



INFRASTRUCTURE, GOVERNMENT
& HEALTHCARE

Annual External Audit Report

2006/07

**Bolton Metropolitan
Borough Council**

January 2008

AUDIT

Content

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Page

Executive summary

2

- 1.1 Scope of this report
- 1.2 Summary of findings
- 1.3 Looking forward
- 1.4 Acknowledgements

Accounts and Statement on Internal Control

4

- 2.1 Audit of the Authority's accounts
- 2.2 Whole of Government Accounts
- 2.3 Evaluation of Internal Audit
- 2.4 The Statement on Internal Control
- 2.5 The Authority's financial position
- 2.6 Certification of grant claims and returns
- 2.7 Questions and objections from electors

Use of Resources

7

- 3.1 Use of Resources scored judgment
- 3.2 Audit of data quality
- 3.3 Best Value Performance Plan
- 3.4 Use of Resources conclusion

Accounting Policies

9

- 4.2 SORP 2007
- 4.3 IFRS

Appendices

- Appendix A: Audit reports issued
- Appendix B: Fee summary

This report is addressed to the Authority and has been prepared for the sole use of Bolton Metropolitan Borough Council (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 LLP's work, in the first instance you should contact Kevin Wharton, who is the engagement director to the Authority, 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 246 4000, e-mail 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, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by e-mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

Section 1

Executive summary

1.1 Scope of this report

This report summarises the 2006/07 external audit work carried out by KPMG LLP ("KPMG") at Bolton Metropolitan Borough Council ("the Authority") with regards to the areas of our audit responsibility under the Audit Commission's *Code of Audit Practice* ("the Code"). Under the Code we are required to review and report on two specific areas which we have used to structure this report:

- *Accounts and Statement of Internal Control*: This area is concerned with the accounts production process and the associated opinions that we provide on the Authority's financial statements and the Whole of Government Accounts (WGA) submission (section 2); and
- *Use of resources*: This work is concerned with determining whether the Authority has sound arrangements in place to ensure value for money in the delivery of its services and the deployment of its resources (section 3).

The majority of the issues summarised in this report have previously been reported to the Authority by KPMG and a list of all reports issued in relation to our 2006/07 audit is provided at Appendix A.

Our findings are summarised below, with our more detailed findings presented in sections 2 and 3 of this report.

- *Accounting Policies*: Section 4 of this report includes a brief summary of the changes that planned to be implemented through the implementation of the Statement of Recommended Practice (SORP) for 2007. In addition as a result of a statement made in the March 2007 budget where the Chancellor confirmed that the public sector would be required to adopt International Financial Reporting Standards (IFRS), adapted as necessary for the public sector, a brief summary of the changes being brought into local government financial reporting is also included in this section.

1.2 Summary of findings

Audit of accounts and Statement on Internal Control

We issued our unqualified opinion on the 2006/2007 financial statements on 28 September 2007. At the same time as giving our opinion on the Authority's accounts, we issued our audit certificate which marks the conclusion of our statutory responsibilities for the year. We also reviewed the Authority's WGA submission and concluded that it was consistent with the statutory accounts.

Matters arising during the course of the audit were brought to the attention of Members through our *ISA 260 Report to those charged with governance*, which was presented to the Audit Committee on 25 September 2007.

Use of resources

Between July and October 2007, we completed our third scored judgement on the Authority's use of resources. This assesses the Authority against Key Lines of Enquiry (KLOEs) specified by the Audit Commission, against which the Authority is scored on a scale between 1 (below minimum requirements) and 4 (performing strongly). The scores were reviewed by both KPMG's local and national quality control processes and then by the Audit Commission to ensure consistency in scoring with other auditors and authorities.

The Authority has achieved an overall Use of Resources score of level 3 and the individual theme scores are included in section 3 of this report.

Section 1

Executive summary (continued)

Value for money conclusion

We reported our conclusion on the Authority's use of resources on 28 September 2007. The conclusion is based on the extent to which the Authority meets 12 criteria specified by the Audit Commission which link to our other audit work – for example, on Use of Resources scored judgement and Data Quality. It is unqualified where these are all met and qualified if there are areas where the minimum standards are not fully addressed.

