



Audit Completion Report – September 2019

Salford City Council
Year ending 31 March 2019

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Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' and the 'Appointing Person Terms of Appointment' issued by Public Sector Audit Appointments Limited.

Reports and letters prepared by appointed auditors and addressed to Salford City Council (the Council) are prepared for the sole use of the Council and we take no responsibility to any member or officer in their individual capacity or to any third party.

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xx September 2019

Dear Members

Audit Completion Report – Year ended 31 March 2019

We presented our initial Audit Completion report to the Audit and Accounts Committee on 24 July 2019 and confirmed our audit testing remained ongoing. This updated Audit Completion Report for the year ended 31 March 2019 summarises our final findings based on work completed during September 2019 and is based on further work and review of the statement of accounts that have been amended to correct material misstatement.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 27 March 2019. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0161 238 9248.

Yours faithfully

Signed: {{_es_:signer1:signature}}

Karen Murray
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1. EXECUTIVE SUMMARY

Purpose of this report and principal conclusions

The Audit Completion Report sets out the findings from our audit of Salford City Council ('the Council') for the year ended 31 March 2019, and forms the basis for discussion at the Audit and Accounts Committee meeting on 30 September 2019.

The detailed scope of our work as your appointed auditor for 2018/19 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

Sections 2 and 5 of this report outline the detailed findings from our work on the financial statements and our conclusion on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources. Section 2 also includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of control
- Property, Plant and Equipment valuation
- Defined Liability Benefit Valuation
- Applicability of Group Financial Statements
- Accounting for PFI and LIFT schemes
- Valuation of Airport shares

Status of our work

As we outline on the following page, our work is substantially complete. Subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

Opinion on the financial statements

We anticipate issuing an unqualified opinion, without modification, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.

Value for Money conclusion

We anticipate concluding that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. Our draft auditor's report, including proposed conclusion, is provided in Appendix B

Whole of Government Accounts (WGA)

We anticipate completing our work on your WGA submission, by mid October. We anticipate reporting that the WGA submission is consistent with the audited financial statements.


Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts. We confirm that no questions or objections have been raised.




1. EXECUTIVE SUMMARY

Status of our audit work

We have substantially completed our work on the financial statements and Value for Money conclusion for the year ended 31 March 2019. At the time of preparing this report the following matters remain outstanding:

Audit area	Status	Description of outstanding matters
Signed final statements and signed Management Representation Letter		Following the Audit & Accounts Committee the Council will provide signed copies of the financial statements, annual governance statement and Management Representation Letter

Status

-  Likely to result in material adjustment or significant change to disclosures within the financial statements
-  Potential to result in material adjustment or significant change to disclosures within the financial statements
-  Not considered likely to result in material adjustment or change to disclosures within the financial statements

Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in March 2019. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

Materiality

We set materiality at the planning stage of the audit at £15.645m using a benchmark of 2% of Gross Operating Expenditure. We did not change this assessment of materiality on receipt of the draft financial statements. We set our trivial threshold (the level under which individual errors are not communicated to the Audit and Risk Assurance Committee, at £0.469m based on 3% of overall materiality.

Misstatements and internal control recommendations

Section 3 sets out the internal control recommendations that we make, together with an update on any prior year recommendations. Section 4 outlines the misstatements noted as part of our audit as at the time of issuing this report. If any additional misstatements are noted on completion of the outstanding work, these will be reported to the Audit and Accounts Committee in a follow-up letter.



2. SIGNIFICANT FINDINGS

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. We have concluded that the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

Significant risks and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in the Council's financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks. We reported in our Audit Strategy Memorandum that after confirming an appropriate understanding we planned to rebut the risk of improper revenue recognition and we confirm that was the conclusion reached.

Significant risks

Description of the risk

Management override of controls

In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.

How we addressed this risk

We have:

- reviewed accounting estimates impacting on amounts included in the financial statements;
- considered any identified significant transactions outside the normal course of business; and
- tested Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

Audit conclusion

There are no significant matters arising from our work on the management override of controls

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk

Description of the risk

Property, plant and equipment valuation

The CIPFA Code requires that where assets are subject to revaluation, their year end carrying value should reflect the fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued in a five year cycle.

The valuation of Property, Plant & Equipment involves the use of a management expert (the valuer), and incorporates assumptions and estimates which impact materially on the reported value. There are risks relating to the valuation process.

