

Annual Audit Letter

Salford City Council

Audit 2008/09

December 2009



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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
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Key messages

This report summarises the findings from our 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Audit opinion

- 1 I issued an unqualified opinion on the Authority's financial statements on 30 September 2009. Before giving my opinion, I reported to the Audit and Accounts Committee on the findings of the 2008/09 audit.

Financial statements

- 2 The Authority met all statutory deadlines for the production of the financial statements and provided comprehensive working papers in accordance with agreed requirements and timescales. The Authority's arrangements in place for producing the financial statements were again proven to be effective, and I am pleased to report that officers responded promptly to queries we raised during the audit.

Whole of Government accounts

- 3 The Authority is required to submit a whole of government accounts 'consolidation pack' to the Department for Communities and Local Government (DCLG) and I am required, as your auditor, to undertake a range of procedures and report on the pack.
- 4 The Authority provided the consolidation pack on a timely basis, enabling me to conclude my review and submit the pack to DCLG in accordance with the prescribed timescale.

Value for money

- 5 I issued an unqualified opinion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources on 30 September 2009.
- 6 My evaluation of your use of resources concluded that the Authority performs at least adequately in all areas assessed. I am pleased to note that Authority performs well in many of the areas, as reflected in Use of Resources, below.

Use of resources

- 7 I assessed how well you are using and managing your resources to deliver better value for money, based on the Audit Commission's methodology and four point scoring framework, where 1 is 'inadequate', and 4 is 'excellent'. My summary assessment is as follows.
- Managing Finances - Level 3, and 'performing well'.
 - Governing the Business - Level 3, and 'performing well'
 - Managing Resources - Level 2, and 'performing adequately'

Comprehensive Area Assessment and Organisational Assessment

- 8 The Audit Commission introduced a new assessment regime during 2009, Comprehensive Area Assessment. This aims to review the performance of local partners in delivering better outcomes for local people. The assessment is designed to focus attention on areas that need attention in order to deliver additional and sustained improvement. Our work in this area is being led by the local Comprehensive Area Assessment Lead (CAAL). The CAAL has shared draft findings with officers and he is due to formally report on 10 December 2009.
- 9 Alongside the CAA report the CAAL will also issue your organisational assessment which combines our judgements on your use of resources with the results from other assessments and inspections under 'managing performance'. Any issues arising will be discussed with you and planned into future years audit and assessment activity.

Table 1 Audit fees

- 10 I have contained my audit fee to the total previously agreed with you for the 2008/09 audit.

	Actual	Proposed	Variance
Financial statements	187,220	187,220	0
Value for money	141,780	141,780	0
Total audit fees	329,000	329,000	0

Actions

- 11 Recommendations to improve performance are shown within the body of this report and have been agreed with management.

Independence

- 12 I confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Financial statements and annual governance statement

The Authority's financial statements and annual governance statement are an important means by which the Authority accounts for its stewardship of public funds.

Significant issues arising from the audit

- 13** I issued an unqualified opinion on your financial statements on 30 September 2009. I agreed with management a number of amendments to the financial statements, including in the following areas.
- Reduction in the value of fixed assets (Council dwellings) by £33,629k.
 - Reduction in the value of provisions for Equal Pay by £5,753k and disclosure of a contingent liability.
 - Reduction in long term liabilities by £456k and a corresponding increase in Children's & Educational Services income.
 - Amendments affecting the classification of creditors and long term and current debtors.
- 14** The overall impact of the adjustments was to reduce the Council's net worth by £27.4m, and reduce net operating expenditure by £6.2m. These adjustments did not affect the general fund balances.
-

Material weaknesses in internal control

- 15** I did not identify any significant weaknesses in your internal control arrangements.
-

Accounting Practice and financial reporting

- 16** I considered the qualitative aspects of your financial reporting. I am pleased to report that management agreed to correct all significant errors during the course of the audit, including those that were below the materiality level for our audit opinion.
- 17** I agreed with management some relatively minor amendments to disclosure notes in the financial statements.
- 18** The Authority has put in place arrangements to ensure that the agreed amendments are taken into account in producing the financial statements for 2009/10.
-