For 2006/2007 we issued an unqualified conclusion and as such, we reported that the Authority has adequate arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Audit of data quality

In 2007, we completed our second review of data quality at the Authority using the methodology developed by the Audit Commission. We assessed the Authority's arrangements to be adequate overall. We have reported in detail on our findings and made appropriate recommendations in our report *Data Quality Review*.

1.3 Looking Forward

The Council underwent a corporate assessment during the latter part of 2007. On 21 December 2007 the Audit Commission published its overall report which confirmed that Bolton Metropolitan Borough Council is amongst the top 34% of Authorities in the Country in that it has achieved a four star overall performance rating. This is an excellent achievement and is a clear demonstration of the maintained performance in the delivery of Council services.

Nevertheless, the Authority faces another challenging year in 2007/08 and we have discussed, risk assessed and agreed our audit plan for this period with the Authority. From that analysis we have identified the following key areas for review:

- Ethical framework;
- Risk management and the Audit Committee;
- Cross cutting work on community safety.

The Audit Committee will receive these reports for consideration in due course.

1.4 Acknowledgements

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

Section 2

Accounts and Statement on Internal Control

This section summarises our findings from the audit of the accounts and Statement on Internal Control for 2006/07, including the submission process for Whole of Government Accounts (WGA).

2.1 Audit of the Authority's accounts

Context of the accounts

The accounts are the most widely accessible document setting out the Authority's financial position, so are used by external stakeholders. This makes the accounts important to the Authority's framework of external accountability. As the financial statements are required to be prepared in accordance with the standards set out in the *Statement of Recommended Practice* for local government ("the SORP"), unlike internal monitoring information, they should be comparable with those of other councils. To enable stakeholders to make this comparison, it is important to comply with the relevant standards.

Opinion and certificate

On 28 September 2007, we issued an unqualified opinion and certificate on the Authority's accounts for 2006/07.

We have reported our findings from our audit in our *ISA 260 Report to Those Charged with Governance*. This report included our detailed findings and contained action plan summarising our recommendations to both improve the accounts process and strengthen internal control arrangements. Action against this plan is being monitored on a regular basis and we will complete a formal follow up of the recommendations during our interim work in 2008.

2.2 Whole of Government Accounts

Whole of Government Accounts (WGA) are "commercial-style" accounts that cover the whole of the public sector and include some 1,300 separate bodies. Each of these bodies is required to submit a consolidation pack. This is based on, but separate from, their statutory accounts. In the case of the Bolton MBC, all disclosures within the pack are based on the Authority's group accounts.

The 2006/07 year was the year of full "live" consolidation for the WGA process, and as auditors we were required to review and report on the WGA consolidation pack.

We were required to submit the Authority's audited WGA pack to the Department for Communities and Local Government (DCLG) on 1 October 2007. Whilst we achieved this deadline, we found a number of instances in which the Authority's process for compilation of the WGA pack could be further enhanced. These have been discussed with the Director of Corporate Resources and will be followed up as part of our final accounts planning in early 2008.

2.3 Evaluation of Internal Audit

Our annual overview of Internal Audit completed during the planning stages of the 2006/2007 audit confirmed that the service complies with the CIPFA *Code of Practice for Internal Audit*. In 2006/07, we placed reliance on the work of Internal Audit where it is relevant to our responsibilities. Going forward, the Authority needs to formalise the arrangements it is putting in place to meet the requirements of the accounts and audit regulations in respect of the annual review of the effectiveness of Internal Audit.

2.4 The Statement on Internal Control

We reviewed the information supporting the Authority's Statement on Internal Control (SIC) for 2006/07 and concluded that it was consistent with our understanding of the Authority. Going forward, the Authority needs to consider and formalise the arrangements it is putting in place to produce an annual governance statement, as required by the SORP 2007.

Section 2

Accounts and Statement on Internal Control (continued)

2.5 The Authority's financial position

For the year ended 31 March 2007 the Authority reported a deficit of £1.040m on General Fund balances against a budgeted use of reserves of £2.1m. This brings the Authority's cumulative General Fund balance to £7.879 million.

