

Final Accounts

Memorandum

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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Summary report

- 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. We gave an unqualified opinion on the Council's 2008/09 accounts on 30 September 2009, having first reported the significant findings from our work to those charged with governance (TCWG) on 24 September 2009.
- 2 This report summarises the issues which arose from our audit of the financial statements, and the recommended actions arising from our work to help the Authority further improve arrangements for preparing the 2009/10 financial statements.

Main issues arising

Approval of the accounts

- 3 Members approved the Council's annual accounts on 30 June 2009 in line with the required deadline.
- 4 We are required by professional standards to report 'to those charged with governance' (TCWG) 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 2009. Our report referred to various adjustments arising from our audit which we felt 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 the Authority should make the appropriate adjustments to the financial statements. The main amendments to the accounts are summarised below.

Amendments to the accounts

- 6 There were several errors in the financial statements which, although not material to the audit opinion, were classed as 'non-trivial'. This means they were above a pre-set level of significance, which in Salford's case was over £78k. The Authority's accountants made the relevant adjustments in the final audited version of the financial statements. These adjustments, which we reported in the AGR, are set out below.

Fixed asset valuations - Council dwellings

- 7 The Housing stock audit return, from which the value of Council dwellings in the balance sheet is derived, is provided by the Council's valuers, Urban Vision. The return contained an error in the calculation of the total value of properties in Salford South which resulted in an overstatement of Council dwellings on the balance sheet by £33,790k. This error occurred due to errors in the sub-total formulas for three estates in the valuation spreadsheet that is maintained by Urban Vision, which resulted in the double counting of the property values.
- 8 We identified a further error in the spreadsheet involving the omission of four property values, resulting in an understatement in the Housing stock return of £161k.
- 9 Accountants amended these errors in the accounts, resulting in a net reduction in the value of fixed assets, and also in the revaluation reserve in the balance sheet, of £33,629k. These reduced the net worth of the Authority, but there was no net effect on the General Fund balance.
- 10 The Council's accountants and Urban Vision have agreed to introduce controls to identify and prevent such errors in future.

Recommendation

- R1** Improve arrangements at Urban Vision and in the Finance Department to verify the accuracy of the figures for Council dwelling valuations.

Provisions

- 11 The Balance Sheet included a provision of £10,805k for the possible costs of settling claims for back pay arising from potentially discriminatory payments incurred before the Council implemented its equal pay strategy. We are required to consider the reasonableness of such provisions in accordance with FRS12. The provision was made using the best information available to the authority at 31 March 2009 but supporting working papers did not provide sufficient detail to support the assessment of the likelihood and estimated cost of the liability. Accountants agreed to review the provision in light of the latest information both on likelihood and estimated cost, which indicated that the provision was overstated by £5,753k. Accountants reduced the equal pay provision to £5,052k and added a contingent liability disclosure to the financial statements for £3.8m, representing the amount which management assessed as the maximum possible additional liabilities of that could become due.
- 12 The reduction affected the income and expenditure account but, as it is offset by statutory adjustments in the Statement of Movement in General Fund balance and capital adjustments account; there was no net effect on the General Fund balance.

Recommendations

- R2** Review provisions in the financial statements to ensure that they are based on the latest available information as to likelihood and estimated cost, to ensure compliance with FRS12.
- R3** Ensure that working papers provide sufficient evidence to support estimated provisions.

Revenue Expenditure Funded from Capital Under Statute (REFCUS)

- 13** Note 22 in the accounts discloses the Council's capital expenditure and how it was financed. This included £35,061k of Revenue Expenditure Funded from Capital Under Statute (REFCUS), of which £719k was expenditure for works at Hope High school since 2006/07. Upon completion of the works, the expenditure was written off to REFCUS. The Government Grants-Deferred Account (GGDA) included £456k grant deferred which related to the expenditure in 2006/07 and so should have been written down when the expenditure was written off. However, movements in the fixed assets register were not reconciled to balances held in the GGDA, which would have identified this balance to be written down to REFCUS.
- 14** This was amended in the accounts by reducing long term liabilities by £456k and increasing Children's & Educational Services income by £456k. As there are statutory offsetting arrangements within the statement of movement on the general fund balance and capital adjustments account, there was no net effect on the General Fund balance.

