

# **Report on the 2004/05 Financial Statements to the Accounts Committee**

**Salford City Council**

**Audit 2004/2005**

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## Introduction

- 1 Professional auditing standards require auditors to report certain matters arising from the audit of the financial statements to 'those charged with governance':
  - expected modifications to the audit report;
  - adjusted misstatements to the financial statements where these are relevant to those charged with governance;
  - 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; and
  - other matters that we wish to draw to your attention.
- 2 We have agreed with the Council that the communications required under these auditing standards would be with the Accounts Committee. This report sets out for the Accounts Committee's consideration the matters arising from the audit of the financial statements for 2004/05.

## Status of the audit

- 3 Our work on the financial statements is now substantially complete. We anticipate being able to issue an unqualified opinion by 31 October 2005, (a draft report is attached at Appendix 1).

## Matters to be reported to those charged with governance

- 4 The Council is again commended for having produced the financial statements a month earlier than in the previous year, in line with the Whole of Government Accounts initiative. Our review confirmed that the financial statements generally comply with good practice and that there is a good understanding of current technical accounting issues. Working papers continue to be of a good standard and responses to queries and matters arising have been dealt with expeditiously. We have the following matters to draw to the Accounts Committee's attention.

### Adjusted misstatements

- Several amendments have been agreed with the Strategic Director of Customer and Support Services which we believe will improve the accuracy, overall presentation and disclosures in the financial statements. Further detail on these is provided in the Strategic Director of Customer and Support Services report which accompanies this one.

## Other matters that we wish to draw to your attention

- Last year we drew the Accounts Committee's attention to an issue which is of national relevance and applies to other authorities as well as Salford, concerning the accounting treatment of LOBO interest and amortisation of premiums on debt rescheduling.
- The Strategic Director of Customer and Support Services has prepared a report for the Cabinet which explains the background to these issues and quantifies the financial effects and risks relating to the alternative accounting treatment that are currently being recommended. A copy of the report is included for the Accounts Committee's attention.
- As indicated in the Strategic Director of Customer and Support Services report, if the Audit Commission's favoured method of accounting treatment was used this would have resulted in an additional charge to the General Fund of about £1.75 million in 2004/05. This is made up of the following:
  - £0.75 million additional interest on LOBO loans, and
  - approximately £1 million additional amortisation of premium.
- In determining our opinion on your accounts we adopt a concept of materiality and an unqualified opinion may not be given if there are material misstatements in the accounts. Our materiality levels for the General Fund are currently set at £3.2m (based on guidance from the Audit Commission). We are therefore satisfied that although there are differences of opinion in the favoured accounting treatment for LOBO interest and amortisation of premiums on debt rescheduling the Council's preferred method is within our materiality guidelines.
- Looking ahead, we are not clear when the uncertainties relating to this issue will be resolved and we will keep this matter under review at our regular liaison meetings with the Strategic Director of Customer and Support Services.

## Next steps

- 5 We are drawing these matters to the Accounts Committee's attention, together with those set out in the accompanying report of the Strategic Director of Customer and Support Services, so that the Accounts Committee can authorise the suggested changes to the financial statements.
- 6 Subject to the satisfactory resolution of these matters and the conclusion of the audit the District Auditor will complete the opinion and certificate to conclude the audit, (see Appendix 1).

## **Appendix 1 – Independent Auditor’s Report to Salford City Council**

I have audited the statement of accounts on pages 3 to 79 and pages 95 to 115 which have been prepared in accordance with the accounting policies applicable to local authorities as set out on pages 19 to 24.

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 36 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission.

### **Respective responsibilities of the Chief Financial Officer and Auditor**

As described on page 11 the Strategic Director of Customer and Support Services 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 2004. 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 pages 13 to 18 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 whether the statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of the Council’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 is 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 presents fairly the financial position of Salford City Council as at 31 March 2005 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.

Clive Portman  
District Auditor  
October 2005