The net deficit on the Housing Revenue Account (HRA) was £1.88m.

The Authority approved a balanced budget for 2007/08 and expenditure up to the half way point in the financial year is generally in line with expectations.

There are, however, significant budget pressures in some areas with current indications suggesting that Adult Services faces an over commitment of resource at the year end totalling £3.8 as a result of the increasing levels of demand. Children's and Environmental Services are also experiencing pressures, with a combined overspend of £1m forecast for the year end. Presently, it is anticipated that these pressures can be managed through a combination of the use of service reserves and budget transfers. Nevertheless, the Authority must continue to closely monitor the budget position and implement service action plans where overspends occur so that the target level of reserves is maintained so that the financial impact of future risks can be met.

Reserves and balances

The Authority's ability to maintain its reserves in line with its medium term financial strategy depends on it robustly managing its budget to ensure that the use of working balances is not required to deal with any overspends, which are within its control.

The Authority's reserves strategy sets a target of maintaining uncommitted reserves of £5.5 million. The general fund balance stands at £7.879 million at 31 March 2007, with a further £13.811 million of earmarked reserves held for specific purposes and £20.682 million earmarked statutory reserves.

The 2007/2008 budget planned for the use of £1.319m of reserves, reducing the uncommitted reserve level to £6.560m. At the midway point in the financial year, there is a need to commit an additional £213k of reserves for the Council to achieve a balanced budget. Whilst the anticipated balance at the year end of £6.347m is still 15% higher than the minimum level set by the reserve strategy, the Authority needs to continue to closely monitor budget performance and implement necessary corrective action to mitigate the use of further reserves.

We review the level of reserves within our work on financial standing and as part of our work in respect of KLoE 3.1 within the Use of Resources judgement. Our overall findings have concluded that the Council has a clear process in place to determine the minimum level of reserves needed as part of the annual budget setting process and a clear audit trail exists between the financial risks identified and the level of reserves required. Our detailed observations are contained within the Use of Resources report.

Single Status

We are continuing our dialogue with the Authority in respect of its progress with the implementation of Single Status, paying specific attention in 2006/2007 to the calculations supporting the accounting entries in the financial statements.

Backpay:

The Authority has made significant progress in this area and has one of the highest take-up rates of offers across Greater Manchester. The Authority received a capitalisation directive and our final accounts work indicated that the total value of payments made at 31 March 2007 was correctly accounted for.

Currently, the Authority has 70 cases which have progressed to the tribunal stage where offers have been made but not accepted. In addition, there are a further 400 cases where no offers were made. These cases have been through the appeal and grievance procedures and this process has not indicated that there is any additional liability facing the Authority.

Pay and grading:

The costs to the Authority of implementing Single Status could vary considerably as a result of a number of factors, such as the number of years' back pay which needs to be paid and the effect of the new pay structures on the ongoing pay bill. Nonetheless, given the significant sums likely to be involved, it will be important for the Authority to manage the impact on its financial position by gaining a greater understanding of the likely costs and considering how these will be met.

Progress to date indicates that 100% of employees have been through the appraisal and job evaluation processes and the appeals process is now underway. It is anticipated that the revised grading structure will be implemented in 2008/2009 and the financial implications of this have been calculated and included within the budget strategies for 2008/2009 to 2010/2011. Going forward, we will continue our dialogue with the Authority and report any necessary issues within our reports to Audit Committee.

2.6 Certification of grant claims and returns

Our work in this area is ongoing and will conclude once all of the 2006/07 claims are submitted. There are no financial issues that need to be brought to the attention of the Audit Committee at this stage but there are issues arising in respect of the internal processes for completion and submission of claims and working papers for certification on a timely basis. We have received a number of claims for certification where supporting working papers have not been available. We have also experienced delays in receiving claims with a deadline for submission to external auditors of 30 September and some of the claims outstanding have been previous years' claims i.e. 2005/2006. These issues have been discussed with the relevant departments and the Director of Corporate Resources and we are working to ensure that no financial penalties arise as a result of these delays. However, additional audit time has been spent trying to source supporting documentation and pursue outstanding claims which results in additional cost to the Authority. Going forward, action must be taken to ensure that improvements are made to internal processes so that all claims and supporting working papers are submitted for audit in accordance with the certification timetables laid down by the Audit Commission.

