

Annual governance report

Salford City Council

Audit 2010/11

The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.

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Ladies and Gentlemen

2010/11 Annual Governance Report

I am pleased to present the results of my audit work for 2010/11.

I discussed and agreed a draft of my report with the Chief Executive and City Treasurer on 26 September 2011 and updated it as issues have been resolved.

My report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements (pages 3 to 11);
- note the adjustments to the financial statements set out in this report (appendix 2);
- agree to adjust the errors in the financial statements I have identified, which management has declined to amend or set out the reasons for not amending the errors (appendix 3);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (appendix 4); and
- agree your response to the proposed action plan (appendix 6).

Yours faithfully

Mick Waite
District Auditor

28 September 2011

Key messages

This report summarises the findings from the 2010/11 audit which is substantially complete. It includes the messages arising from my 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.

Table 1: **Key messages - financial statements**

Financial statements	Results	Page
Unqualified audit opinion	Yes	3
Important weaknesses in internal control	No	

Table 2: **Key messages - value for money**

Value for money		
Proper arrangements to secure value for money	Yes	12

Audit opinion on the financial statements

- 1 I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.
- 2 There were a number of adjustments arising as part of my audit which are summarised in appendix 2. These were mainly presentational amendments to comply with International Financial Reporting Standard and classification changes. They have no impact on total comprehensive income and expenditure or on the Council's net worth for the year.

Value for money

- 3 I plan to issue an unqualified value for money conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness. Appendix 1 contains the wording of my draft report.

Audit fees

4 There are some adjustments to the audit fee set out in my fee letter of 20 April 2010. I give details of these adjustments below.

Table 3: **Audit fees 2010/11**

Audit area	Planned fee 2010/11	Actual fee 2010/11
Financial statements, including WGA	£196,622	£196,622
VFM conclusion	£139,000	£139,000
Less Audit Commission rebates*		
- IFRS implementation		-£20,414
- VFM		-£11,747
Plus proposed increase in fee		£2,000
Total audit fee	£335,622	£305,461
Certification of claims and returns	£68,300	not yet complete

*Note: * The Commission rebated £20,414 in April 2010 to subsidise the 'one-off' element of the cost of transition to International Financial Reporting Standards (IFRS) for local authorities. Following the implementation of the Commission's new arrangements for local value for money audit work, the Commission also rebated the scale fee by 3.5 per cent, £11,747.*

I will discuss with the City Treasurer a proposed increase in the fee of £2,000 which is included above. This was necessary because of extra audit work I needed to do to look at the Council's arrangements to comply with the provisions of the Local Government Miscellaneous Provisions Act 1976 in relation to taxi licensing fees (see paragraphs 18 to 22).

Independence

5 I confirm that I have complied with the Audit Practice Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to the independence, objectivity and integrity of any member of my audit team.

6 The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2010/11.

Next steps

This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

7 I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements (pages 3 to 11);
- take note of the adjustments to the financial statements which are set out in this report (appendix 2);
- agree to adjust the error in the financial statements I have identified that management has declined to amend or set out the reasons for not amending the errors (appendix 3);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (appendix 4); and
- agree your response to the proposed action plan (appendix 6).

Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

8 Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

9 The 2010/11 financial statements involved first time implementation of international financial reporting standards. As I have discussed before with members, this is a complex exercise. Experience in other sectors in previous years has been that first time compliance IFRS is very demanding of accountants' time and results in much longer and more detailed published statements. There are some new primary statements and much increased disclosure requirements. It is against this backdrop that officers have prepared the accounts.

Key areas of judgement and audit risk

10 I plan and perform the audit to obtain all the information I feel is necessary to give me sufficient evidence and assurance that the Council's financial statements are free from material misstatement. Based on guidance from the Audit Commission, the materiality level for Salford City Council is £8.1 million.

11 My audit of the financial statements is risk-based. There are many risks inherent within any set of financial statements, but I also consider whether there are any specific risks which I need to take account of in carrying out the audit. Specific risks which I identified for Salford City Council are set out in the table below, together with my findings.

