the work we performed relating to the pre-accounts production stage as part of our interim report and discussions with management. Below we focus on the final two tasks that we perform post-accounts production:

Accounts Production

Your accounts production process will be formally assessed as part of our 2006/07 use of resources assessment. As part of the initial feedback on this process we have considered the production arrangements against three criteria:

Element	Commentary
Completeness of draft accounts	We received a set of draft accounts on 30 June 2006, prior to commencement of our final accounts audit on 7 August 2006. All significant disclosure notes were complete within this draft. Several adjustments have been made to the financial statements together with a small number of other numerical amendments and presentational changes.
Quality of supporting working papers	We issued a 'Prepared by Client' (PBC) request that set out a list of analysis and supporting documentation required for our final accounts audit. The standard of documentation we received was largely adequate but there were areas where information was not provided. The Authority needs to seek improvements in order to provide a more complete and robust audit trail in 2006/07. We will hold a full debrief with Finance staff in November 2006 after completion of the overall accounts process and through our findings from the Financial Reporting element of the 2006/07 use of resources assessment early in 2007.
Response to audit queries	We experienced a few delays in receiving responses to our audit queries. We will review this process for future years and it is hoped that the 2006/07 audit this process can be streamlined so that we are able to access the Authority's mainframe and introduce a central recording mechanism for working papers. We will discuss this process as part of the debrief session mentioned above.

As a result of the above we have raised a number of performance improvement observations within Appendix 2.

Opinions and Representations

As part of the financial statements finalisation process we are required to provide you representations concerning both our independence and ability to act as your auditors. We have provided this within Appendix 5 to this report.

You are also required to provide us with representations on specific matters such as your financial standing, whether the transactions within the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the Director of Corporate Resources and Deputy Chief Executive on 21 June 2006. We have also included a copy of this within Appendix 4.

Accounts and Statement on Internal Control (continued)

Within this representation letter you will notice that we are also requesting specific commentary on the following issue:

Fixed assets – the Council’s program for revaluation of assets is not up to date and consequently a proportion of the assets on the balance sheet have not been revalued within the last five years. The Council has undertaken an exercise to estimate the likely increase in assets as a result of revaluation and has included an adjustment to increase the value of the asset base within the financial statements. As this is an estimate, we are seeking management representations that the value of assets included within the financial statements is not materially misstated.

Accounts amendments

Both numerical and presentational amendments have been made to your accounts. These can be summarised as:

Overall impact	Adjustments identified
Changes to the prime financial statements	<p>One adjustment has been made to the prime financial statements which affects the reported outturn for the year:</p> <ul style="list-style-type: none"> £466k reduction in capital additions and rental income on HRA for the amendment of capitalised rents. <p>This adjustment has decreased the surplus on the HRA at the year end to £8,518k.</p> <p>Further adjustments have been made to the prime financial statements but none of these have an impact on the Council’s in year position:</p> <ul style="list-style-type: none"> £1.465m increase in operational assets for the estimated increase in value where revaluations have not been completed. £1.120m increase in non-operational assets for the estimated increase in value where revaluations have not been completed. £331k decrease in provisions for the change in accounting treatment of NNDR discretionary relief. £331k increase in creditors for the change in accounting treatment of NNDR discretionary relief. Correction of the misstatement of council tax income (-£1,101k), council tax bad debt provisions (+£1,135k) and council tax bad debt write offs (-£34k).
Changes to the notes to the accounts	<p>Four additional notes have been included to improve the clarity of the statements in respect of equal pay, parish precepts, interest and dividends and discontinued operations. Four existing notes have been amended to either amend the disclosure or clarify understanding.</p>
Presentational adjustments	<p>A number of minor presentational adjustments have been identified.</p>

Uncorrected audit differences

We are required by *ISA (UK and Ireland) 260 Communication of Audit Matter to Those Charges with Governance* to communicate all uncorrected misstatements, other than those that we believe are clearly trivial, to the Constitutional Panel.

During the audit of the financial statements we identified four audit differences which are summarised in Appendix 6 to this report. We are satisfied that, although the Council has not adjusted the accounts to reflect the differences, taken together they are not material to the overall financial position reported by the Council.

