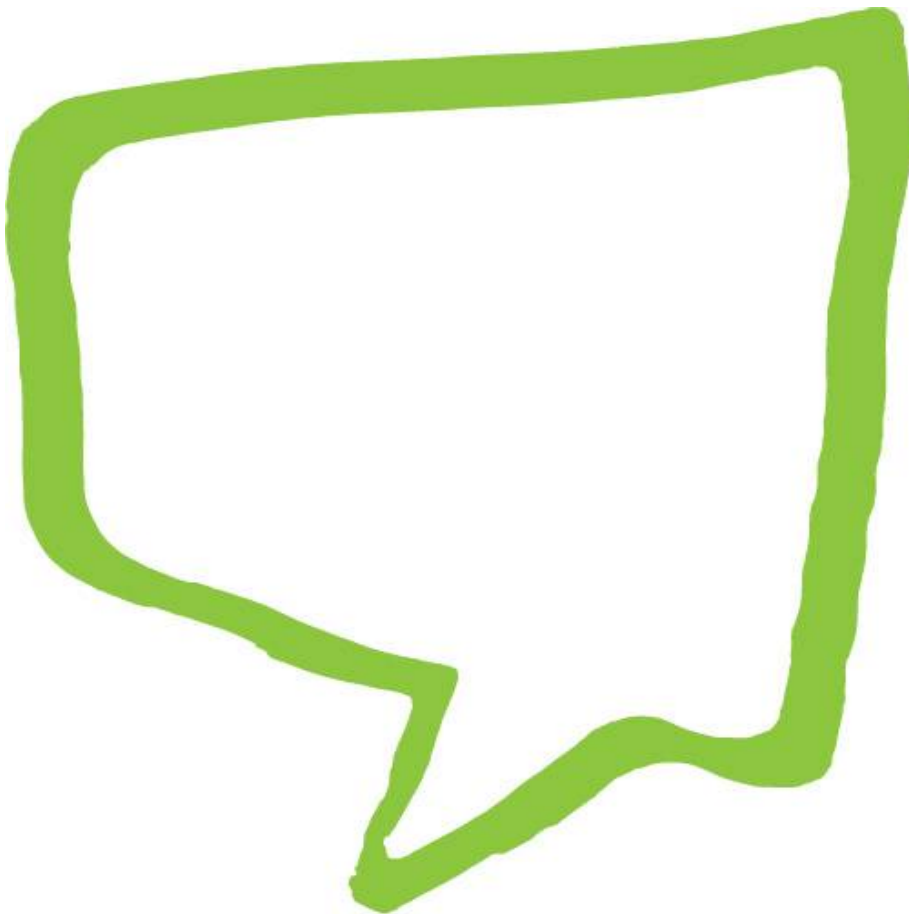


Final Accounts Memorandum

Salford City Council

Audit 2007-2008

November 2008



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Status of our Reports

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- any director/member or officer in their individual capacity; or
 - any third party.
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Summary report

Introduction

- 1 The Audit Commission Act 1998 and the Code of Audit Practice require the external auditors to give an opinion as to whether the statement of accounts presents fairly the financial position of the Council and its income and expenditure for the year in question. In accordance with this requirement we gave an unqualified opinion on the Council's 2007/08 accounts on 30 September 2008.
- 2 This report summarises the issues which arose from our audit of the financial statements.

Main issues arising

Approval of the accounts

- 3 Members approved the Council's annual accounts on 30 June 2008 in line with the required deadline.
- 4 We are required by professional standards to report to 'those charged with governance' certain matters before we give an opinion on the financial statements. In accordance with this requirement we presented our Annual Governance Report (AGR) to the Audit and Accounts Committee on 24 September 2008. Our report referred to various adjustments which were required to the financial statements.
- 5 The City Treasurer issued a report in response to the matters referred to in the AGR and the Audit and Accounts Committee agreed with his recommendation that appropriate adjustments to the financial statements should be made. The main amendments to the accounts are summarised below.

Amendments to the accounts

- 6 There were several errors in the financial statements which we regarded as being non-trivial (over £500k) and which were amended in the final audited version. These are summarised in the table below.