As a result of the rolling programme of revaluations, there is a risk that individual assets which have not been revalued for up to four years are not valued at their materially correct fair value. In addition, as the valuations are undertaken through the year there is a risk that the fair value as the assets is materially different at the year end.

How we addressed this risk

We have:

- Critically assessed the Council's valuer's scope of work, qualifications, objectivity and independence to carry out the Council's programme of revaluations;
- Considered whether the overall revaluation methodology used by the Council valuer is in line with industry practice, the CIPFA Code of Practice and the Council's accounting policies;
- Critically assessed the appropriateness of the underlying data and the assumptions used in the valuer's calculations, based on our expectations by reference to sector and local knowledge;
- Assessed the movement in market indices between the revaluation dates and the year end to determine whether there have been material movements over that time;
- Critically assessed the appropriateness of the social housing factor applied to the valuation of the Council Dwellings
- Critically assessed the treatment of the upward and downward revaluations in the Council's financial statements with regards to the requirements of the CIPFA Code of Practice;
- Critically assessed the approach that the Council adopts to ensure that assets not subject to revaluation in 2018/19 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council's valuer;
- Tested a sample of items of capital expenditure in 2018/19 to confirm that the additions are appropriately valued in the financial statements.

Audit conclusion

Our review of the valuation methodology used by the Council identified that the Council estimate the value of fixtures and fittings within operational buildings as 7.5% of the value of the asset. This estimate is not consistent with guidance contained within the CIPFA Code.

The Statement of Accounts have been amended to remove this estimate from the overall valuation. The main impact of this change is to reduce the valuation of Property, Plant and Equipment on the Balance Sheet with a number of consequential amendments impacting other primary statements and notes to the accounts and further detail is set out on page 14.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk

Description of the risk

Defined benefit liability valuation

The net pension liability represents a material element of the Council's balance sheet. The Council is an admitted body of Greater Manchester Pension Fund, which had its last triennial valuation completed as at 31 March 2016.

The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Council's overall valuation.

There are financial assumptions and demographic assumptions used in the calculation of the Council's valuation, such as the discount rate, inflation rates and mortality rates. The assumptions should also reflect the profile of the Council's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.

There is a risk that the assumptions and methodology used in valuing the Council's pension obligation are not reasonable or appropriate to the Council's circumstances. This could have a material impact to the net pension liability in 2018/19.

How we addressed this risk

We have:

- Critically assessed the competency, objectivity and independence of the Greater Manchester Pension Fund's Actuary, Hymans Robertson;
- Liaised with the auditors of the Greater Manchester Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This will include the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS19 valuation is complete and accurate;
- Tested payroll transactions at the Council to provide assurance over the pension contributions which are deducted and paid to the Pension Fund by the Council;
- Reviewed the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This will include comparing them to expected ranges, utilising information provided by PWC, consulting actuary engaged by the National Audit Office;
- Agreed the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements.

Audit conclusion

Our programme of work in relation to this risk did not identify any significant findings.

We requested that Management review the basis of the estimate for the pension liability disclosed within the draft statements following the outcome of two recent court cases and provide us with an updated assessment. The consequence of the Supreme Court decisions was expected to create an additional liability. The Management assessment confirmed that the impact is not material and therefore Management did not amend the accounts on the grounds of materiality. See page 13 for further detail.

2. SIGNIFICANT FINDINGS (CONTINUED)

Key area of management Judgement
Applicability of Group Financial Statements

Description of management judgement

The Council undertake an annual assessment to determine whether there have been any changes within the Council group boundary that would require the production of group accounts.

The Council has made judgements around the group entities it considers and how it might consolidate transactions and balances into the group.

How we addressed this risk

We have:

Reviewed the 2018/19 assessment that the Council completed to determine whether there have been any changes within the group boundary that would require the production of group accounts.

Audit conclusion

Our review of the assessment completed by the Council did not identify any issues and we concluded that the Council judgement that group financial statements are not applicable was appropriate.

Enhanced Risk

Accounting for PFI and LIFT schemes

Description of the risk

Between March 2003 and September 2013, the Council entered into a number of service concession contracts with providers for local improvement finance trust (LIFT) and private finance initiative (PFI) schemes.

The outstanding liability relating to these schemes represent a material figure on the Council's balance sheet and the balances are derived from financial models that incorporate assumptions and estimates which impact materially on the reported value.

There is a risk that the assumptions and methodology applied to calculate the accounting entries are not appropriate and given this is the first year of our appointment as your external auditors we will need to obtain assurance that accounting entries are not materially misstated.

