

Audit Summary Report

November 2007



# **Final Accounts Memorandum**

**Salford City Council**

**Audit 2006/07**

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

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

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## Introduction

- 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. In accordance with this requirement we gave an unqualified opinion on the 2006/07 accounts on 28 September 2007.
- 2 This report summarises the issues which arose from our audit of the financial statements.

## Main issues arising

### Approval of the accounts

- 3 Members approved the Council's annual accounts on 25 June 2007. The Council is commended for meeting the required deadline which was the end of June 2007.
- 4 Our review again confirmed that the financial statements generally comply with good practice and that there is a good understanding of current technical accounting issues. This was particularly relevant to the presentation of the financial statements for 2006/07 due to the significant changes which were required by the CIPFA SORP 2006. Responses to queries and matters arising were dealt with expeditiously and steps are continuing to be taken to improve working papers.

### Amendments to the accounts

- 5 We are required by professional standards to report to 'those charged with governance' certain matters before we give an opinion on the accounts. In accordance with this requirement we reported the matters arising from our audit to the Accounts Committee on 24 September 2007. The main adjustments which were required are summarised in Table 1.

**Table 1 Adjusted misstatements in the financial statements**

Details of material and/or significant adjustments required to the financial statements.

<b>Issue</b>	<b>Value of mis-statement</b>	<b>Impact on the balance sheet</b>
<b>Fixed assets</b> Land relating to Manchester Airport. (Note: This adjustment also applies to all the other Greater Manchester authorities, except Manchester City Council).	£7.663m	Fixed assets (investment properties) and fixed asset restatement account, both understated.
<b>Debtors</b> Debtors incorrectly offset against creditors.	£1.901m	Debtors and creditors, both understated.
<b>Investments</b> Expenditure on infrastructure assets misclassified as an investment.	£638k	Long term investments overstated / fixed assets (infrastructure) understated.
<b>Schools reserve</b> Prepayment of Direct Schools Grant incorrectly allocated to schools reserve.	£616k	General reserve (schools element) / debtors and prepayments, both understated.
<b>Long term debtors</b> Loan misclassified as a deferred charge.	£509k	Long term debtors and capital financing account, both understated.
<b>Insurance fund provision</b> Provision misclassified as a creditor.	£497k	Insurance fund understated/creditors overstated.

- 6 The schools reserve adjustment is the only one which has an impact on the Council's balances. The amount of the General Fund Balance held by schools under local management schemes increased as a result of this adjustment from a surplus of £297k to £913k.

- 7 There were a number of other amendments which were made to the financial statements relating to the qualitative aspects of accounting practices and financial reporting, for example:
- several of the disclosure notes required amendment because the detail was inaccurately reported (for example, long term debtors, creditors and debtors);
  - additional notes have been agreed to improve various disclosures (for example, deferred liabilities / credits, short term borrowing, dividend income and schools' PFI schemes); and
  - relatively minor errors have been agreed to the Collection Fund and Housing Revenue Account.
- 8 The City Treasurer issued a report in response to the matters outlined above and the Accounts Committee agreed with his recommendation to make the appropriate amendments to the accounts.
- 9 The Principal Accountant will look again at the opportunities for strengthening the qualitative review process of the financial statements with a view to minimising the number of changes that are needed after the pre-audit version is approved.

### **Treasury management issues**

- 10 For the past three years we have drawn the Council's attention to an issue which is of national relevance and applies to other authorities as well as Salford concerning the treatment of interest on LOBO (lender offer / borrower option) loans and amortisation of premiums on debt rescheduling. The Head of Finance updated the Accounts Committee on the latest position with regard to these matters when it met to approve the accounts in June 2007.
- 11 We have discussed the current position and in view of the further guidance and regulations that is still awaited it was agreed that an additional contingent liability note should be added to the financial statements.

### **School balances**

- 12 The net surplus on school balances has reduced from £1,625k at 31 March 2006 to £913k at 31 March 2007. At the end of the 2006/07 financial year there were 33 schools which were reported in deficit, totalling £4.2m (£3.3m the previous year). The Council needs to ensure that there are clear plans in place to reduce school deficits. We are currently discussing this issue with the City Treasurer and we plan to undertake further work in this area as part of our agreed plan for 2007/08.

### **Whole of government accounts**

- 13 This is the second year that the auditor is responsible for issuing a report on the consistency of the Authority's consolidation pack with the statutory financial statements in accordance with the whole of government accounts initiative. We are pleased to confirm that we issued our report on 28 September 2007 to the DCLG which was within the deadline of 1 October 2007.