2.7 Questions and objections from electors

Electors of Bolton can raise with the auditor questions or objections to items of account. Any such queries can then require us to investigate the issue raised. We received a small number of questions during the financial year but none of these have led to any issues arising in respect of the financial statements.

Section 3

Use of Resources

Our responsibilities under the *Code of Audit Practice* in relation to the Authority's use of resources, and where we report these, is set out in the following table:

Area	Timing of work	Report	Report date
Use of Resources Conclusion 2006/07	July to September 2007	Report to those charged with governance 2006/07	25 September 2007
2007 Use of Resources scored judgement	August-November 2007	Annual External Audit Report 2006/07	5 December 2007
2007 Overall Use of Resources score	August-November 2007	Use of Resources Report 2007	10 December 2007
Use of Resources issues from 2007/08 Audit and Inspection Plan	August 2007- March 2008	To be included within individual reports	

The following section comments on our work on the Use of Resources scored judgement, and makes links to the risk areas we have identified in our 2006/07 Audit Plan where relevant.

3.1 Use of Resources scored judgement

The Use of Resources assessment is based around five Key Lines of Enquiry (KLOEs): Financial Management; Financial Standing; Financial Reporting; Internal Control; and Value for Money.

We formulated our judgement against the KLOEs by considering the evidence provided, holding interviews with the Authority's Officers and Members and through consideration of evidence from our other audit work. Following internal quality control processes by KPMG at both a local and national level, the draft scores were submitted to the Audit Commission for its national review on 16 November 2007. The 2007 scores submitted for the five individual KLOEs for the Authority are:

KLOE	2007 score	2006 score	2005 score
Financial Reporting	3	3	2
Financial Management	3	3	3
Financial Standing	3	3	3
Internal Control	3	3	3
Value for Money	3	3	3

The overall theme scores were confirmed on 6 December 2007 and the overall score was communicated by the Audit Commission to the Authority on 10 December 2007. The Authority has achieved an overall level 3 for the third year running.

Good practice and improvement opportunities

Good practice points identified at the Authority and improvement opportunities within each KLOE assessment area are contained within the detailed Use of Resources report.

Section 3

Use of resources - audit of data quality

3.2 Scope of our work

The Audit Commission introduced a review of local authorities' data quality arrangements in 2005/2006 and this work has been undertaken again during the 2006/07 audit year.

The work is timely since, with the continued development of the performance management framework in many organisations, there is increased reliance on information for decision-making, so the accuracy of the information is vital for effective management of the organisation.

Data is also important to external stakeholders wishing to review authorities' performance. Our work includes the validation of certain indicators to assist the Audit Commission with the CPA process.

Our review of data quality was performed following Audit Guides specified by the Audit Commission. These divide our work into three phases.

- Stage 1: Review of management arrangements. We consider the arrangements in place by which the Authority defines its objectives for data quality and aims to ensure that they are achieved.
- Stage 2: Comparison to other authorities. This audit step involves responding to the Audit Commission where they raise questions on the Authority's indicators. These questions may arise through analysis of historical trends or comparison to other authorities.
- Stage 3: Data testing. We perform detailed testing on a number of indicators selected by the Audit Commission, carrying out the tests specified in the Audit Guide. The number of indicators tested is dependent upon our assessment of the adequacy of arrangements in Stage 1.

Summary of our assessment

Stage 1 – we have assessed the Authority as 'performing strongly' for 2006/2007, the highest category achievable, compared with 'performing well' in 2005/2006. This demonstrates the improvement the Authority has made in this area.

Stage 2 – our analytical review identified that the performance indicator values reviewed fell within expected ranges or were substantiated by evidence.

Stage 3 – we carried out spot checks as per Audit Commission guidance on three of your performance indicators. As a result of our audit work, we concluded that these performance indicators were fairly stated and we made no amendments.

Good practice and improvement opportunities

Good practice points identified at the Authority and improvement opportunities within each KLOE assessment area are contained within the detailed Data Quality report.