How we addressed this risk

We have:

- reviewed the Council IFRIC 12 assessments and associated disclosures
- considered whether the accounting model reflects the operator's model and produces reliable results for the financial statements
- checked that outputs from the accounting model are correctly reflected in the financial statements, relevant disclosures have been made and these agree to supporting documentation

Audit conclusion

Our programme of work in relation to this risk did not identify any significant findings.

2. SIGNIFICANT FINDINGS (CONTINUED)

Key area of management Judgement

Valuation of Airport Shares

Description of management judgement

The Council's shareholding in the Manchester Airport Group PLC has been valued by a firm of financial experts based on assumptions about financial performance, stability and key business projections. The figure disclosed in your accounts in relation to Manchester Airport Holdings Limited is at fair value.

There is a risk that the assumptions and methodology used by your experts are not appropriate and we will need to obtain assurance that accounting entries are not materially misstated.

How we addressed this risk

We have:

- assessed the scope of work performed, qualifications, objectivity and independence of the expert engaged to carry out the valuation assessment of the airport shares
- Utilised the services of our internal valuation experts to review the work completed by BDO as the Management expert and evaluate the appropriateness of the assumptions applied to arrive at the figure in the financial statements.

Audit conclusion

We have not identified any significant matters from our testing of the valuation of the Council's shareholding in Manchester Airport Holdings Ltd.

2. SIGNIFICANT FINDINGS (CONTINUED)

Qualitative aspects of the Council's accounting practices

The Council is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting (the Code). We have considered the appropriateness of the use of the going concern assumption and have reviewed the Council's accounting policies and disclosures and concluded they comply with the requirements of the Code, appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council on 31 May 2019 in line with the statutory deadline. In advance of the deadline we shared with the Council our working paper requirements for the audit of the draft financial statements and working papers have been provided over the course of the audit

Significant matters discussed with management

In January 2019 our continuous audit planning procedures identified a reference on the London Stock Exchange (LSE) to City of Salford and a 8 ¼ % loan stock with a suggested value of £80m. We discussed this issue with officers who confirmed that as at the end of January 2019 the Council held no listed debt. Officers confirmed that in 1996 the Council issued the 8 ¼% loan stock and that it was redeemed in full in 2008/09. We reviewed prior year records including relevant Treasury Management reports from the period and reviewed the audited 2008/09 audited Statement of Accounts and all were consistent with the explanation provided by the Council.

We recommended that the Council undertook further enquiries in order to ensure LSE records are updated. The Council have now contacted the LSE and obtained confirmation that the reference to the loan stock has been removed.

Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management.

Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2018/19 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We have received no correspondence from local electors regarding the 2018/19 accounts.



3. INTERNAL CONTROL RECOMMENDATIONS

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	Number of issues
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	0
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	0
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	1



3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

Significant deficiencies in internal control – Level 1

There were no significant deficiencies in internal control arising from our 2018/19 audit.

Other deficiencies in internal control – Level 2

There were no other deficiencies in internal control arising from our 2018/19 audit.

Other recommendations on internal control – Level 3

Description of internal control matter

Process for identifying Related Party Transactions

The Council process to identify and consider applicable related party transactions includes the issue of declaration of interest forms to each Councillor and Senior officer annually. Our testing of 2018/19 returns noted that of the 60 members, only 40 declaration forms were completed .

Potential effects.

That the Council would not be aware of all relevant disclosures and consequently, the related party transaction disclosure is incomplete.

Recommendation

The Council should ensure all declarations are returned.

Management response



4. SUMMARY OF MISSTATEMENTS

We set out below the misstatements identified for adjustment during the course of the audit, above the level of trivial threshold of £0.469m

The first table outlines the misstatements that were identified during the course of our audit which management has assessed as not being material, either individually or in aggregate, to the financial statements and does not currently plan to adjust.

The second table outlines the misstatements that have been adjusted by management during the course of the audit.

Unadjusted misstatements 2018/19

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr Net cost of services (Past Service Cost)	£6.98m		
	Cr Re-measurement of Pension Liability		£6.98m	
	Dr Pension Reserve		£6.98m	
	Cr Pension Liability			£6.98m

In late June 2019, two legal judgements relating to guaranteed minimum pensions and transitional provisions in the Local Government Pension Scheme created additional defined benefit liabilities that not been taken account of in the actuary's estimate of the defined benefit liability as reflected in the Council's draft financial statements. To determine the significance of the changes to the reported pension liability within the Council's financial statements revised and updated actuarial estimates of the additional cost to the net pension fund liability arising from the Supreme Court ruling were obtained.

