

Annual Audit Letter

Salford City Council

Audit 2009/10

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.

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Key messages

This report summarises my findings from the 2009/10 audit. My audit comprises two elements:

- **the audit of your financial statements (pages 4 to 5); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 6 to 11).**

Audit opinion and financial statements

1 I issued an unqualified opinion on the Council's 2009/10 financial statements on 30 September 2010.

2 The Council's draft financial statements were prepared on time and were supported by comprehensive working papers.

Value for money

3 I issued an unqualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 30 September 2010.

Audit fees

4 I have kept my audit fee to the total of £325,009 agreed with the Council in April 2009. Appendix 1 contains more detailed information on audit fees.

Current and future challenges and changes

5 The key challenges facing the Council, from my perspective as external auditor are as follows:

- securing financial resilience and the required savings following the Government's Comprehensive Spending Review;
- successfully managing the transition to International Financial Reporting Standards; and
- improving Children's Services to address the concerns raised by Ofsted in May 2010.

Financial statements and annual governance statement

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

I gave an unqualified opinion on the Council's 2009/10 financial statements on 30 September 2010, the statutory target date.

Overall conclusion from the audit

6 I issued an unqualified opinion on the Council's financial statements on 30 September 2010. The Council's officers prepared the draft financial statements on time and produced comprehensive working papers to support them.

7 Before giving my opinion I presented the Annual Governance Report to the Audit Committee (those charged with governance), setting out the main issues arising from my 2009/2010 audit.

Financial Statements

8 The Council has effective financial reporting processes for preparing the financial statements.

9 There were no material errors in the accounts presented for audit. I identified one non-material misstatement which management and the Audit and Accounts Committee decided not to amend in the accounts. This was an overstatement of £137k in the amount charged to Revenue Expenditure Funded from Capital Under Statute (REFCUS) for expenditure on cemetery roads. This is not a REFCUS item as the Council owns the cemetery roads. Making the adjustment would have reduced revenue expenditure by £123k and increased fixed assets in the balance sheet by £123k.

10 I identified several other non-material errors that management agreed to adjust in the financial statements. The most significant of these was an increase in the equal pay provision by £395k, from £3,500k to £3,895k based on further information received after the draft accounts were produced. I reported all errors to the Audit and Accounts Committee.

11 The overall impact of the adjustments was to increase the net operating expenditure in the Income and Expenditure account by £455k and also to increase the Council's net worth reported in its balance sheet by £65k.

Accounting practice and financial reporting

12 I consider the non-numeric content of your financial reporting. I identified an issue concerning the valuation of some assets.

13 In line with requirements, officers recognised PFI and LIFT scheme assets on the Council's balance sheet for the first time in 2009/10. I asked officers to provide evidence that asset values had not reduced. This is because nationally many fixed asset values have been impaired due to economic factors. As a result of these discussions, the Council obtained a valuation of these properties as at 31 March 2010. This showed that whilst some values had reduced, the net impact was in fact an increase in asset values.

14 The Council's valuer estimated that the value of the assets in question was £452k greater than that recorded in the accounts. The valuation of assets is an accounting estimate, and there was no need to adjust the 2009/10 accounts. But the Council proposes to record updated values in the 2010/11 accounts.

Significant weaknesses in internal control

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

16 However, my work on the financial statements identified one area where there is scope to strengthen controls for making material journal adjustments. The Council has agreed to review its arrangements to determine how controls can be strengthened to ensure:

- the list of officers with authorised access to input such adjustments is updated when an officer's role changes and they no longer need such access; and
- such adjustments are valid and correct.

The National Fraud Initiative (NFI)

17 The National Fraud Initiative (NFI) is a data-matching exercise managed nationally by the Audit Commission. It compares sets of data within and across public bodies to identify inconsistencies or other circumstances that might suggest fraud or error. It also helps auditors to assess the arrangements that audited bodies have put in place to deal with fraud. The Audit Commission estimates total potential savings at the Council of around £2.3m. Management is currently looking into the output from the latest NFI reports.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money.