Table 4: **Key areas of judgement and audit risk**

Issue or risk	Finding
<p>The Council has to prepare International Financial Reporting Standards (IFRS) compliant financial statements from 2010/11. The financial statements may not properly reflect relevant changes in accounting requirements.</p>	<p>During the year I reviewed the Council's arrangements for transition to IFRS. I have completed detailed testing of the restated balances as part of the audit of the 2010/11 financial statements. I identified some areas where the statements did not fully comply with IFRS requirements. I have summarised my findings from this work in the quality of the financial statements section of this report.</p>
<p>Fixed asset values - the tough economic climate could continue to have a significant impact on values. This may result in asset values being misstated.</p>	<p>I have reviewed the Council's valuation of its fixed assets at the year end. The results of my testing were satisfactory.</p>
<p>Valuation of Manchester Airport shares - held as a material unquoted equity investment in the financial statements.</p> <p>The SORP requires a fair value measurement where this can be reliably determined.</p> <p>The risk is the shares are not correctly valued in the financial statements.</p>	<p>The Council has taken appropriate professional advice on the most appropriate valuation method for these shares. This concluded that alternative methods of valuation were not reliable and that the Council should continue to value the shares at original cost.</p> <p>The Council will need to review the appropriateness of this valuation method on a regular basis.</p>

Errors in the financial statements

12 Auditing standards (ISA 260) require that I report to you all 'non trivial' errors and uncertainties identified during my audit that management have not amended before I issue my opinion. Trivial items are defined as those below 1 per cent of the materiality level. This means that in Salford's case any errors or adjustments above £80k would be 'non-trivial'.

13 Management have agreed to make a number of adjustments to the accounts. I have set these out at appendix 2. I bring them to your attention to help you in fulfilling your governance responsibilities.

14 The amendments made to the 2010/11 financial statements and the comparatives for 2009/10 do not change total comprehensive income and expenditure or the Council's net worth for the year.

15 I also identified a number of narrative disclosure issues, which I have reported separately at appendix 2. I have not commented here on trivial errors, or minor presentational errors that I identified during the course of the audit.

16 I draw to your attention one significant unadjusted misstatement. This relates to £98k expenditure on maintenance of CCTV equipment which the Council charged to capital expenditure. The nature of the expenditure means it should be a charge to revenue. Accounting for this as a revenue item in 2010/11 would increase revenue expenditure on cultural, environmental and regulatory and planning services by £88k and decrease property, plant and equipment assets by £88k. Management has declined to make the adjustment.

Recommendations

R1 The Committee should note the adjustments made to the financial statements.

R2 Agree to adjust the £98k error in the financial statements, which management has declines to amend or set out the reasons for not amending the error.

Quality of your financial statements

17 I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statement disclosures. Table 5 contains the issues I wish to draw to your attention.

Table 5: **Accounting practices, policies and estimates and financial statement disclosures**

Issue	Finding
IFRS restated balance sheets	<p>As required the Council retrospectively restated its balance sheet to take account of the introduction of IFRS. The Balance Sheet included restated comparatives for 1 April 2009 and 31 March 2010.</p> <p>Local Authority Accounting Panel Bulletin (LAAP Bulletin 88), issued by CIPFA to assist with the application of the Code, also requires comparatives in the notes.</p> <p>The Council has now included the additional comparatives in the supporting notes to the Balance Sheet.</p>

Issue	Finding
<p>Comprehensive Income and Expenditure Statement (CIES) - material items</p>	<p>International Accounting Standard (IAS 1) requires material items to be presented separately on the face of the CIES where 'such presentation is relevant to an understanding of the entity's financial performance'.</p> <p>The Council has amended the CIES to separately show:</p> <ul style="list-style-type: none"> ■ the impairment charge for reduction in the social housing factor included in Local authority housing expenditure; and ■ the large adjustment caused by basing annual pension increases on Consumer Price Index (CPI) rather than Retail Price Index (RPI).
<p>Notes to the accounts</p>	<p>Management made various amendments to improve the disclosures in the notes to the accounts. I have set these out fully in appendix 2 and they include notes in relation to:</p> <ul style="list-style-type: none"> ■ taxation and non-specific grant income, to ensure that the analysis in the note reconciled to the CIES; ■ financial instruments, to provide a more detailed analysis of amounts on the Balance Sheet; and ■ notes to the Housing Revenue Accounts, to correct some errors in amount previously disclosed in the notes.
<p>Foreword</p>	<p>Paragraph 5 of the foreword to the accounts referred to the net pension liability as £205.3 million. Officers have amended this to the correct figure of £204.8 million.</p> <p>Paragraph 6 now provides more detail on material and unusual changes.</p> <p>Officers have amended paragraph 10 so that £156 million spent on capital projects now reads £156.7 million which is the correct amount.</p>

Significant matters that were the subject of correspondence with management

18 In May 2011, I received a letter from a member of the public suggesting that the Council had failed to comply with the provisions of the Local Government Miscellaneous Provisions Act 1976, specifically concerning the need for the Council to:

- advertise properly the proposed taxi licensing fee increases in 2006 in accordance with the Act;
- cost separately and account for the issuing and administering of licenses for drivers, operators and vehicles; and
- ensure that fees were based only on costs properly recoverable.