International Financial Reporting Standards (IFRS)

- 19** In March 2008 the Treasury announced that the annual financial statements of government departments and other public sector bodies would be prepared using International Financial Reporting Standards (IFRS) from 2009/10 onwards. For local government bodies the first full year of application is the 2010/11 financial statements but the starting period for this (the transition date) is 1 April 2009. Local government bodies will be required to produce their 2009/10 Whole of Government Accounts return on an IFRS basis.
- 20** As part of my 2008/09 audit I have completed an Audit Commission survey on the Council's progress in preparing for the implementation of the IFRS. The Council has made a good start in its preparations for IFRS. Officers have identified the key risk areas for Salford, undertaken an initial analysis to assess the work required and have agreed a timetable for preparing the 2009/10 accounts restated, as required, on an IFRS basis. Officers recognise the considerable further work required during 2009/10 to meet the IFRS requirements successfully.

Recommendation

- R1** Review arrangements in place for implementing IFRS to ensure appropriate processes, people and skills are in place to meet the new accounting requirements and the associated deadlines.

Treasury management

- 21** As part of my 2008/09 audit, I completed an Audit Commission return on the Council's Treasury Management arrangements. There were no significant issues identified in my review, and the Council had no investments with Icelandic banks in 2008/09.

Value for money and use of resources

I considered how well the Authority is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.

I also assessed whether the Authority put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

Use of resources judgements

- 22 In forming my scored use of resources judgements, I used the methodology set out in the Audit Commission's [use of resources framework](#). I made judgements for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 23 I have also taken into account, where appropriate, findings from previous use of resources assessments, updating these for any changes or improvements, and any other relevant audit work.
- 24 The Authority's finalised use of resources theme scores are shown in Table 2 below. I reported the key findings and conclusions for the three themes in detail to the Authority through its Audit and Accounts Committee on 24 September 2009. I set out below a summary of these findings.

Table 2 Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	3
Governing the business	3
Managing resources	2

Managing finances

- 25** Salford City Council plans and manages its finances well. Its spending plans are clearly designed to meet the City's longer term needs and prosperity. Members receive accurate and up to date financial information and provide effective scrutiny of budgets. The Council has again kept spending within budget, and managed successfully its loans investments and cash flow.
- 26** Salford spends more on some services than other councils. But this is largely due to higher levels of deprivation, and is in line with the Council's agreed spending priorities. The Council is not afraid to innovate, and manages risks well to deliver improvements in services and develop areas of the City. At the same time it meets its targets on efficiency savings. Through its 'Think Efficiency' programme alone, Salford has been able to reduce budgets by £2.4m in 2008/09, and this is set to reach over £10m in each of the next two years.
- 27** The Council produces good quality annual accounts, although some scope for further improvement has been identified and agreed with management. We agreed some late changes to the accounts which accountants made before I issued my audit opinion. We have agreed with management actions to address these accounting issues for the 2009/10 accounts. The Council provides for the public a helpful and user friendly summary of the financial statements. This, together with other financial information and facilities for the public are easy to find on the Council's website which was rated as 'excellent' for the second year running in a national survey.
- 28** The key actions we have agreed with the Authority to maintain and improve its performance for the 'managing finances' theme are as follows.
- Implement agreed actions for the 2009/10 annual accounts.
 - Monitor delivery against efficiency and savings targets from the Think Efficiency programme.

Governing the business

- 29** The Council consults well with the public and other organisations about how best to deliver and develop services that meet the needs of all Salford people. It does this through its website, postal surveys and discussions with groups representing different communities. The Council works well with a number of partners to deliver services. This includes working closely with NHS Salford and the voluntary sector to agree how to provide services for people with health and social care needs.
- 30** As well as consulting people, the Council uses benchmarking, and a research 'observatory'. This helps make sure it has good information about the cost and quality of services, and what other service needs it may need to meet in the future. Salford ensures that its data is both reliable and secure, and makes good use of it to report if plans are on track, and identify where it may need to take corrective action.