Recommendation

- R4** Ensure that deferred government grants balances are reconciled to movements in the fixed assets register to identify any balances that should be written down.

Long term and current debtors

- 15** Due to a classification error, some long term debtor balances included amounts that should have been disclosed as current debtors. These were amended, reducing long term debtors and increasing current debtors as follows.
- Long term debtor £7,573k for Manchester Airport was reduced to £7,247k and £326k was disclosed as a current debtor.
 - Long term debtor £513k for Car Loans was reduced to £272k and £241k was disclosed as a current debtor.
- 16** These amendments had no effect on the overall balance as they were movements between different categories of asset.

Recommendation

R5 Implement procedures for reviewing long term assets and liabilities each year to identify any amounts that should be disclosed as a current balance.

Creditors

- 17** Creditors incorrectly included the £703k management fee for Salford Community Leisure for quarter 1 of 2009/10, which was not a 2008/09 liability. This was offset by a compensating debtor balance. Neither entry should have appeared in the accounts. The net result was that the revenue account was corrected but the balance sheet overstated both debtors (prepayments) and creditors by this amount.
- 18** These amendments had no net effect on the overall balance as they offset each other.

Recommendation

R6 Ensure that year end transactions are posted to the correct year.

Group accounts

- 19** The Group Balance Sheet included the share of assets and liabilities relating to Trinity ICP Ltd. This is a joint property venture with Higher Broughton Partnership. The net amount should have been offset against the investment appearing in the single entity accounts. The effect was that the amount was duplicated in the Group Balance Sheet and so it was amended.
- 20** The amendment affected each side of the group balance sheet equally and so did not impact on useable reserves.

Recommendation

R7 Ensure that offsetting inter-company balances are eliminated on consolidation of group accounts.

Other issues arising from our audit

- 21** This report also sets out the more detailed findings from our audit of the material financial systems and financial statements which were not sufficiently significant to warrant inclusion in the AGR under ISA (UK and Ireland) 260. We did not discuss these separately at the Audit & Accounts Committee on 24 September 2009, but they are areas where there is scope to improve further the Council's arrangements.

Summary report

Council tax

- 22 There is currently no evidence of arrangements in practice for the regular reconciliation of the Council Tax system to the Valuation Office (VO) information on band changes, new properties and deleted properties. Such reconciliation would help provide assurance on the accuracy and completeness of Council Tax properties and bandings.
- 23 We understand that management plan to implement weekly reconciliation procedures during 2009/10, after the VO list has been updated.

Recommendation

R8 Implement proposed arrangements for the regular reconciliation of the Council Tax system to VO information.

Treasury management

- 24 As part of our Use of Resources assessment for 2008/09, which was reported in the AGR, we reviewed the City Treasurer's arrangements for Treasury Management by completing a workbook that was issued by the Audit Commission for completion at all local authorities. Areas identified where further improvements to the Council's treasury management arrangements could be considered are as follows.
- Officers should seek Members' views on whether the reports they receive on treasury management meet their needs to allow appropriate scrutiny and decision making. This should include views on clarity, timeliness and level of detail.
 - There is a risk that members have not received sufficient training and briefings in treasury management in order to support their responsibilities for scrutiny and challenge. The lead member for Customer and Support Services, has specific responsibilities for treasury management under the scheme of delegation, but had not received any specific training in treasury management. Other members do not receive regular awareness training or briefings on treasury management, investment strategies and approaches for managing treasury management risk, although general training in risk management is provided. Members have also been provided with general financial training in the past by the City Treasurer, the latest being in August 2009 for the Budget Scrutiny Committee.

Recommendations

R9 Seek members' views about the fitness for purposes of the reports they receive on Treasury Management. Implement improvements where such opportunities are identified in member feedback.

R10 Consider and discuss with the lead member for Customer and Support Services if he should be provided with specific training relevant to his specific responsibilities for treasury management under the scheme of delegation.

R11 Consider and discuss with other members whether they should receive regular training and/or awareness-raising briefings about treasury management, investment strategies and approaches for managing treasury management risk.