The adjustment would increase the Council's pension liability by £6.98m, with a corresponding increase in the Pension Reserve. The transactions would be included within the service costs (as a past service cost) and adjusted through the Movement in Reserves Statement so that they do not impact on the Council's Usable Reserves. However, based on an assessment of materiality Management have decided not to make this adjustment.

2.	Dr Short term creditors		£0.145m	
	Cr Short term debtors			£0.145m

Our sample testing of 2018/19 creditor balances identified a transaction treated as deferred income which was a contribution from NHS Salford CCG received on 15/4/19 relating to a project scheduled for 2019/20.

We have used statistical techniques to extrapolate this error. This estimates a maximum theoretical error rate of £1.62m. As this is an extrapolated error and is not material, Management have decided not to amend the financial statements

4. SUMMARY OF MISSTATEMENTS (CONTINUED)

Adjusted misstatements 2018/19

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Capital Adjustment Account		2,022	
	Dr: Revaluation reserve		18,785	
	Cr: Property, Plant and Equipment			20,807

Our review of the valuation methodology used by the Council identified that the Council estimate the value of fixtures and fittings within operational buildings as 7.5% of the value of the asset. This estimate is not consistent with guidance contained within the CIPFA Code.

Set out above is the main impact of the amendment to the Balance Sheet. As a consequence of this amendment a number of further amendments impacting the following areas were required:

- CIES – People (Children's) – GF
- CIES – People (Adults)
- CIES – Place
- CIES – (Surplus) or deficit on revaluation of property, plant and equipment assets
- MIRS – Various balances
- Notes to the Accounts

The amendment did not impact the level of general fund balances and usable reserves held by the Council.

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
2.	Dr: Other operating Expenditure	£37.359m		
	Cr: Precepts & Charges		£37.359m	

The CIPFA Code recommends expenditure on precepts and levies to be disclosed within other operating expenditure. The levies were originally classified within net cost of services in the draft financial statements. The Council has amended the classification in both the current and prior year. Note 11 has also been amended to reflect this change and the required amendment has been applied to 2017/18 figures.

4. SUMMARY OF MISSTATEMENTS (CONTINUED)

Disclosure amendments

In addition to the adjustments outlined above, the Council has made a number of other adjustments to both amend and improve the disclosures in the financial statements. These include:

- A number of amendments have been agreed to correct the Financial Instrument disclosures set out within note 20 and Note 54.
- Amending and updating Note 50 – Pension schemes accounted for as defined contribution schemes - to include relevant amounts relating to 2018/19 and 2017/18 and remove incorrect references to 2016/17.
- Correct the table on page 109 which also incorrectly sets out the 2016/17 and 2017/18 figures rather than 2018/19.
- A number of Accounting Policies have been updated to ensure Code of Practice compliance and consistency with actual approach adopted and reflected in the statements
- Inclusion of an additional critical judgement to clearly set out describe how the Council has determined that those assets not subject to revaluation are not materially misstated
- Removal of Note 19 – Intangible assets and Note 21 – Inventories as the disclosures are clearly not material
- Amendments agreed to ensure the presentation of the Available for Sale Financial Instruments reserve, the Financial Instruments Adjustment Accounts and the Financial Instruments Financial Reserve are compliant with the Code.
- Note 9 and Note 27/28 We are aware of a change in the accounts where the £1.160m for revaluation gains/loss on investment property was been entered as a credit instead of a debit and has been corrected.
- Note 45 – Leases. The disclosures have been amended to reflect the correct profile of future lease payments.
- The Council brought to our attention the following amendments that they identified over the course of the audit that the Council have amended the draft statements to correct:

Note 12 – Financing and investment income and expenditure – Reclassification of £1.652m interest relating to the Manchester Airport loan from interest payable and similar charges to Interest receivable and similar income

The disclosure of an £11m transaction relating to Western Gateway Infrastructure scheme has been classified as a Long Term Debtor in 2018/19 whereas previously it was classified as Revenue Expenditure Funded as Capital under statute. This impacts Note 20 and Note 28.