3.3 Best Value Performance Plan

We are required to audit the Authority's Best Value Performance Plan to ensure that its contents comply with statutory requirements. We issued an unqualified opinion on the 2007/08 Plan on 26 September 2007. Our opinion is included in the detailed Data Quality report and there are no significant issues arising from our work which we wish to bring to the attention of Members.

3.4 Use of Resources conclusion

We are required to give a conclusion on the Authority's use of resources for 2006/07. The conclusion is based on whether the Authority meets 12 criteria specified by the Audit Commission, and is unqualified where these are all met and qualified if there are areas where the minimum standards are not fully achieved. Our overall assessment draws on our Use of Resources scored judgement, our audit of data quality and a review of the Authority's most recent Corporate Assessment.

We reported our conclusion on the Authority's use of resources as part of our accounts audit opinion, which was issued on 28 September 2007. This was an unqualified conclusion.

Section 4

Accounting Policies

4.1 Statement of Recommended Practice (SORP) 2007

- Further changes to accounting policies will be necessary in 2007/08. The 2007 SORP incorporates the provisions of FRS 25 (Financial instruments: disclosure and presentation), FRS 26 (Financial instruments: recognition and measurement) and FRS 29 (Financial instruments: disclosure). A GAAP compliant Revaluation Reserve along with a Capital Adjustment Account will also be adopted to replace the Fixed Asset Restatement Account (FARA) and the Capital Financing Account (CFA).
- We will discuss these changes with the Authority's finance team and will confirm that they are aware of the implications.

4.2 International Financial Reporting Standards (IFRS)

- In a statement in the March 2007 budget the Chancellor confirmed that central government bodies covered by the FReM would be required to adopt International Financial Reporting Standards (IFRS), adapted as necessary for the public sector. The timetable announced by the Government is that adoption will be required for 2008/09. This will require the 2007/08 accounts to be restated for comparative purposes.
- The CIPFA/LASAAC Joint Committee which is responsible for the LA SORP has indicated that IFRS will not be adopted in the local government sector until 2009/10, at the earliest, although the WGA returns for 2008/09 will have to be prepared under IFRS. CIPFA has published an analysis of the key differences between the SORP and IFRS and two of the key issues for local government (accounting for PFI/PPP schemes and accounting for infrastructure) will be the subject of Treasury guidance to be issued before the end of 2007.
- As we get more guidance as to how IFRS are to be adapted for the public sector we will liaise with the Authority's finance team to ensure that they have appropriate plans in place to manage the transition. We are also working closely with our private sector IFRS team to ensure we benefit from our experience of the IFRS convergence process and we will work closely with you to ensure that we can transfer those benefits to you in the period leading up full adoption. We also believe that the extension of the period available to local government to prepare for IFRS must be used wisely if some of the problems experienced by companies in moving to IFRS are avoided and we would be happy to work with you to identify the key areas where progress really needs to be made.

Appendices

Appendix A: Audit reports issued

This appendix sets out the reports that we issued during the year of our audit.

Report title	Date issued
Annual Audit and Inspection Plan 2006/07	27 June 2006
Statement of Accounts 2006/07: Interim Report	1 June 2007
Statement of Accounts 2006/07: ISA 260 Report to those charged with governance	25 September 2007
Auditors' report on the Best Value Performance Plan 2007/08	26 September 2007
Data Quality for Effective Performance Management	26 September 2007
Auditors' report on 2006/07 accounts	28 September 2007
Whole of Government Accounts opinion 2006/07	1 October 2007
Use of Resources Auditor Judgements 2007	10 December 2007
Annual External Audit Report	January 2008
Annual Audit and Inspection Letter 2006/07	Pending (Scheduled for March 2008)

Appendices

Appendix B: Fee summary

The table below summarises our fees for completing the 2006/07 audit.

Area of audit work	Planned fee /£	Actual fee /£
Audit of accounts	147,500	147,500
Use of Resources	95,500	95,500
Grant claim certification *	100,000	100,000
Total	343,000	343,000

Notes:

* Our work on grant certification is summarised in section 2 above. As noted in that section, we are currently working on or awaiting a number of 2006/07 claims.