Table 1 Errors in the financial statements

Amendment	Value of mis-statement	Original impact on the balance sheet
Accrued loan interest had been included in creditors. This has been amended and is included in the carrying value of the loans in accordance with the new reporting requirements.	£4.786m	Creditors (overstated) / long term borrowing (understated).
Accrued investment interest had been included in debtors. This has been amended and is included in the carrying value of the investments in accordance with the new reporting requirements.	£1.973m	Debtors (overstated) / investments (understated).
Receipts posted to holding account which should have been netted off debtors have been adjusted.	£3.427m	Creditors and debtors (both overstated).
An incorrect journal entry amortising discount on a loan repaid during the year has been corrected.	£1.196m	Long term borrowing (overstated) / also impacts on Financial Instruments Adjustment Account and General Fund.
An error in calculating the adjustment to the carrying value of the market loans (LOBOs) has been amended.	£1.152m	Long term borrowing / Financial Instruments Adjustment Account (both overstated).
An error in calculating the carrying value of the equity loans has been adjusted.	£539k	Financial Instruments Adjustment Account (understated) / mainly long term debtors (overstated).
Pension fund deficit transferred on inauguration of Salix Homes that had been omitted has been amended.	£1.385m	Group Accounts - liabilities related to defined benefit pension scheme.

- 7 The adjustments did not result in any major impact on the Council's balances and increased the General Fund balance by £334k.
- 8 There were also a number of other amendments which were made to the financial statements relating to the qualitative aspects of accounting policies and financial reporting. These are summarised in the table below.

Table 2 Accounting policies and financial reporting

Statements	Amendment
Statement of total recognised gains and losses (STRGL).	An additional line has been included in the STRGL to explain the exceptional adjustment relating to the de-recognition of premium and discounts, (£30.337m). An additional note has been added to explain the prior year adjustment, (£8.1m).
Disclosure notes to the balance sheet.	Amendments have been made to existing disclosure notes. For example: <ul style="list-style-type: none"> • correcting detail in the classification of debtors and creditors, and • updating FRS17 disclosures for the revised estimate by the actuary.
Disclosure notes which provide further information.	Additional disclosure notes have been added. For example: <ul style="list-style-type: none"> • related party disclosure for Salix Homes; • detail relating to discount on the in-year rescheduling of loan debt, and • contingent liability note in respect of equal pay.

Changes in accounting practice

- 9 A significant change for the 2007/08 financial statements was the application of the new Financial Reporting Standards which deal with recognition, measurement, disclosure and presentation of financial instruments. This is one of the most significant and complex changes in local authority accounting in recent years. Several of the amendments referred to above were made to meet these new requirements. The Chief Accountant has agreed that he will review the Council's accounting practices to ensure that the new accounting requirements (embodied in the 2007 SORP) are implemented appropriately in preparing the financial statements for 2008/09.
- 10 Over the past few years we have drawn members' attention to the Council's accounting treatment relating to interest on LOBO (lender offer / borrower option) loans and amortisation of premiums and discount on debt rescheduling. Essentially this was because there was a difference of opinion between the Council and the Audit Commission on the favoured method of accounting treatment and we were concerned there was a residual risk that any changes in the regulations and / or guidance could impact adversely on the Council's General Fund in future years. The new Financial Reporting Standards and the Local Authorities (Capital Finance and Accounting) Regulations 2008 have now clarified the uncertainties about the past and future accounting treatment on these matters and the residual risk that we were concerned about has therefore been mitigated.

- 11 In accordance with the new accounting requirements the Council provided a 'fair value' disclosure on its financial liabilities. The disclosure is based on advice from the Council's treasury management advisors, Sector, and was calculated based on 'replacement loan terms'. The Audit Commission is of the view that a more appropriate basis for this calculation would have been 'premature redemption terms'. We are aware that there is a continuing debate on this issue and suggest that the Council review its methodology for assessing its future 'fair value' disclosures in the light of any further advice and ensure that it is satisfied the relevant disclosure in the 2008/09 accounts complies with the requirements of the 2008 SORP.

