

Annual Audit Letter

Salford City Council

Audit 2010/11



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Key messages

This report summarises the findings from my 2010/11 audit. My audit comprises two elements:

- **the audit of your financial statements; and**
- **my assessment of your arrangements to achieve value for money in your use of resources.**

Key audit risk	Our findings
Unqualified audit opinion	●
Proper arrangements to secure value for money	●

Traffic light key

Red ■ Amber ◆ Green ●

Audit opinion and financial statements

This year the Council had to produce its accounts for the first time under the International Financial Reporting Standards (IFRS) based CIPFA Code of Practice ('the Code') which came into effect from 1 April 2010.

The introduction of IFRS was a complex and demanding exercise for officers. It required the interpretation of the standards and a requirement to restate prior year comparative figures. It resulted in much longer and more detailed published statements. I identified some areas where the statements did not fully comply with IFRS requirements, and accountants made changes accordingly. But overall

the Council implemented IFRS successfully, which reflects the hard work and professional approach by officers.

I issued an unqualified opinion on the Council's 2010/11 financial statements on 30 September 2011, following approval of the accounts by the Audit and Accounts Committee on 28 September 2011. I have set out more details on the outcome of my financial statements audit on page 5.

Even though I have given my audit opinion, I cannot at present certify the audit as closed because I am dealing with an objection received to the accounts on the issue of penalty charge notices. The amount of income that could be involved is not sufficiently large to materially affect an understanding of the Council's accounts. I expect to resolve the matter during 2012.

Value for money

As well as giving my opinion on the financial statements, I must also reach a conclusion on the adequacy of the Council's arrangements for ensuring economy, efficiency and effectiveness in its use of resources (the value for money conclusion).

I issued an unqualified value for money conclusion on 30 September 2011.

Current and future challenges

Economic downturn and pressure on the public sector

The current economic climate continues to place significant pressure on the public sector, and local government in particular to generate efficiencies and work within reduced resources.

The Council managed these pressures successfully in 2010/11 but faces more challenges over the next few years.

The Council has approved savings measures of £39.915 million in 2011/12, rising to £46.735 million in 2012/13 and £54.784 million in 2013/14. It needs to identify further annual savings of £39.3 million spread across 2012/13 to 2014/15 to achieve a balanced budget in each year.

At 30 September 2011 the Council reported it had achieved savings to date of £27.684 million in 2011/12. But this was £0.581 million short of the target savings to be achieved by that date. It needs to achieve further savings of £12.231 million by 31 March 2012 to achieve the target for the full year.

At 30 September 2011 the Council also reported that:

- Revenue expenditure on the General Fund exceeded the budget for the half year by £3.134 million. But the Council still expects to achieve an under spend at 31 March 2012 of £0.973 million. Directorates are identifying corrective actions to address overspends to date, and to contain expenditure within the approved annual budget.
- Children's Services expenditure against the Dedicated Schools Grant exceeded budget by £1.315 million. The Council expects expenditure at 31 March 2012 to exceed the budget by £3.186 million. The main area of overspending is on special educational needs (SEN). The Council is developing a new SEN strategy to address the areas of overspend.

The forecast level of reserves at 31 March 2012 is £10.315 million. This is above the Council's risk assessment of the minimum level of reserves it requires of £8.750 million. The Council's self assessed 'desirable' level of reserves, is £15.5 million, which is a level it may aspire to in the longer term.

The Council has a structured approach and framework in place to identify and manage budget pressures. Like many other councils, Salford faces a significant challenge in delivering its financial and service objectives. But the arrangements it has in place should help it to respond to these challenges successfully. As part of its budget management, Salford will need to keep under review the impact of its level of unsupported borrowing. This is borrowing for which it does not receive corresponding Government revenue grant, and so must meet wholly from within its revenue budget. It will need to make sure, for example, that it manages effectively the risks in relation to future interest rate changes.

School balances

On 31 March 2011 there were 18 schools budgets in deficit. The deficits totalled £6.568 million. The Council will need to continue to monitor closely implementation of the recovery plans they have agreed with the schools in deficit.

Financial statements and annual governance statement

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

Overall conclusion from the audit

I issued an unqualified audit opinion on Salford City Council's 2010/11 financial statements following approval of the accounts by the Audit and Accounts Committee on 28 September 2011.

The accounts adopted the International Financial Reporting Standards (IFRS) based CIPFA Code of Practice ('the Code') for the first time. This brought some significant changes in accounting practice and required much more reporting of comparative figures and additional disclosures, which placed considerable additional demands on officers' time.

A number of adjustments were made to the accounts following my audit. These were mainly presentational amendments to comply with IFRS requirements and classification changes. These adjustments had no impact on total comprehensive income and expenditure or on the Council's net worth for the year.