Accounts and Statement on Internal Control (continued)

Opinions

Once we have received your representations as outlined above we issue our audit opinions. For 2005/06 these are required to cover the following matters:

- provide confirmation that we believe your financial statements presents fairly a view of your trading;
- confirm that you have complied with CIPFA's guidance 'The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003' in the preparation of your Statement of Internal Control and that we are not aware of any inconsistencies with the information that you have recorded within this statement and our other work; and
- confirm that we have read your explanatory foreword and that it does not contain information which is inconsistent with your financial statements.

Except for our commentary above, we do not have any other matters that we wish to draw to your attention prior to issuing these opinions.

Appendix 1a: Proposed audit report

Independent auditors' report to the members of Bolton Metropolitan Borough Council

Opinion on the financial statements

We have audited the financial statements of Bolton Metropolitan Borough Council for the year ended 31 March 2006 under the Audit Commission Act 1998, which comprise the Consolidated Balance Sheet, the Statement of Total Movements in Reserves, the Cash Flow Statement, the Consolidated Revenue Account, the Collection Fund, the Pension Fund, the Housing Revenue Account and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to Bolton Metropolitan Borough Council, as a body, in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to Bolton Metropolitan Borough Council, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Bolton Metropolitan Borough Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Finance Officer and auditors

The Chief Finance Officer's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005 are set out in the Statement of Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements presents fairly the financial position of the Authority in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005.

We review whether the statement on internal control reflects compliance with CIPFA's guidance The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003 published on 2 April 2004. We report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the statement on internal control covers all risks and controls. We are also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

We read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial position of the Authority as at 31 March 2006 and its income and expenditure for the year then ended.

KPMG LLP
Chartered Accountants
Manchester

September 2006

Appendix 1b: Proposed Value for Money conclusion

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's Responsibilities

The authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the authority is required to prepare and publish a best value performance plan summarising the authority's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

Auditor's Responsibilities

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. We report if significant matters have come to our attention which prevent us from concluding that the authority has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We are required by section 7 of the Local Government Act 1999 to carry out an audit of the authority's best value performance plan and issue a report:

- certifying that we have done so;
- stating whether we believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and we are satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission and published in July 2005, in all significant respects, Bolton Metropolitan Borough made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2006.

Best Value Performance Plan

We issued our statutory report on the audit of the authority's best value performance plan for the financial year 2005/06 on 29 November 2005. We did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

Certificate

We certify that we have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

KPMG LLP
Chartered Accountants
Manchester

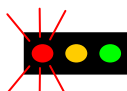
September 2006

Appendix 2: Accounts performance improvement observations

This appendix summarises the performance improvements that we have identified relating to the accounts production process while preparing this report. We have given each of our observations a risk rating (as explained below) and agreed with management what action you will need to take. We will follow up the performance improvements as detailed below as part of our 2006/07 accounts audit.

Priority rating for performance improvement observations raised

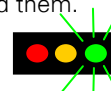
Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.



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.



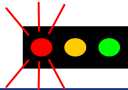
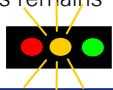



Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.



Risk	Issue and performance improvement observation	Management response	Officer and due date
	Fixed assets revaluations		
1	<p>To ensure that the valuation of fixed assets is fairly stated, a Local Authority is required to revalue its asset bases on a five-yearly basis. We have identified that not all of the Council's assets have been revalued in the last five years and there is therefore an increased risk that the asset base is not fairly stated. We have undertaken work to estimate the level of understatement, and this has been reflected in the financial statements. However, until all assets are revalued the Council will not have assurance that its asset base is fairly stated. The Council should ensure that work is undertaken in 2006-07 so that, by 31 March 2007, all assets have been subject to a revaluation in the last five years.</p>	Agreed.	Director of Corporate Resources 31 st March 2007
	Fixed asset procedures		
2	<p>There are no documented procedures in place over fixed asset additions, disposals and appropriate deminimis levels. Furthermore, asset registers are not consistent across all Service Areas. There is therefore an increased risk that individual Service Areas do not account for capital assets appropriately.</p> <p>An established methodology for the maintenance of fixed asset registers should be introduced across all Service Areas. It is also recommended that documented procedures are established for capital additions, disposals and that appropriate deminimis levels are set.</p>	Agreed.	Chief Accountant 28 th February 2007
	Bank reconciliations		
3	<p>The reconciliations for both the payments account and the general account contain reconciling items. Work has commenced to identify the reason for these discrepancies, however the Authority has yet to put into place processes for:</p> <ul style="list-style-type: none"> Writing back the existing differences, some of which date back more than three years. Preventing these differences arising in future. <p>This ongoing work should be brought to a conclusion as soon as possible. The appropriate adjustments should then be made to correct these errors so that the 2006/2007 bank reconciliation process can commence.</p>	Agreed, but it should be noted that the correction of historic differences does not prevent reconciliation of current transactions.	Principal Group Accountant 31 st January 2007