Compliance with SORP disclosure requirements

- 25** We checked the Council's financial statements to the requirements of the SORP and identified scope for some minor areas for improvement in the disclosure of provisions and trust funds in order to fully comply with SoRP requirements.
- 26** For each class of provision the Council discloses the net movement and does not currently include details of:
- additional provisions made in the period, including increases to existing provisions;
 - amounts incurred and charged against the provision; and
 - amounts by which provisions have been reduced because they are no longer required.
- 27** The trust fund disclosure does not comply fully with SoRP requirements because:
- the purpose of the eight trust funds is not disclosed; and
 - an overall indication of the nature and amounts administered by the authority is not disclosed.

Recommendation

R12 Improve the disclosures in the accounts for provisions and trust funds to ensure full compliance with the SORP.

Whole of Government Accounts submission

- 28** Accountants reclassified the total reserves brought forward figure from 2007/08 in tab 11 of the 2008/09 consolidation pack. In the 2007/08 consolidation pack, the closing balance for the FRS17 Pension Liability was £97,900k and the closing balance for the Group Entities reserve was £(2,152k). The brought forward figures were amended in the 2008/09 consolidation pack to £98,237k for the FRS17 Pensions Liability, and £(2,489k) for the Group Entities reserve. The net total for the two balances remained the same at £95,748k and so this adjustment did not change the total reserves brought forward.
- 29** This adjustment was made when accountants identified that the £337k net pension reserve for NPHL and Salix was incorrectly included within the Group Entities reserves rather than the FRS17 Pensions Liability. However, this explanation was not clearly documented in the working papers to support the WGA submission.

Summary report

Recommendation

R13 Ensure that working papers in support of the whole of government accounts submission are comprehensive and provide appropriate explanations for any amendments to previous year figures.

Management checks of financial statements

- 30** The financial statements form a large publication that has to be completed in a shortened timescale. As could be expected, we identified some errors in the draft version submitted for audit. These were relatively minor errors but included typographical errors, incorrect year of account being stated, incorrect comparator figures being given for 2007/08 and some errors in disclosure notes.

Recommendation

R14 Improve management checks of the accuracy and completeness of the draft financial statements prior to approval by the Audit and Accounts Committee and submission for audit to ensure that such minor errors are kept to a minimum.

The way forward

- 31** We have agreed an Action Plan with management to address the issues identified in this report (see Appendix 1). We will review the implementation of the agreed actions as part of our audit in 2009/10.

Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
4	R1 Improve arrangements at Urban Vision and in the Finance Department to verify the accuracy of the figures for Council dwelling valuations.	3	UV/Phil Prady	Yes	UV has improved quality control arrangements. In addition, we will review any significant annual changes in all individual asset valuations (not just council dwellings) and request supporting evidence where appropriate.	June 2010
5	R2 Review provisions in the financial statements to ensure that they are based on the latest available information as to likelihood and estimated cost, to ensure compliance with FRS12.	2	Chris Hesketh	Yes	For 2008/09, we had achieved an increased level of awareness within accountancy teams of the accounting rules for provisions and reserves. A recent review of balances has confirmed this. Nevertheless, we will reinforce the message in an Accountancy Development Group meeting. The misstatement in 2008/09 related specifically to the equal pay back pay account which had not been considered especially important because of the reversal of the provision entries via the SMGFB and earmarked reserve. We will ensure that the account is examined during the 2009/10 process.	June 2010
5	R3 Ensure that working papers provide sufficient evidence to support estimated provisions.	3	Chris Hesketh	Yes	We will discuss in an Accountancy Development Group meeting, issue an appropriate instruction on information to be provided, and consider if there is a need to create a new standard working paper template for provisions.	June 2010