19 After investigating these concerns I wrote to the Chief Executive in August 2011 informing her of my conclusions that the Council had in fact properly advertised the proposed fee increase in 2006. But the Council's arrangements in relation to costing and charging for licences had been weak in the following respects.

- There has been no separation of costs in relation to licences for drivers, operators and vehicles.
- Consequently there was no link between the costs and fees charged for the various private hire licenses.
- There is no time recording system to show how officers in the licensing section divide their time between private hire licensing and other licensing.
- Officers assume that enforcement costs are recoverable both for drivers' and operators' licensing. But drawing on legal advice to auditors elsewhere, I understand this is not in accordance with the Act which allows recovery of enforcement costs only for vehicles.

20 From the work I have done I did not find clear evidence that Council has over-recovered costs, or included in fees any costs that are not allowed by the Act. But neither do the costing and accounting records provide any positive assurance that the Council has not done so.

21 Accounting records show that the costs overall of the licensing section in successive years from 2006 are greater than the income received from related fees and charges in those years. So the Council has not obviously made any undue surplus from licensing fees. However, the absence of detailed costing and accounting records make it difficult to confirm the position purely in relation to private hire licenses.

22 I have agreed with management a number of recommendations to address the weaknesses in the current arrangements.

Recommendation

R3 The Council should implement agreed actions to strengthen costing and accounting arrangements for private hire licensing, and confirm that arrangements in place demonstrate that it complies with the requirements of the Miscellaneous Provisions Act 1976.

Letter of representation

23 Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 4 contains the draft letter of representation.

Value for money

I am required to conclude whether the Council put in place proper corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

24 I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria that the Audit Commission has specified. These are:

- securing financial resilience – focusing on whether the Council is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how it secures economy, efficiency and effectiveness – focusing on whether the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.

25 I planned a local programme of value for money audit work based on my local audit risk assessment. This included the following.

- Ongoing work to update my overall risk assessment covering areas such as:
 - quality of financial governance and leadership;
 - robustness of risk management arrangements;
 - consideration of the work of Internal Audit; and
 - examining costs and service delivery.
- Local risk based work on:
 - arrangements for identifying and delivering the savings to achieve a balanced budget.

26 I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains the wording of my draft report.

27 My overall findings on each of the two areas are set out in the Table below.

Table 6: Value for money conclusion

Criterion	Finding
<p>The Council has proper arrangements in place for securing financial resilience</p>	<p>I have monitored your budget position throughout the year and examined your medium term financial planning in the context of the comprehensive spending review (CSR).</p> <p>The Council's financial planning assumptions are reasonable, and applied in practice. The Council has a savings programme in place with clear schemes, responsibilities and timescales for delivery. There are good monitoring and reporting arrangements to help ensure delivery of required savings of £39.915m in 2011/12, rising to £46.735m in 2012/13 and £54.784m in 2013/14. A further £40m of savings are required over the next three years to achieve balanced budgets (per Budget Scrutiny Committee 7/9/11 item 7).</p> <p>The Council managed its spending in 2010/11 within its revenue budget and has a general fund balance at the end of 2010/11 of £7.1 million.</p> <p>On 31 March 2011 there were 20 schools with deficits compared with 28 on 31 March 2010. In that period total deficits increased by £360k. Deficit recovery plans are in place for all schools with deficit budgets. All but one of those schools kept to their recovery plans or better during 2010/11 (per Budget Scrutiny Committee 7/9/11 item 4).</p> <p>In common with other authorities, the Council has significant challenges ahead to deliver the required levels of savings. There are processes in place to identify and respond to emerging financial pressures, including shortfalls in the savings programme that may require other compensating measures.</p>
<p>The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p>	<p>Arrangements for securing economy, efficiency and effectiveness continue to be robust.</p> <p>Members and officers have offered supportive challenge to identify and review proposals to achieve savings and efficiencies.</p> <p>The Council has also discussed proposed savings measures with other partners, such as Salford PCT and the voluntary sector.</p>

Criterion	Finding
	<p>The Council has used benchmarking information to compare its spend with that of other authorities and challenge its own performance.</p> <p>The Council has a framework in place to identify and manage risks, including regular review and update and effective challenge by members.</p>

Appendix 1 Draft independent auditor's report to Members of Salford City Council

Opinion on the Council and Group accounting statements

I have audited the Council and Group accounting statements of Salford City Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The Council and Group accounting statements comprise the Council and Group Movement in Reserves Statement, the Council and Group Comprehensive Income and Expenditure Statement, the Council and Group Balance Sheet, the Council and Group Cash Flow Statement, the Housing Revenue Account, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Salford City Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the City Treasurer and auditor

As explained more fully in the Statement of the City Treasurer's Responsibilities, the City Treasurer is responsible for the preparation of the Council and Group's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Council and Group; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of Salford City Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended;
- give a true and fair view of the state of the Group's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Conclusion on Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Council's responsibilities

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Council has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, Salford City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

I certify that I have completed the audit of the Council and Group accounts of Salford City Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Mick Waite

Officer of the Audit Commission

Aspinall House
Aspinall Close
Middlebrook, Horwich
Bolton, BL6 6QQ

September 2011

Appendix 2 Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities.