Appendix 2: Accounts performance improvement observations

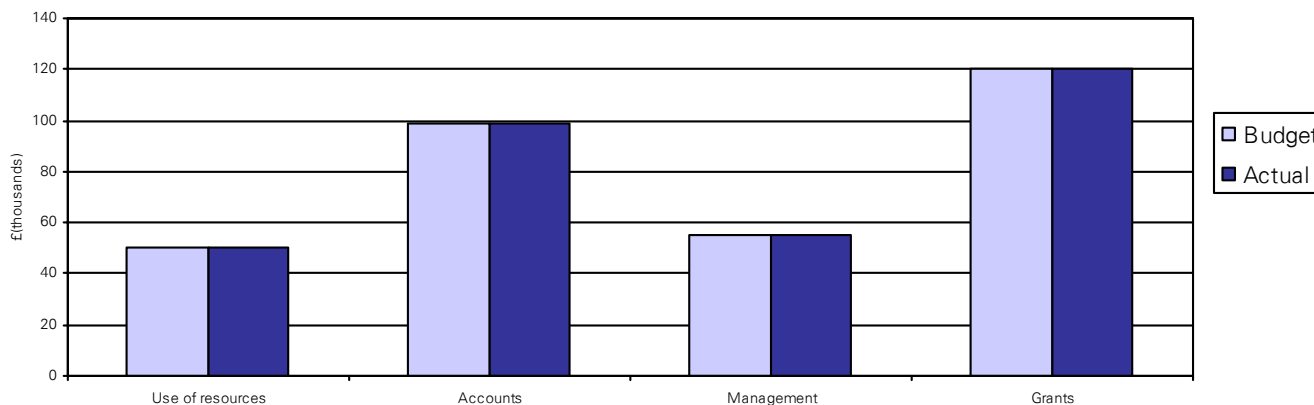
This appendix summarises the performance improvements that we have identified relating to the accounts production process while preparing this report. We have given each of our observations a risk rating (as explained below) and agreed with management what action you will need to take. We will follow up the performance improvements as detailed below as part of our 2006/07 accounts audit.

Priority rating for performance improvement observations raised			
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. 		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. 	
		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. 	
Risk	Issue and performance improvement observation	Management response	Officer and due date
Suspense accounts			
4	 (two) A debtors cash suspense account has not been cleared at the year end meaning that a total of £330k has not been allocated to individual debtor accounts. Although there is a NIL effect on the financial statements, the Authority should ensure that suspense accounts are cleared on a monthly basis.	Agreed.	Deputy Director of Corporate Resources 31 st March 2007
Internal Control			
5	 (two) We presented the findings from our interim audit to Officers in July 2006. These findings identified some weaknesses in internal control, some of which have directly impacted on the financial statements i.e. debt recovery procedures. The Authority should ensure that an action plan is implemented to address the weaknesses identified.	Agreed.	Deputy Director of Corporate Resources 28 th February 2007

Appendix 3: Audit fee

This section summarises our overall arrangements for delivering your external audit in 2005/06. To make sure that there is openness between us and your Constitutional Panel about the extent of our fee relationship with you, we have summarised below the out-turn against the 2005/06 agreed external audit fee:

External audit fee for 2005/06



The analysis above shows that our audit fee is in line with the totals you have already approved.

At this stage the total grants fee is not yet known but is expected to be in line with the budget.

Appendix 4: Draft management representation letter

Dear KPMG LLP,

We understand that auditing standards require you to obtain representations from management on certain matters material to your opinion. Accordingly we confirm to the best of our knowledge and belief, having made appropriate enquiries of other officers of the Council, the following representations given to you in connection with your audit of the financial statements for Bolton Metropolitan Council for the year ended 31 March 2006.