I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

2009/10 use of resources assessments

18 At the end of May 2010, the Commission wrote to all chief executives to inform them that following the Coalition Government's announcement, work on CAA would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

19 However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

VFM conclusion

20 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

21 I have set out below a summary of my findings.

Criteria	Adequate arrangements?
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
Managing resources	
Natural Resources	Not reviewed in 2009/10
Strategic asset management	Yes
Workforce	Yes

22 I issued an unqualified conclusion stating that the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources.

Managing finances

23 Overall the Council has good arrangements for managing its finances. It links together well its business and service planning with financial planning and sets clear priorities.

24 Benchmarking is used by the Council to compare the cost and quality of its services against other authorities and to identify the scope for making efficiencies and cost savings. The Council also uses its 'Think Efficiency' approach to identify the areas where efficiencies and savings can be achieved. The Think Efficiency programme aims to change the way services are delivered across the Council by making them more efficient and reducing costs. This is through better procurement and by streamlining administration, management and support services.

25 The Council has a good understanding of its costs and uses this information when making decisions about the services it provides or commissions from other organisations. Financial monitoring and forecasting arrangements are effective.

26 There is a wide range of information available online, in different languages and formats. The Council's website was rated among the best in the annual 'Better Connected' national survey of local authority websites by the Society of Information Technology Management (Socitm).

Governing the business

27 The Council has a clear vision of intended outcomes which shapes its approach to commissioning and procurement. It works well with partners to review options for buying services and supplies. It takes account of the social, environmental and economic impact of decisions on procurement.

28 There are good arrangements for producing information on the Council's services and costs. This includes sharing data with partners, for example through the Salford Observatory.

29 There is good communication with the Council's various stakeholders, such as Salford PCT and members of the public, to inform its purpose and vision. Community teams are in place to help address local priorities and monitor outcomes.

30 The Council displays the principles and values of good governance and an ethical framework and culture which it promotes to members, staff and the public. The Council actively supports and provides training to partners to ensure they have effective arrangements to manage risks, including the risk of fraud and corruption.

Managing resources

31 The Council has a strategic approach to ensure it makes efficient, economic and sustainable use of its assets. The Council is improving access to its buildings and works well with partners to increase their use by communities to provide value for money. .

32 There is a comprehensive strategy for the workforce with an integrated set of policies for delivery in 2010/11. This contributes to having a productive and skilled workforce. Activities include:

- a common recruitment portal and a framework agency contract with other authorities reducing agency expenditure by 7 per cent;
- a strong working relationship with Salford University to improve recruitment of Children's social workers;
- a comprehensive approach to provide access to employment opportunities for local people furthest from the job market including apprenticeships, placements and pre-entry training.

33 An effective performance management framework and a comprehensive appraisal process are in place. Reports are produced on sickness absence levels at service, directorate and corporate level, and the Council provides counselling and physiotherapy referrals.

34 The comprehensive programme of organisational change, Think Efficiency, has delivered efficiencies and savings. There is capacity for change supported by a dedicated change management team.

Reports from other inspectorates and regulators

35 In reaching my value for money conclusion I also considered reports from other inspectorates and regulators, in particular Ofsted's report on the Council's child protection services in May 2010. Ofsted gave an overall assessment that Children's Services are 'inadequate' and the Council are taking action to address these concerns. I will monitor the Council's progress in implementing the actions it agrees to improve this service area. My unqualified vfm conclusion is based on a rounded assessment of the Council's corporate arrangements.

Risk-based performance reviews

36 To support my review against the vfm criteria I also carried out follow up work on my previous review of Community Safety in Greater Manchester. I have reported my detailed findings to the Council in a separate report, and include brief details below.

Community Safety in Greater Manchester

37 In 2008 the Audit Commission and KPMG carried out a review of community safety in Greater Manchester. This review focused on how public partners were working together to reduce the impact of alcohol misuse on individuals, communities and agencies.