Value for money and use of resources

- 31** Councillors and senior Council staff work effectively. They understand each other's roles well and all have structured training and development plans to help carry out their roles successfully. Salford actively promotes whistle blowing, and publishes on its website the results of cases to date. There are few complaints and those that there are, are dealt with swiftly.
- 32** There is a spirit of openness within the Council, and good arrangements to prevent and tackle fraud and corruption. The Council manages risk well. It has clear risk management processes for new developments, such as 'Media City', for savings programmes such as 'Think Efficiency', and for day to day delivery of services to the public. The measures in place to combat fraud and manage risks also apply to where the Council works with its various partners.
- 33** The key actions we have agreed with the Authority to maintain and improve its performance for the 'governing the business' theme are as follows.
- Demonstrate how consultation has been used to change and improve service delivery in order to meet the needs of all Salford people.
 - Follow up the Council's 2008/09 staff survey on ethical governance and culture.

Managing resources

- 34** The Council has set out its plans to cut its carbon emissions, and use energy and natural resources more efficiently. There are signs that these plans are working, but there is more to do. The Council needs to monitor and report progress to ensure it meets the targets it has agreed. This includes reducing carbon emissions by 35-40 per cent over the next five years.
- 35** There is much improved public access to, and use of Council land and buildings. This is part of a longer term plan to both increase usage and reduce costs to deliver better value for money from the Council's estate. In several areas, the Council and NHS Salford have worked together to provide both health services and a range of council services in the new 'gateway centres'. Where this has happened there have been notable increases in take up of services by the public. This approach to working with partners to improve the use of community assets is set to increase under the 'New Deal for Communities' programme.
- 36** The key actions we have agreed with the Authority to maintain and improve its performance for the 'managing resources' theme are as follows.
- Further understand its own impact on natural resource use.
 - Continue to put into place initiatives and programmes to reduce its own consumption of natural resources, and influence others to do the same.
 - Ensure that all remaining buildings used by the public comply very soon with the standards for access by disabled.

Recommendation

R2 Monitor and support progress on implementing actions to improve the Council's performance on Use of Resources.

VFM conclusion

37 I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. The Audit Commission specifies each year, which of the use of resources Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body. For 2008/09, the relevant KLOE were those set out below.

- Financial planning.
- Understanding costs and achieving efficiencies.
- Financial reporting.
- Commissioning and procurement.
- Data quality and use of information.
- Good governance.
- Risk management and internal control.
- Use of natural resources.
- Strategic asset management.

38 Following the results of my work in each area, I issued an unqualified conclusion stating that the Authority had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Closing remarks

- 39 The economic downturn, public sector funding and the banking crisis is having a very significant impact on public finances and the bodies that manage them. It is envisaged that there will be wide ranging and more fundamental impacts on the ability of public sector bodies to fund service delivery and capital programmes in the short to medium term, including pressures on income streams. There are further challenges for policy priorities where patterns of demand for services are also changing. In addition the Council continues to implement its own efficiency and improvement review programme. These changes and the Council's response will be a key focus of my attention for future audits.
- 40 I have discussed and agreed this letter with the Chief Executive and the Strategic Director of Customer and Support Services. I will present this letter at the Audit Committee on 18 November 2009 and will arrange to provide copies to all Committee members.
- 41 Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Authority during the year.

Table 3 Reports issued during the year

Report	Date issued
Audit plan	June 2008
Progress reports to Audit Committee	Throughout the year
Annual Governance Report	September 2009
Opinion on financial statements	September 2009
Value for money conclusion	September 2009
Use of Resources Report with AGR	September 2009
Final accounts memorandum	November 2009
Annual Audit Letter	November 2009

- 42 The Authority has taken a positive and constructive approach to our audit. I wish to thank officers and Members of the Authority for their support and co-operation during the audit.

Mick Waite
District Auditor
December 2009

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Copies of this report

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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

www.audit-commission.gov.uk