Quality assurance

- 12 Steps have been taken by the accountancy team to build in quality checks to try and reduce the number of changes that are needed after the pre-audit version of the financial statements is approved. However, due to other pressures, the quality assurance checks were not carried out as effectively as planned. The Chief Accountant has agreed that he will look again at the opportunities for strengthening the qualitative review process.
- 13 We feel the process could be improved by the earlier identification of changes that are required in the presentation of the accounts compared with the previous year. For example, accounting staff should be encouraged to raise, at an early stage, any changes which they are aware of that might impact on the required disclosure notes. Particularly those relating to contingent liabilities, related party transactions and the group accounts.

School deficits

- 14 We have met with the City Treasurer on a regular basis to discuss the Council's arrangements for managing its schools balances and in particular the number and amount of school deficits. These were reported as £4.2m at the end of the previous financial year and had increased again by the end of the 2007/08 financial year to £5m. We provided an update on our discussions and findings to date to the Audit and Accounts Committee at its meeting on 24 September 2008. The Committee agreed the Council's Annual Governance Statement should be amended to include reference to the actions that the Council will take to strengthen its management arrangements of school deficits.
- 15 We subsequently issued an Interim Report in which we summarised our findings to date and the way forward that we have agreed with the City Treasurer.

Whole of government accounts

- 16 This is the third year that the auditor has been responsible for issuing a report on the consistency of the Council's consolidation pack with the statutory financial statements in accordance with the whole of government accounts (WGA) initiative. We are pleased to confirm that we issued our report on 1 October 2008 to the DCLG which was the deadline for this year's submission.
- 17 The Council's WGA consolidation pack was presented to audit very close to the deadline. Ideally the Council should provide this at least two weeks before the deadline.

The way forward

- 18 The Action Plan attached at Appendix 1 has been agreed with a view to dealing with the issues referred to above. It also includes agreed action on some of the less significant matters arising from the audit that have been discussed which relate to the following issues:
- Minor errors relating to the amortisation of debt rescheduling discount and stock discount which were not amended as the amounts were considered insignificant.
 - Classification of debtors and creditors in the disclosure notes.
 - Methodology for producing the cash flow statement.
 - Impact of the Council's holding with Trinity ICP in the Group Accounts.
 - Completing the accounting risk-log which summarises accounting issues arising from partnership working.
 - Management and control of grant claims.
 - Various presentational issues, summarised in Appendix 2.

Appendix 1 – Action Plan

Page no.	Issue / Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Changes in accounting practice						
5	R1 Review the Council's accounting practices to ensure that the new accounting requirements embodied in the 2007 SORP are implemented appropriately in 2008/09.	3	Chief Accountant, Treasury Manager	Yes	We are grateful for the auditor's comments that assisted in the correction of the 2007/08 accounting treatment. We have incorporated the correct treatment into our working papers and will review the lessons learned in 2007/08 to ensure that the 2008/09 disclosure is accurate.	27 February 2009
Fair value disclosure						
6	R2 The Council should review the basis of its fair value disclosure in the light of any further advice and ensure that it complies with the requirements of the 2008 SORP.	3	Chief Accountant	Yes	We are satisfied that its 2007/08 disclosure complied with the 2007 SORP. We will review with interest any discussions and developments on this subject, and make a decision on the 2008/09 disclosure that we will ensure complies with the 2008 SORP.	1 May 2009
Quality assurance						
6	R3 Review the arrangements for carrying out a qualitative review of the accuracy and completeness of the draft financial statements prior to approval by the Audit and Accounts Committee.	3	Chief Accountant	Yes	For 2007/08, we introduced or reinforced a number of quality controls: <ul style="list-style-type: none"> • assigning a number of officers to be responsible for conducting independent checks of their allocated section of the document; • further standardising working papers, and • assigning responsibility for producing some specific sections of the statement to named officers. 	27 March 2009