Table 7: **Amendments made to 2010/11 financial statements**

Description of amendment made to the financial statements	Comprehensive income and expenditure statement		Balance sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
School debtors settled before the year end were included in the debtors balance instead of cash and cash equivalents:				
<ul style="list-style-type: none"> ■ Reduce Current assets: Short term debtors 				365
<ul style="list-style-type: none"> ■ Increase Current assets: Cash and cash equivalents 			365	
The Cash flow statement has also been adjusted.				
Reclassify short term investments as long term investments:				
<ul style="list-style-type: none"> ■ Reduce Current assets: short term investments 				10,400
<ul style="list-style-type: none"> ■ Increase Long term assets: long term investments 			10,400	
Reclassify Long term provision for accumulated absences as Short term creditors:				
<ul style="list-style-type: none"> ■ Reduce Long term liabilities: provisions 			8,257	
<ul style="list-style-type: none"> ■ Increase Current liabilities: Short term creditors 				8,257

Description of amendment made to the financial statements	Comprehensive income and expenditure statement		Balance sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
Reclassify Long term provision for redundancy costs as short term creditors:				
■ Reduce Long term liabilities: provisions			2,193	
■ Increase Current liabilities: Short term creditors				2,193
Reclassify Long term borrowing as short term:				
■ Reduce Long term liabilities: Long term borrowing			1,000	
■ Increase Current liabilities: Short term borrowing				1,000
Reclassify Short term borrowing between Short term creditors and Long term creditors:				
■ Reduce Short term liabilities: Short term borrowing			11,822	
■ Increase Short term liabilities: Short term creditors				807
■ Increase Long term liabilities: Long term creditors				11,015
Reclassify interest due in 2011/12 which is included in Long term borrowing as short term:				
■ Reduce Long term liabilities: Long term borrowing			10,988	
■ Increase Short term liabilities: Short term borrowing				10,988
Reclassify Manchester Airport reserve as unusable instead of usable:				
■ Reduce Usable reserves			5,702	
■ Increase Unusable reserves				5,702

Table 8: Amendments made to 2009/10 comparatives

Description of amendment made to the financial statements	Comprehensive income and expenditure statement		Balance sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
Reclassify adjustment to remove Government Grants Deferred Account as part of IFRS restatement:				
<ul style="list-style-type: none"> ■ Reduce Highways and transport services income 	8,544			
<ul style="list-style-type: none"> ■ Increase CERPS income 		8,544		
Incorporate overdrafts balance in 'Cash and cash equivalents' (current liabilities) into 'Cash and cash equivalents' (current assets) on the Balance Sheet				
<ul style="list-style-type: none"> ■ Reduce Current assets: Cash and cash equivalents 				
1 April 2009				8,271
31 March 2010				6,714
<ul style="list-style-type: none"> ■ Remove Current liabilities: Cash and cash equivalents 				
1 April 2009			8,271	
31 March 2010			6,714	
Note 19 has been amended to agree to the balance sheet.				
Reclassify Long term provision at 31 March 2010 for accumulated absences as Short term creditors:				
<ul style="list-style-type: none"> ■ Reduce Long term liabilities: provisions 			10,049	
<ul style="list-style-type: none"> ■ Increase Current liabilities: Short term creditors 				10,049
Reclassify Long term provision at 1 April 2009 for accumulated absences as Short term creditors:				
<ul style="list-style-type: none"> ■ Reduce Long term liabilities: provisions 			9,776	
<ul style="list-style-type: none"> ■ Increase Current liabilities: Short term creditors 				9,776

Description of amendment made to the financial statements	Comprehensive income and expenditure statement		Balance sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
Reclassify Manchester Airport reserve as unusable instead of usable:				
<ul style="list-style-type: none"> ■ Reduce Usable reserves opening balance 1 April 2009 and closing balance 31 March 2010 			5,702	
<ul style="list-style-type: none"> ■ Increase Unusable reserves opening balance 1 April 2009 and closing balance 31 March 2010 				5,702
<i>*CERPS is Cultural, environmental, regulatory and planning services</i>				