Note 9 has been updated to include the gross value of the Major Repairs Reserve depreciation charge of £1.668m

5. VALUE FOR MONEY CONCLUSION

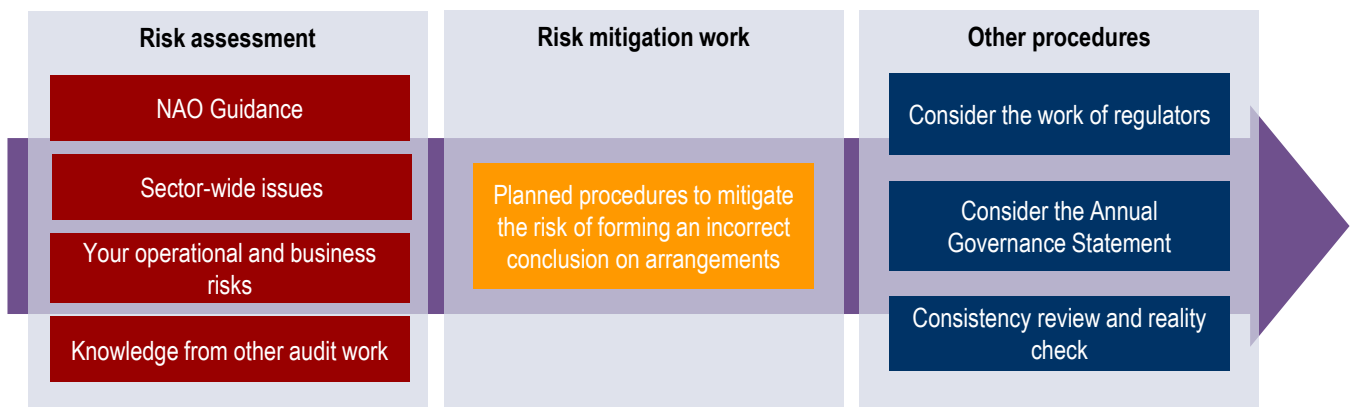
Our audit approach

We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision making ;
- sustainable resource deployment; and
- working with partners and other third parties.

A summary of the work we have undertaken is provided below:



Significant audit risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to our conclusion exists. Risk, in the context of our work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. . In our Audit Strategy Memorandum, we reported that we had identified one significant Value for Money risk relating to the financial sustainability of the Council in the medium term.

The work we carried out in relation to the significant risks is outlined overleaf.

Overall value for money conclusion

Our draft auditor's report included in Appendix B states that we intend to issue an unqualified conclusion for the 2018/19 financial year.



5. VALUE FOR MONEY CONCLUSION (CONTINUED)

Significant Value for Money risks

Risk

The Council has delivered the financial savings required to date and between 2010/11 and 2017/18 achieved savings in excess of £187m. Despite this the Council continues to face a difficult financial position. The Council's Efficiency Plan 2016/17 - 2019/20 set out the need to achieve cumulative reductions of £64m over the period with the 2018/19 revenue budget requiring savings of £11.225m. Early 2018/19 budget monitoring reports set out a projected year end overspend of £5.807m putting greater pressure on reserves and service delivery.

These continued pressures are a significant risk in respect of the arrangements the Council has in place to deliver financial sustainability over the medium term.

Work Undertaken and Findings

We reviewed the Council's arrangements for identifying and updating savings plans alongside the arrangements in place for monitoring and delivery of the budget and medium term financial plan. We reviewed assessments of the adequacy of reserves and balances and consider the Council's plans to secure long term financial sustainability.

Findings

The Council continues to have a good track record of achieving the level of required savings having delivered cumulative savings of £187m between 2010/11 and 2017/18. The Council continues to take a longer term strategic view of service delivery and the Council's Efficiency Plan 2016/17 - 2019/20 set out the need to achieve cumulative reductions of £64m over the period including £11.225m in 2018/19.

The 2018/19 revenue budget, presented to Members in February 2018, included detailed savings plans setting out the key proposals. Progress against the required savings position has been reported to members on a quarterly basis throughout the year. The reports to members set out clearly progress made toward achieving the required savings requirements and analyses the various saving proposals using a traffic light system for clarity.

There were significant pressures on some spending areas during 2018/19 as highlighted in the regular revenue budget monitoring reports. In particular, as with many councils, there was real pressure on the Children's services budget due to an increase in the number of looked after children and more costly placements. The Council has plans in place to take appropriate action to help manage the position. The Council are analysing the out of borough placements and evaluating options to potentially bring a number of those placements within borough.

The Council have a well established approach to financial management with regular budget monitoring reports being produced and considered by a range of stakeholders including Members and Senior Officers. On a quarterly basis the S151 officer and Lead member for Finance and support services presents budget monitoring reports to overview and scrutiny to help identify budget pressures and confirm mitigating actions required at an early stage.