Page no.	Issue / Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
					<p>We will review the effectiveness of these measures and develop further quality controls in our Accountancy Development Group forum and in Accountancy Group Leaders' meetings during 2008/09. Additional quality controls for 2008/09 will include:</p> <ul style="list-style-type: none"> • further reinforcing the responsibility of named officers for producing specific sections of the statement; • reconsidering the timetable in an effort to complete some tasks earlier and allow more time for them to be reviewed; • considering task allocation in order to apply staff resources more effectively; and • improving the structure of electronic working papers so that there is a clearer link from figures in the accounting statements to specific folders within the working paper submission. 	
School deficits						
6	R4 Implement the revised review procedures for managing school budget deficits which are referred to in the Annual Governance Statement.	3	Assistant Director, (Children's Services)	Yes	<p>The position on school balances will be reported on a regular basis to members on Budget Scrutiny and Children's Services Scrutiny. Additional financial controls have been put in place:</p> <ul style="list-style-type: none"> • Schools in deficit have been issued with warning letters reminding them of their financial responsibilities; • Schools with significant deficits will be invited to an individual meeting with the City Treasurer and representatives of Children's Services to agree their financial recovery plan, and • A multi disciplinary officer review group has been established to identify and work with schools causing financial concern to the Authority. 	27 February 2009 (and ongoing)

Appendix 1 – Action Plan

Page no.	Issue / Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Whole of Government Accounts (WGA)						
7	R5 The WGA consolidation pack should be submitted to audit at least two weeks prior to the deadline for audit certification.	3	Group Accountant (Corporate Accountancy Team)	Yes	<p>The WGA consolidation pack was prepared within the timescale required by DCLG. We recognise that that timescale did not allow much time for the audit before the submission deadline and so are grateful to the auditor for managing to complete the audit quickly.</p> <p>For 2008/09, we will attempt to submit the pack two weeks before the submission deadline. To achieve this we will:</p> <ul style="list-style-type: none"> • review the overall final accounts timetable in our Accountancy Development Group; • review procedures and responsibilities for compiling the pack; and • discuss with the auditor ways to reduce the number of late adjustments necessary to the statement of accounts that need to be reflected in the WGA submission. 	9 July 2009

Page no.	Issue / Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Minor errors						
8	<p>R6 Minor errors relating to the following were not amended in the 2007/08 accounts because they were considered to be insignificant:</p> <ul style="list-style-type: none"> £340k debt rescheduling discount was included in the I&E account as 'interest payable and similar charges' which should have been reported in the 'housing services' expenditure line, and £67k stock discount was included in the 'amortisation of premiums and discounts' line in the HRA which should have been adjusted via the 'Statement of Movements on the HRA balance'. <p>Appropriate action should be taken to ensure that amortisation transactions are reported correctly in the 2008/09 accounts.</p>	2	Treasury Manager; Group Accountant (Strategic Regeneration Team)	Yes	<p>The Corporate Accountancy Team will review the 2007/08 final accounts process and transactions with a view to ensuring that lessons learned are incorporated into 2008/09 procedures.</p> <p>We have also amended our base working papers for 2008/09 for these transactions so that the correct treatment will be applied.</p>	27 February 2009

Appendix 1 – Action Plan

Page no.	Issue / Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Classification of debtors / creditors						
8	R7 Accurate reporting of the different types of debtors / creditors has continued to be an issue. Classification in the relevant disclosure notes should be reviewed prior to finalising the accounts.	2	Chief Accountant; Group Accountant (tax and income control)	Yes	Our standard working papers have been adjusted so that there is provision for accurately analysing creditor and debtor balances in order to assist in the preparation of disclosure notes. We will further reinforce the importance of preparing timely, accurate and information-rich working papers in our Accountancy Development Group forum and in Accountancy Group Leader meetings.	27 February 2009
Cash flow statement						
8	R8 Some of the in-year movements which were used in producing the cash flow statement were not always cash-related due to the changes in accounting practice for 'fair value'. The methodology for producing the cash flow statement needs to be amended to take account of these changes.	2	Group Accountant (Corporate Accountancy Team)	Yes	We will review the cash flow statement for the 2008/09 accounts and ensure that the non-cash movements associated with 'fair value' transactions are accurately accounted for.	27 March 2009

