

Auditors' report to members on the financial statements Salford City Council Audit 2003/04

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Reference:	SCC – SAS 610 report
Date:	November 2004

Introduction

Statement of Auditing Standard (SAS) 610 requires auditors to report certain matters arising from the audit of the financial statements to 'those charged with governance'. We have agreed with the Authority's officers that it is the Accounts Committee that fulfils this function at Salford City Council.

This report therefore sets out for the Accounts Committee's consideration the matters arising from the audit of the financial statements for 2003/04. The matters that we are required to report on are set out below:

- expected modifications to the audit report
- **adjusted misstatements to the accounts**
- unadjusted non-trifling misstatements
- material weaknesses in accounting and internal control systems
- qualitative aspects of accounting practice and financial reporting
- matters required by other auditing standards to be reported to those charged with governance
- **other matters that we wish to draw to your attention.**

On most of these matters we have nothing to report; the matters which are highlighted are referred to below.

Status of the audit

Our work on the financial statements is now substantially complete. Subject to satisfactory conclusion, we anticipate being able to issue an unqualified opinion by the due date of 30 November 2004 (the draft audit opinion is attached at Appendix 1).

Matters to be reported to those charged with governance

The Council is commended for having produced the accounts a month earlier than in the previous year, in line with the Whole of Government Accounts initiative. We are satisfied that the financial statements in general comply with good practice. Working papers provided by accountants to support the statements are generally of a good standard. The Council has made good use of electronic working papers and has been proactive in identifying and dealing with current technical issues. The issues that follow should be read within this overall context.

Adjusted misstatements

We are required to consider reporting adjusted misstatements to you where these are relevant to your governance responsibilities. These are summarised below:

1. The Statement on Internal Control has been re-drafted to more fully comply with the guidance produced by CIPFA which was set out in its publication 'The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003' (April 2004).
2. The presentation in the Consolidated Balance Sheet of the deferred charges balance (relating to debt rescheduling premiums and stock discount of £42.417m) will be amended in line with the Statement of Recommended Practice 2003 (SORP). A similar adjustment will be made to the deferred credits balance (relating to deferred

rescheduling discounts of £1.784m). The change in presentation reduces the Council's total assets, less liabilities to £383.7m from £424.3m.

The Director of Customer and Support Services has agreed to make the appropriate amendments to the financial statements arising from the above, together with several others which we have agreed will improve the overall presentation and disclosures in the financial statements. The Director of Customer and Support Services report, which accompanies this one, provides further detail.

Other matters that we wish to draw to your attention

These issues are of national relevance and apply to other local authorities. We are awaiting further guidance from the Audit Commission and professional bodies which we will share when it becomes available.

Interest on loans

The Council has entered into a number of loan agreements which include a reduced rate of interest in the initial period (ranging from two to five years) followed by a planned minimum increase in the interest rate after this initial period. The Council's budget assumes that interest will be charged to the accounts in line with the payments made each year.

Financial Reporting Standard (FRS) 4: Capital Instruments states that the finance costs should be allocated to periods over the term of the debt at a constant rate on the carrying amount. FRS 5: Reporting the Substance of Transactions requires the Council to report the substance of transactions into which it has entered in its financial statements. This means that the commercial effect of transactions is shown and that the accounts do not merely report the legal form of a transaction.

To comply with the requirements of the FRSs, the Council may need to spread all the interest it plans to incur over the life of the loans in equal instalments for each year of the loans. Although not significant to our opinion, the estimated impact in 2003/04 is £1.1m of interest above the amount charged to the revenue account. This increases to £1.8m in 2004/05 (of interest above the amount budgeted to be charged to revenue accounts). The estimated impact in 2005/06 is £1.5m.

Premia on restructured loans

There is also an issue surrounding the premia on restructured loans. Where the Council has repaid loans early and incurred a penalty for doing so the related general fund amount is held in the balance sheet and amortised over the period of the replacement loan. We have found that the Council is still amortising premia where the replacement loan has itself been restructured. If the Authority is required to write-off this amount there will be an additional charge to revenue for the year of £1.8m.

Next steps

We are drawing the matters in this report to your attention, together with those set out in the accompanying report of the Director of Customer and Support Services, so that the Accounts Committee can authorise the suggested changes to the statement of accounts.

Subject to satisfactory resolution of these matters the District Auditor will complete the opinion and certificate to conclude the audit, (see Appendix 1).

Status of our reports to the Authority

Our reports are prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Reports are prepared by appointed auditors and addressed to non-Executive Directors or officers. They are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Director or officer in their individual capacity, or to any third party.

Draft Independent Auditor's Report to Salford City Council

I have audited the statement of accounts on pages xx to xx which have been prepared in accordance with the accounting policies applicable to local authorities as set out on pages xx to xx.

This report is made solely to Salford City Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 54 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission.

Respective Responsibilities of the Director of Corporate Resources and Auditor

As described on page xx the Director of Corporate Resources is responsible for the preparation of the statement of accounts in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2003. My responsibilities, as independent auditor, are established by statute, the Code of Audit Practice issued by the Audit Commission and my profession's ethical guidance.

I report to you my opinion as to whether the statement of accounts present fairly the financial position of the Council and its income and expenditure for the year.

I review whether the statement on internal control on page y reflects compliance with CIPFA's guidance 'The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003' published on 2 April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the authority's corporate governance procedures or its risk and control procedures. My review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

I read the other information published with the statement of accounts and consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the statement of accounts.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with relevant auditing standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the council's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the statement of accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion, I evaluated the overall adequacy of the presentation of the information in the financial statements.

Opinion

In my opinion the statement of accounts present fairly the financial position of Salford City Council as at 31 March 2004 and its income and expenditure for the year then ended.

Certificate

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

Signature

Date: ...xx November 2004.

Name: Clive Portman, District Auditor