## Mitigating accounting risks

- 14 Last year we noted that the Council is involved with a number of partnership initiatives for example, schools' PFI schemes, LIFT, SHIFT, Higher Broughton regeneration, Urban Vision, SCL, Homes to Trust, NPHL, Housing Market Renewal, etc. All of these partnership arrangements have accounting implications and some involve agreements which are planned to last for many years. We have previously recommended that there would be benefits in setting up a log for such schemes which summarise the accounting issues and any trigger points which might impact on the Council's budget and / or financial reporting. We note some progress has been made on this exercise but further work is still required to complete this. Taking such action should ensure that the risk of errors of omission in the financial statements are minimised and that any budget implications are addressed at the relevant time.

## Way forward

- 15 The Action Plan attached at Appendix 1 has been agreed with a view to dealing with the issues referred to above and includes the relevant recommendations reported to the Accounts Committee on 24 September 2007. It also includes agreed action on some of the less significant matters arising from the audit that have been discussed which relate to the following:
- classification of debtors and creditors;
  - pooled budgets distribution and repayment of surpluses;
  - writing down of discounts to HRA arising from debt rescheduling;
  - accounting for school balances, and various presentational issues;
  - continued improvement to working papers; and
  - various presentational issues.

## Other issues

- 16 Two other matters arising out of our wider audit responsibilities are also noted in this report for completeness are as follows.
- Progress is now being made by the Council in implementing our previous recommendations regarding strengthening its governance arrangements around partnership working. The partnership database which is being developed as part of this initiative is currently being populated. The Council needs to ensure that it makes optimum use of this information, for example the data can be used to help inform the statutory disclosures that the Authority makes in its financial statements and assist Internal Audit to prioritise its risk-based plans.
  - The Council has previously had good arrangements in place for monitoring that the various grant claims and returns which are due to government departments are submitted to the auditor on time. Due to staff changes these arrangements have slipped a little recently, consequently we suggest that steps are taken to remedy this.
- 17 Finally, there are also some issues that arose during the audit which we would like to consider and discuss further as part of our preparing the audit plan for 2008/09. These include the following:
- the accounting and management arrangements implications of the Council's housing stock options review;
  - council tax collection; and
  - housing rent arrears.

## Appendix 1 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Qualitative review</b>						
6	R1 Ensure sufficient time and resources is built into the accounts closure programme to carry out a qualitative review of the accuracy and completeness of the disclosure notes in the financial statements.	3	Chris Hesketh	Yes	The 2006/07 programme had a review period built in. The time was used mainly to review the new statements (in particular the STRGL) and to absorb some slippage in the programme. The Accountancy Development Group is working on a closure timetable for 2007/08 that will again allow a period for review. It is intended that an earlier completion of statements will allow the period to be used wholly for a more general qualitative review.	January 2008
6	R2 The above could be facilitated by nominating individual staff to have an ongoing responsibility for reviewing the various sections and disclosure notes to the accounts.	3	Chris Hesketh	Yes	We will allocate specific sections of the statement to nominated officers, including AAT trainees, for review. This will encourage a wider ownership of the statement and spread the review workload.	June 2008

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Treasury management</b>						
6	R3 The City Treasurer should assess any further guidance and regulations which may be forthcoming on the accounting treatment of LOBO loans and take action as appropriate.	3	John Spink and/or Elaine Marks-Parker	Yes	We note that the draft Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2008 have been issued for consultation and intend to explore the implications in various forums over the next few weeks. We will assess final regulations as and when they are issued.	Subject to further guidance and/or regulations
<b>School deficits</b>						
6	R4 The Council needs to ensure that there are clear plans in place to reduce school deficits.	3	Members, the LEA and relevant schools' governors	Yes	We have intensified our monitoring of all school balances and in particular those in deficit. Each school has been requested to provide a plan, with projections, to eliminate the deficit within a maximum of five years. The schools' performance against these plans will be monitored and variances investigated.	January 2008

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Mitigating accounting risks</b>						
7	R5 Accounting and budget issues arising from the Council's various partnership agreements should be logged and reviewed on an ongoing basis to ensure that the risk of errors of omission are minimised and that any budget implications are considered at the relevant time.	3	Chris Hesketh	Yes	The forward accounting implications of various partnership arrangements are held in various files. We will collate the data and complete the central register in order to minimise the risk of omission.	March 2008
<b>Classification of debtors and creditors</b>						
7	R6 Accurate reporting of the different types of debtors / creditors has continued to be an issue. The level of disclosure should be reviewed, consistent with meeting the requirements of the SORP.	2	Chris Hesketh	Yes	We are satisfied that the analysis used in the statement meets SORP and WGA requirements, however there were a number of adjustments between headings during the audit process. We have redesigned the standard balance sheet working papers to encourage accountants to provide a better description of the type of debtor or creditor, which can then be used in the analysis. We will reinforce the point in Accountancy Development Group meetings.	March 2008