Table 9: **Amendments made to disclosure notes**

Note	Description of amendments made
Note 10 Financing and investment income and expenditure	<p>Amounts had been netted off. The Council has amended them to show the gross amounts:</p> <ul style="list-style-type: none"> ■ Interest payable and similar charges amended from £17,965k to £19,027k ■ Interest receivable and similar income amended from £(1,964k) to £(3,026k)
Note 11 Taxation and non-specific grant income	Capital grants and contributions was understated in the note by £8,839k. The Council has amended it so that it agrees with the CIES.
Note 15 Financial instruments	The note has been amended to provide a full analysis of amounts on the Balance Sheet.
Note 35 Officers' remuneration	Various amendments made to correct some errors in amounts disclosed and include remuneration paid to acting returning officers.
Note 38 Grant income	An analysis of Capital grants and receipts in advance has now been provided.
Note 42 Private finance initiatives and similar contracts	The narrative in the note has been expanded to ensure they comply fully with the requirements of the Code.
HRA Note 11 Housing stock - numbers and valuation	The note has been amended to show the correct stock numbers, reducing the total from 10,605 to 10,589.

Note	Description of amendments made
HRA Note 14 Capital expenditure and source of funding	The note in the draft accounts reported £13,516k as the total for 2010/11. This was the total for 2009/10. The correct total for 2010/11 is £29,918k. The Council has amended the note.
Collection Fund	The total in the statement and in supporting note 4 has been amended to show the correct amounts of £0.
Group accounts page 102	<p>Amended to show the Council's correct share in the City of Salford Community Stadium Ltd:</p> <ul style="list-style-type: none"> ■ fixed assets amended from £9,054k to £8,220k; and ■ liabilities due after one year amended from £(1,735k) to £(1,725k).

Appendix 3 Unadjusted misstatements in the financial statements

I identified the following misstatements during my audit, [including uncorrected misstatements brought forward from earlier years,] but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities and ask you to correct these misstatements. If you decide not to amend, please tell me why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

Table 10:

Unadjusted mis-statement	Comprehensive income and expenditure statement		Balance sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
Expenditure on maintenance of CCTV equipment capitalised as equipment. This should have been charged to revenue:				
<ul style="list-style-type: none"> ■ Reduce Long term assets: Property, plant and equipment ■ Reduce accumulated depreciation - CERPS ■ Increase gross expenditure CERPS 	98	10		98

This would also require adjustments to the Movement in Reserves Statement and the Capital Adjustment Account.

Appendix 4 Draft letter of representation

Mick Waite
District Auditor
Audit Commission,
Aspinall House,
Aspinall Close
Middlebrook,
Horwich
Bolton
BL6 6QQ

Dear Mick

Salford City Council – Audit for the year ended 31 March 2011

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other chief officers of Salford City Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2011. All representations cover the Council's accounts and Group Accounts included within the financial statements.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements

The effects of uncorrected financial statements misstatements summarised in the attached schedule are not material to the financial statements, either individually or in aggregate.

These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are as follows;

reason 1 etc;

Supporting records

All relevant information and access to persons within the Council has been made available to you for the purpose of your audit, and all the transactions undertaken by the Council have been properly reflected and recorded in the financial statements.

Internal control

I have communicated to you all deficiencies in internal control of which I am aware.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Related party transactions

I confirm that I have disclosed the identity of Salford City Council's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

Subsequent events

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Specific representations

I confirm that following the receipt of appropriate professional advice on the method of valuation of the Council's shares in Manchester International Airport, my view is that the shares should be recorded in the Council's financial statement at historical cost, as alternative valuations have proven to be unreliable.

Signed on behalf of Salford City Council

I confirm that this letter has been discussed and agreed by the Audit and Accounts Committee on 28 September 2011

Signed

John Spink, CPFA
City Treasurer

Date

Appendix 5 Glossary

Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my 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; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Materiality (and significance)

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

'Significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

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 resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

Appendix 6 Action plan

Recommendations

Recommendation 1

The Committee should note the adjustments made to the financial statements.

Responsibility

Priority High

Date

Comments

Recommendation 2

Agree to adjust the £98k error in the financial statements, which management has declines to amend or set out the reasons for not amending the error.

Responsibility

Priority Medium

Date

Comments

Recommendation 3

The Council should implement agreed actions to strengthen costing and accounting arrangements for private hire licensing, and confirm that arrangements in place demonstrate that it complies with the requirements of the Miscellaneous Provisions Act 1976.

Responsibility

Priority High

Date

Comments

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September 2011