38 The follow-up report in 2010 looked at progress on the issues highlighted in the first report and took place in the context of:

- Greater Manchester continuing to experience high levels of crime compared to other similar areas;
- a steady rise in residents' satisfaction with their Council and the police in dealing with crime and anti-social behaviour - but satisfaction is still below its peers; and
- a continuing rise in alcohol consumption and alcohol harm.

Greater Manchester wide conclusions

39 Good progress has been made in strengthening the links between health and criminal justice agencies. Establishing the Public Protection Commission was an important part of that, and developments in the GM Alcohol Strategy Group will also help. There has also been satisfactory progress in developing a joint picture of the scale of the problem across Greater Manchester. There has been good progress on promoting prevention although, as agencies admit, there is more to do on this.

40 There has been some progress in sharing information and data, but this has not been strategically driven or systematic. There was some confusion about the relationship between the Greater Manchester Against Crime (GMAC) Central Team and the GMP analysts based in Divisions. More needs to be done across Greater Manchester to evaluate the success of initiatives and to spread good practice and share learning.

Salford City conclusions

41 The revised Joint Strategic Needs Assessment with Salford Primary Care Trust (PCT) shows that just under one quarter of residents are hazardous drinkers, and just over a quarter are binge drinkers. NW Public Health Observatory work shows that alcohol harm in Salford is worse than in many other places in the North West. Agencies in Salford are giving serious consideration to achieving optimum balance between prevention and enforcement work.

42 The PCT is undertaking a review of drugs and alcohol treatment services, and appropriate preventative action. The merger of the Drug and Alcohol Action Team and Community Safety Partnerships helps joint planning of enforcement and preventative actions. The vision for future services was debated with a wide range of stakeholders at an event in September 2009. Preventative action featured heavily in those discussions. The PCT will commission new alcohol treatment services in 2010/11.

43 Partners recognise that setting up a comprehensive bank of information, looking at the scale of the problems of alcohol misuse is a major undertaking. A data hub, Salford Observatory, is being developed and Salford local A&E services are implementing Trauma and Injury Intelligence Group plans for sharing data.

44 There has been progress in identifying the outcomes achieved by the alcohol nurses in A&E. The PCT has specified this service and put in place performance monitoring arrangements which will in time provide more information on outcomes. Officers estimate that each alcohol nurse post can save 400 bed-nights a year. A review of A&E attenders at Salford Royal found that there are many repeat attendances by patients with serious alcohol-related diseases. A business case for an assertive outreach service is being developed, which could deliver reductions in mortality in this group.

45 Little progress has been made against my previous recommendation to develop an effective approach to reducing alcohol-related violence against front-line employees in all agencies, though the police and fire and rescue services have policies and procedures in place.

46 Since my review partners in Salford have developed an alcohol harm reduction strategy for the period 2010 to 2020.

Approach to local value for money work from 2010/11

47 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

48 My work will be based on a reduced number reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

49 I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

Current and future challenges and changes

Financial position

50 Along with other public sector bodies the Council is facing increasing financial pressures following the economic downturn. The demand for services remains high when significant efficiencies need to be identified. In November 2010 the Council reported a projected overspend of £2m on the General Fund and £2.1m on the Dedicated Schools Grant for 2010/11. All directorates have been asked to identify what savings can be made in the current financial year to ensure that corporately expenditure is more in line with budget.

51 General reserves at 31 March 2011 are forecast to be £7.4m. This is £1.5m less than budgeted and £4.1m less than the Council's 'desirable' level of £11.5m.

52 The local impact of the Government's Comprehensive Spending Review on the Council's finances is as yet unclear. Nationally, overall local authority revenue funding from Government will reduce by 26 per cent in real terms between 2010/11 and 2014/15, excluding schools, fire and police.