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Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Pooled budgets</b>						
7	R7 No adjustment was made in the financial statements to account for the £165k overpayment to the PCT for its share of the accumulated surplus. The year end position should be assessed and the appropriate adjustment made.	2	Dianne Blamire	Yes	This overpayment has been reclaimed from the PCT in 2007/08.	Complete
7	R8 The surpluses for the Adult NTA drugs pool have been distributed between the partners in the ratio, PTA 81 per cent and SCC 19 per cent. The NTA Management Board needs to formally agree this arrangement.	2	Dianne Blamire	Yes	A report will be submitted to the NTA Board in the final quarter of 2007/08 requesting formal agreement of this arrangement.	March 2008
<b>Discounts on debt rescheduling</b>						
7	R9 Some of the discounts received in 2006/07 on debt rescheduling (due to the HRA) had been amortised over 10 years rather than the remaining life of the debt. The schedule needs to be amended accordingly.	2	Elaine Marks-Parker	Yes	The schedule has been amended in the 2008/09 budget process.	Complete
<b>Accounting for school balances</b>						
7	R10 St Ambrose Barlow High School misclassified an accrual of £51k as an in-year payment. The school should be advised of this error with a view to ensuring it does not recur next year.	2	Rob Sides	Yes	The school will be advised of its error. In addition, all schools will be informed of the correct treatment of direct debit accruals via the regular bulletin at an appropriate time towards the end of the financial year.	March 2008

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
7	R11 Government grant monies held by the LEA pending distribution to schools are classified as receipts in advance. This practice should be reviewed to check if a proportion of this might more appropriately be described as school reserves.	2	Pat Manning	Yes	We will ensure that, where appropriate, devolved formula capital, standards fund and other grants received are treated as part of school balances and we are setting up new ledger codes to assist in this distinction. We will reconcile each school's balances to grant control totals.	January 2008
<b>Working papers</b>						
7	R12 Good practice with regard to presenting final accounts working papers needs to be applied consistently across all directorates if the Council is going to achieve the 'exemplary working papers' to which it aspires.	2	Chris Hesketh	Yes	Quality of working papers was discussed in Accountancy Development Group meetings and Accountancy Briefings in 2006/07, and a number of quality control measures were introduced. These included improving standard working paper forms, authorisation of working papers by group leaders and a control check on the Corporate Accountancy Team. As a result, we made improvements in overall quality which we will attempt to build upon in the same manner in 2007/08.	June 2008

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Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Presentational issues</b>						
7	R13 Various relatively minor matters were noted during the audit regarding the overall presentation of the financial statements. These are summarised in Appendix 2 and could be usefully further considered in preparing the 2007/08 accounts.	2	Phil Prady / Mike Lyons	Yes	We will consider our planned presentation of these items early in the 2007/08 final accounts process.	March 2008
<b>Partnership working</b>						
7	R14 Ensure that the Council makes optimum use of the information which is being captured in the partnership database.	3	Andy Roberts / Pauline Lewis / Don Simpson / Chris Hesketh	Yes	A draft of the database has been prepared. We are currently reviewing this to ensure that it is useful for corporate governance and accounting purposes. The responsible officers will ensure that we make optimum use of the database going forward.	Database implementation March 2008
<b>Grant claims and returns</b>						
8	R15 Reintroduce monitoring arrangements to ensure grant claims and returns which require audit certification are completed on time.	3	Chris Hesketh	Yes	The monitoring arrangements have slipped while the Assistant Group Accountant post on the Corporate Accountancy Team has been vacant. We intend to fill the vacant post and will reintroduce the monitoring arrangements.	March 2008

## Appendix 2 – Presentational issues

The following comments are based on a comparison of Salford CC's accounts with other GM authorities and general observations compared with the SORP requirements.

<b>Financial statements - Main heading</b>	<b>Comment / observation</b>
I&E – Dividend income	SCC shows this as a separate line - others authorities generally include this under trading surpluses and explain it further in the disclosure notes.
I&E – Government grants	SCC show separate lines for RSG, LABGI and PFI income on the face of the I&E account – other authorities tend to have one line for govt grants with the detail in a disclosure note.
I&E – Net cost of services	Court services and Non-distributed costs appear to be immaterial. The SORP allows authorities to include immaterial amounts in other 'appropriate' headings.
Balance sheet – Deferred consideration	SCC show this on the face of the balance sheet - alternatively this could be shown under long term debtors with an appropriate disclosure note.
Balance sheet – Provisions	SCC show provisions under current liabilities - other authorities generally include these under long term liabilities.
Balance sheet – Insurance fund	SCC show this separately on the face of the balance sheet – presumably if provisions were brought down into this section (see above comment) then it would be subsumed in a disclosure note?
Balance sheet – Lowry receipt in advance	Specific balance relative to SCC – might this now be better disclosed under deferred credits?