Page no.	Issue / Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Group Accounts						
8	R9 In 2007/08 the Council purchased 49 per cent of the share capital (£1.57m) in Trinity ICP, a joint venture company. Consideration needs to be given to disclosing this in the Group Accounts.	2	Chief Accountant	Yes	We will include Trinity ICP in our consideration of subsidiaries, joint ventures and associated companies and ensure that it is disclosed appropriately.	27 March 2009
Mitigating accounting risks						
8	R10 The accounting implications of the Council's partnership arrangements are being brought together into a central register to minimise the risk of future errors in the accounts. This work needs to be brought to fruition.	2	Senior Business Manager (Sustainable Regeneration); Chief Accountant	Yes	The electronic final accounts working papers contain, in various places, forward-looking implications of the Council's relationships and transactions with partner organisations. We have started to collate this information into a specific section and will proceed with this work in order to minimise the risk of future errors in the accounts.	27 March 2009
Grant claims and returns						
8	R11 Action has been taken recently to strengthen the management and control of grant claims. The Principal Accountant needs to monitor that these arrangements are working in practice and ensure that claims and returns are submitted to Government Departments and, where appropriate, for audit by the specified deadlines.	2	Chief Accountant	Yes	We have recently re-established registers of grants and statistical returns on the corporate accountancy team. We will seek to ensure their accuracy and completeness by liaison with the auditor and with our out-stationed accountancy teams. Monitoring of the registers has been incorporated into the team's business plan.	27 March 2009 (and ongoing)

Appendix 1 – Action Plan

Page no.	Issue / Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Presentational issues						
8	R12 Various relatively minor matters were noted during the audit regarding the overall presentation of the financial statements. These are summarised in Appendix 2 and could be usefully further considered in preparing the 2008/09 accounts.	2	Chief Accountant	Yes	<p>All of the comments have merit. Our current thinking is set out below. We will consider them further early in the 2008/09 final accounts process to see which could usefully be adopted to improve the presentation and clarity of our statements.</p> <p>i) HRA notes: we will consider how we might incorporate the suggested improvements.</p> <p>ii) Revaluation reserve: we plan to simplify the note. The note will show separately the impacts of asset revaluations and disposals on historical cost asset values. This will then allow the revaluation gain to be shown on a separate line and provide a direct link to the corresponding line in the STRGL.</p> <p>iii) Deferred charges: we will give thought to the content of an appropriate note.</p> <p>iv) Explanatory foreword variations: we accept that the format is more complex than we would like. We will consider it further. However, we have considered and rejected various other options for presenting the budget variations from the original estimate to outturn. The method we have used does give a direct link to the key lines in the I&E and SMGFB. It may not be possible to simplify the format without losing the value of the note. An initial review of five other authorities in GM has not identified anything better than our current disclosure.</p> <p>v) DSG: we agree that the note may be confusing. We will reconsider what the note is intended to show and how we might set it out to achieve that.</p>	27 February 2009

Page no.	Issue / Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
					vi) Provision for repayment of grant: we will review this during the 2008/09 process to ensure that there are no elements that do not meet the SORP definition of provisions.	

Appendix 2 – Presentational issues

The following comments are based on a review of other Greater Manchester (GM) authorities' accounts and general observations compared with the SORP requirements which could improve the presentation of Salford CC's accounts.

Item of account	Comments / observations
(i) HRA - disclosure notes	<p>Disclosure note 14, 'summary of capital receipts' could be improved by explaining why the amount that is pooled is not exactly 75 per cent.</p> <p>Disclosure note 15, 'rent arrears' includes other costs owed by tenants as well as rent arrears. The disclosure would be clearer if it made reference to this and quantified the amount.</p>
(ii) Balance Sheet - Revaluation Reserve	<p>The presentation of the Revaluation Reserve in the disclosure notes is not prescribed. Some of the other GM authorities presented this reserve in such a way that there was a clear link to the relevant entry in the STRGL.</p>
(iii) Deferred charges	<p>The SORP recommends that a separate disclosure note should be included showing movements in deferred charges.</p>
(iv) Explanatory Foreword	<p>The section on the 'Financial Summary 2007/08' is not as clear as it could be regarding the flow from the original estimate to the outturn for the year or how it links with the Income and Expenditure account.</p>
(v) Dedicated schools grant	<p>The Table in disclosure note 2 to the core financial statements on 'deployment of dedicated schools grant' should be reviewed with a view to presenting the information more clearly.</p>
(vi) Provision for Repayment of Grant	<p>This could be more appropriately disclosed as a reserve.</p>

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For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

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