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
5	R4 Ensure that deferred government grants balances are reconciled to movements in the fixed assets register to identify any balances that should be written down.	2	Marion Rigg	Yes	Government grants deferred balances are checked against movements in the fixed asset register. Unfortunately one item (only) slipped through the net. We will tighten controls in 2009/10 but note that a complete change in treatment will be introduced by IFRS in 2010/11 so that this will no longer be an issue.	June 2010
6	R5 Implement procedures for reviewing long term assets and liabilities each year to identify any amounts that should be disclosed as a current balance.	2	Chris Hesketh, Elaine Marks-Parker and Irene Topping	Yes	In respect of the airport debt, this is not an error so much as a judgement on presentation. Nevertheless, for all balances, we will ensure that the split between short and long term is made in accordance with the practice adopted in 2008/09. We have discussed requirements with relevant officers to ensure this.	June 2010
6	R6 Ensure that year end transactions are posted to the correct year.	2	Chris Hesketh and Tony Hennessy	Yes	We will remind accountancy and creditor staff of the correct year-end practices for dealing with old and new year invoices.	March 2010
6	R7 Ensure that offsetting inter-company balances are eliminated on consolidation of group accounts.	2	Tony Thompstone	Yes	We will ensure the error is not repeated.	June 2010
7	R8 Implement proposed arrangements for the regular reconciliation of the Council Tax system to VO information.	2	Jackie Phillips	Yes	A reconciliation has taken place and investigations are being undertaken to resolve the differences between the VO Banding List and the property bandings on the Northgate system.	March 2010
7	R9 Seek members' views about the fitness for purposes of the reports they receive on Treasury Management. Implement improvements where such opportunities are identified in member feedback.	2	Elaine Marks-Parker	Yes	We have consulted with members of Budget Scrutiny Committee on the adequacy of reports in December 2009 and they are happy with the content and frequency, but we will continually seek their views when future reports are presented.	Complete

Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
7	R10 Consider and discuss with the lead member for Customer and Support Services if he should be provided with specific training relevant to his specific responsibilities for treasury management under the scheme of delegation.	2	Elaine Marks-Parker and John Spink	Yes	Member training is a specific requirement under the revised code of practice released in November 2009. We have consulted with the Lead Member for Customer and Support Services and with members of Budget Scrutiny Committee on their treasury management training needs and it has been agreed that training will be provided at a Budget Scrutiny Committee at one of their meetings between March and May, with invitation extended to all members. We have consulted with our treasury management adviser Sector on the content of a training pack and intend to develop and tailor their contribution for delivery to our members.	May 2010
8	R11 Consider and discuss with other members whether they should receive regular training and/or awareness-raising briefings about treasury management, investment strategies and approaches for managing treasury management risk.	2	Elaine Marks-Parker and John Spink	Yes	As R10 above.	March 2010
8	R12 Improve the disclosures in the accounts for provisions and trust funds to ensure full compliance with the SORP.	1	Tony Thompstone	Yes	We will discuss in an Accountancy Development Group meeting, issue an appropriate instruction on information to be provided, and consider if there is a need to create a new standard working paper template for provisions. We will amend our skeleton 2009/10 statement to prepare for the enhanced disclosures.	March 2010

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
9	R13 Ensure that working papers in support of the whole of government accounts submission are comprehensive and provide appropriate explanations for any amendments to previous year figures.	2	P Prady	Yes	The whole of government accounts submission is a detailed process. It can only be finalised after the audited statement of accounts are available. This gives a limited timescale. Within this timeframe we aim to provide comprehensive working papers in support of the submission, for example, the 2008/09 working papers file included 26 supporting worksheets and a 'summary' notes page covering 900 rows. Even with this level of detail it is inevitable that some areas may require further explanation to the auditors.	September 2010
9	R14 Improve management checks of the accuracy and completeness of the draft financial statements prior to approval by the Audit and Accounts Committee and submission for audit to ensure that such minor errors are kept to a minimum.	1	Chris Hesketh	Yes	We aim to continually improve the quality of our statements. In respect of the items mentioned in the memorandum. <ul style="list-style-type: none"> • Typographical errors and incorrect year of account stated: We have prepared a skeleton 2009/10 statement to enable checks for items like this to be carried out before the pressure of deadlines begins. • Incorrect comparator figures: These were generally not accidental but were corrections in order to make comparators more meaningful. Now that we have agreed with the auditors an approach more strictly in line with the SORP, we will adopt that approach. • Errors in disclosure notes: We are examining ways to make a clearer link between figures in disclosure notes and those in the main statement. 	June 2010

The Audit Commission

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