I identified one misstatement which the Council decided not to amend in the accounts. This was an overstatement of £88k in the Council's fixed assets and corresponding understatement of £88k in the Comprehensive Income and Expenditure Statement. The Council is to make amendments for this in its 2011/12 accounts.

I completed my audit of the Council's 2010/11 Whole of Government Accounts (WGA) consolidation pack and issued my assurance statement on 4 October 2011. This was after the deadline for submission of 30 September 2011. The delay was because accountants needed to make some corrections to the final figures following completion of my audit.

Significant weaknesses in internal control

In response to a communication from the Salford Private Hire Association I looked into the Council's arrangements to comply with the requirements of the Miscellaneous Provisions Act 1976 (the Act) in relation to costing and charging for issue of private hire licences. I identified a number of weaknesses in the Council's arrangements:

- There had been no separation of costs between the issue of licences for drivers, operators and vehicles
- Consequently there had been no clear link between the costs and fees charged for the various types of private hire licenses
- There had been no time records to show how officers in the licensing section had divided their time in practice between private hire licensing and other licensing
- There were no clear arrangements to prevent the Council from seeking to recover enforcement costs both for drivers' and operators' licensing. Drawing on legal advice to auditors elsewhere, I understand this would not be in accordance with the Act which allows recovery of enforcement costs only for vehicles

The Council has agreed to implement actions to address these issues to help ensure it demonstrates full compliance with the Act. I will look at the improvements made in these areas as part of my 2011/12 audit.

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.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is that the Council has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusion on each of the two areas is set out below.

Value for money criteria and key messages

Criterion	Key messages
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>I 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>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 approved savings of £39.915m in 2011/12.</p> <p>The Council also has arrangements in place to identify and secure further savings that will be required over the next four years following its consideration of the CSR.</p> <p>The Council managed its spending in 2010/11 within its revenue budget and had a general fund balance at the end of 2010/11 of £7.1 million.</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>

Criterion	Key messages
	<p>The number of schools with deficit year-end balances reduced from 28 on 31 March 2010 to 18 on 31 March 2011. But in that period the total value of the deficits increased by £360k, from £6.208 million to £6.568 million. Deficit recovery plans are in place for all schools with deficit budgets, and there are regular reports to senior management and to members on progress against them.</p>
<p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2010/11:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>The Council challenges itself to secure economy, efficiency and effectiveness. Members 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> <p>The Council has used benchmarking information to compare its spend with that of other authorities and challenge its own performance. There is also a framework in place to identify and manage risks, including regular review and update and effective challenge by members.</p> <p>In common with most other councils, Salford has considerable financial challenges ahead. The Council's structured approach to planning, the budget processes in place and the track record of savings achieved to date all place the Council in a good position to respond successfully to these challenges.</p>

Closing remarks

I have discussed and agreed this letter with the Chief Executive and the City Treasurer. I will present this letter at the Audit and Accounts Committee on 28 November 2011 and will provide copies to all Council members.

Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Report	Date issued
Audit plan	26 January 2011
Audit progress reports	At each meeting of the Audit and Accounts Committee throughout the year
Annual Governance Report	28 September 2011
Final accounts report	November 2011 (to officers)

The Council has taken a positive and constructive approach to our audit. I wish to thank the Council staff for their support and co-operation during the audit.

Mick Waite
District Auditor

November 2011

Appendix 1 – Fees

	Actual	Proposed	Variance
Financial statements, including WGA	£198,622	£196,622	£2,000 for extra audit work required on taxi licensing fees
VFM conclusion	£139,000	£139,000	
Total audit fee	£337,622	£335,622	£2,000
Audit Commission rebates*			
■ IFRS implementation	£(20,414)		£(20,414)
■ VFM	£(11,747)		£(11,747)
Net fee payable	£305,461	£335,622	£(30,161) – rebated by the Audit Commission
Certification of grant claims	Not yet complete	£68,300	

* The Audit Commission rebated £20,414 in April 2010 to subsidise the 'one-off' element of the cost of transition to IFRS for local authorities. It also issued a rebate for the change in approach to the vfm work from 2010/11.

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 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.

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.

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.

Whole of government accounts

The Whole of Government Accounts (WGA) is a consolidated set of financial statements for the UK public sector. It consolidates around 1,500 bodies, including central government departments, local authorities, devolved administrations, the health service, and public corporations. It is similar in presentation to private sector accounts.

The aim of WGA is to enable Parliament and the public better to understand and scrutinise how taxpayers' money is spent. By presenting the public finances in a framework familiar to the commercial and accountancy professions, WGA increases transparency and accessibility of information about public finances.

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