53 Final funding figures for Salford City Council will not be confirmed until December 2010. But it is clear that significant efficiencies and savings will need to be delivered as a result of this. The Council is assessing likely savings and efficiencies required over the next four years. A working group has been set up, and project management arrangements and responsibilities are being put in place to deliver this. The savings and efficiencies requirements and the continued demand for services present a significant challenge for the Council as it aims to ensure that financial plans are realistic and reflect agreed priorities and risks.

Capital programme

54 The Council has a capital programme which includes capital expenditure of £161.3m in 2010/11 and £303m over the next three years. Within the capital programme a major project includes significant expenditure on schools in the next few years as part of the 'Building Schools for the Future' (BSF) programme (£14.25m in 2010/11 and £62.3m over the next three years). 'Partnerships for Schools', the non-departmental public body set up to deliver BSF, have asked the Council to review the scheme and identify significant savings.

55 The successful completion of the BSF project and the wider capital programme will be challenging, particularly in the current financial climate. Members will also need to consider carefully the revenue expenditure implications of all capital projects.

International Financial Reporting Standards (IFRS)

56 Local government bodies, including the Council, will prepare their financial statements to comply with the Chartered Institute of Public Finance and Accountancy's Statement of Recommended Practice (SoRP). Financial statements prepared by local government bodies for 2010/11 will follow an IFRS-based SoRP for the first time.

57 National Health Service bodies adopted IFRS-based financial reporting for 2009/10. The experience from the NHS sector is that significant planning and project management involving finance and non-finance officers, well in advance of the deadline for preparation of IFRS-based statements, is required to achieve a smooth transition to the new reporting requirements.

58 I have assessed that the Council is making good progress in meeting the requirement to produce IFRS compliant accounts. Some challenges still need to be met, for example re-stating the 2009/10 financial statements on an IFRS basis and ensuring there are suitable arrangements in place to account for the Council's fixed assets under the new requirements of IFRS. I will continue to work closely with the Council as it proceeds with the transition to IFRS.

The abolition of the Audit Commission

59 On 13 August, the Secretary of State for Communities and Local Government announced the proposed abolition of the Audit Commission by the end of 2012. The government announced its plan to seek legislation in this session of Parliament to effect this.

60 The Audit Commission will remain in place for the coming 2010/11 and 2011/12 audits. The Commission has written to the Chief Executive to confirm there is no immediate change to the audit appointment for the Council.

61 The Commission is in discussion with the Department of Communities and Local Government about the proposed legislation and the details that will need to be worked through. I will keep the Council informed about the future audit programme and any changes that affect you.

Closing remarks

62 I have discussed and agreed this letter with the Chief Executive, the Strategic Director of Customer and Support Services and the City Treasurer. I have asked that copies of this letter are provided to all Council members by 30 November 2010 and I will present it at the Audit and Accounts Committee on 26 January 2011.

63 Full detailed findings, conclusions and recommendations in the areas covered by my audit were included in the reports I issued to the Council during the year.

Report	Date issued
Audit Fee Letter	April 2009
Audit opinion plan	April 2010
Certification of claims and returns - annual report	February 2010
Auditor's report giving an opinion on the financial statements	September 2010
Value for money conclusion	September 2010
Annual governance report	September 2010
Opinion on Whole of Government Accounts	October 2010
Annual audit letter	November 2010

64 The Council has taken a positive and helpful approach to my audit. I wish to thank the Council's staff for their support and cooperation during the audit.

Mick Waite
District Auditor
November 2010

Appendix 1 – Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	£186,009	£186,009	Nil
Value for money	£139,000	£139,000	Nil
Total audit fees	£325,009	£325,009	Nil

Appendix 2 – Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

Financial statements

The annual accounts and accompanying notes.

Qualified

The auditor has some reservations or concerns.

Unqualified

The auditor does not have any reservations.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of money, people and time.

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Audit Commission

1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

Telephone: 0844 798 3131

Fax: 0844 798 2945

Textphone (minicom): 0844 798 2946