We confirm that all material related party transactions relevant to the Council have been disclosed and we are not aware of any other such matters required to be disclosed in the financial statements, whether under FRS 8 or other requirements.

We confirm that we are not aware of any actual or potential non-compliance with laws and regulations that would have had a material effect on the ability of the Council to conduct its business and therefore on the results and financial position disclosed in the financial statements for the year ended 31 March 2006.

We have considered the schedule of unadjusted audit differences attached to this note and believe that the effects of these uncorrected financial statement misstatements are immaterial, both individually and in aggregate, to the financial statements taken as a whole.

We confirm that:

- We acknowledge our responsibility for the design and implementation of systems of internal control to prevent and detect fraud;
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- We have disclosed to you my knowledge of fraud or suspected fraud affecting the entity involving:
 - (i) Management;
 - (ii) Employees who have significant roles in internal control; or
 - (iii) Others where the fraud could have a material effect on the financial statements; and
- We have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.

We confirm that the measurement methods, including related assumptions, used to determine fair values comply with the Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice 2005 and have been consistently applied. We also confirm that the disclosures relating to fair values are complete and appropriate and in accordance with the local government financial reporting framework.

We confirm that there are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than that already disclosed in the financial statements.
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements.

With reference to the specific issue on which you have requested assurances from Members, we confirm that we are not aware of:

- any material errors or uncertainties in the valuation of fixed assets.

Finally, no additional significant post balance sheet events have occurred that would require additional adjustment or disclosure in the financial statements, over and above those events already disclosed.

This letter was approved by the Constitutional Panel that considered and approved the financial statements on 27 September 2006.

Yours faithfully

[Name of RFO]

[Date]

Appendix 5: ISA 260 Declaration of independence and objectivity

Declaration of Independence and Objectivity 2005/06

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 Audit Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body, which 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 *Annual Letter of Guidance and Standing Guidance* (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; and
- 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.

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 Constitutional Panel.

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 Audit Partner 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.

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 Bolton Metropolitan Borough Council for the financial year ended 31 March 2006, we confirm that there were no relationships between KPMG LLP and the Council, its members and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement partner 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.

The audit fee for the financial year included our work on the use of resources assessment, your systems and accounts audit and our mandated work. Fees in respect of non-audit work included taxation and consultancy advice. Details of our fees for the financial year are given in Appendix 3.

Appendix 6: Summary of unadjusted audit differences

We are required by *ISA (UK and Ireland) 260 Communication of Audit Matters to Those Charged with Governance* to communicate all uncorrected misstatements, other than those that we believe are clearly trivial, to the Constitutional Panel. We are also required to report all material misstatements that management has corrected but that we believe should be communicated to the Constitutional Panel to assist it in fulfilling its governance responsibilities.

This appendix sets out the audit differences that we identified following the completion of our audit of Bolton Metropolitan Borough Council for the year ended 31 March 2006.

Uncorrected audit differences

Overall summary

Detailed below are the audit differences identified by our audit of the financial statements that have an effect on the reported financial position of the Authority. We are satisfied that, although the Authority has not adjusted the accounts to reflect the differences, taken together they are not material to the overall financial position reported by the Authority.

	Value	Effect on financial statements	Explanation
NNDR creditor to national pool misstated	-£54k	Increase contribution and creditor to national pool	The payment to the national pool in the accounts is £54k lower than the amount included on the NNDR grant claim.
Rent income overstated	-£171k	Decrease HRA income and surplus at 31 March 2006	Cash on rent control account treated as additional rental income in error.
Bank reconciliation differences	-£787k Bank and cash balances +£787k Debtors and creditors	Nil effect on balance sheet	Both the payments account and general account reconciliations include a number of reconciling entries. These relate to postings which are either incorrect or have not been made, all of which affect debtor and creditor balances rather than revenue.
Fixed assets misstated	+£166k fixed assets -£166k VAT debtor	Nil effect on balance sheet	The Authority has reclaimed VAT on capital expenditure in error. This amount is to be repaid, therefore increasing the value of fixed assets and reducing the debtor with HMR&C.