The 2018/19 outturn was a balanced position with an £5.8m overspend in children's services offset by underspends in other directorates. The Council has appropriate levels of reserves with the general fund balance at 31 March 2019 standing at £13.2m. This is between the risk based assessment range set by the Council for general reserves of between £12.5m and £18.9m.



5. VALUE FOR MONEY CONCLUSION (CONTINUED)

Significant Value for Money risks

Work Undertaken and Findings - Continued

The 2019/20 revenue budget and capital programme originally set out a funding gap of £15.6m. The forecast financial position is continually subject to monitoring and revision as assumptions and demand pressures change and the updated position set out a revised savings requirement of £13.060m for 2019/20. In identifying and developing savings proposals, the Council has sought to minimise the impact on front line services and has worked to:

- identify ways to make one off savings,
- find alternative funding for some services
- identified further efficiencies in how goods and services are purchased, and
- worked to increase income.

A central element of the longer term vision of the Council is to achieve economic growth through regeneration of the Borough and to date growth is above both the regional and national averages. The Council have focused on bringing investment into the city. Work has continued with a range of partners to progress significant regeneration developments and these include:

- Middlewood Locks, a 25 acre scheme to deliver 2,215 new homes and up to 900,000 square feet of commercial space. The first phase of 570 apartments is now complete, with Phase 2 underway
- The Council and University of Salford are continuing to work in conjunction and have devised a masterplan to develop a world class new city district that will capitalise on the expansion of City Centre Salford connecting Salford Crescent and University.
- Work on the development of New Bailey 2 and 100 Embankment is nearing completion and the Greengate residential scheme is well underway.

These schemes have already generated significant number of jobs for the City and created additional income streams for the Council.

Conclusion

Based on our review findings we conclude that for 2018/19 the Council has made proper arrangements to deliver financial sustainability in the medium term.



APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER

Draft management representation letter (prepare on Council letterhead)

Karen Murray
Director
Mazars LLP
One St Peter's Square
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M2 3DE

XX September 2019

Dear Karen

Salford City Council - audit for year ended 31 March 2019

This representation letter is provided in connection with your audit of the financial statements of Salford City Council (the Council) for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code) and applicable law.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Chief Finance Officer and s151 officer that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

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DRAFT MANAGEMENT REPRESENTATION LETTER

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Council and committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Council in making accounting estimates, including those measured at current or fair value, are reasonable.

I confirm the following matters regarding estimation uncertainty:

- the appropriateness of the measurement process, including related assumptions and models, used in determining accounting estimates under IFRS, and the consistency of application of the process;
- that disclosures related to accounting estimates are complete and appropriate under IFRS;
- that no subsequent event requires adjustment to the accounting estimates and disclosures included in the financial statements.

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including un-asserted claims, that may result in litigation against the Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and applicable law.

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Council has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

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DRAFT MANAGEMENT REPRESENTATION LETTER

Fraud and error

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

I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council involving:
 - management and those charged with governance;
 - employees who have significant roles in internal control; and
 - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others.

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code and applicable law.

I have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which I am aware.

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern

To the best of my knowledge there is nothing to indicate that the Council will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole.

Yours faithfully

Chief Finance Officer / s151 officer

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Independent auditor's report to the members of Salford City Council

Report on the financial statements

Opinion

We have audited the financial statements of Salford City Council for the year ended 31 March 2019, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Collection Fund Statement and related notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of Salford City Council as at 31st March 2019 and of its expenditure and income 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 2018/19.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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DRAFT AUDITOR'S REPORT

Responsibilities of the Chief Finance Officer for the financial statements

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view. The Chief Finance Officer is also responsible for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Finance Officer is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. The Chief Finance Officer is responsible for assessing each year whether or not it is appropriate for the Council to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that, in all significant respects, Salford City Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

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DRAFT AUDITOR'S REPORT

Basis for conclusion

We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in November 2017, as to whether the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider in satisfying ourselves 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 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we 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.

Responsibilities of the Council

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 for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice requires us to report to you our conclusion relating to proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Use of the audit report

This report is made solely to the members of Salford City Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.



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Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack. We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

[Signature]

Karen Murray
For and on behalf of Mazars LLP

Mazars LLP
1 St Peter Square
Manchester
M2 3DE

XX September 2019

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APPENDIX C INDEPENDENCE

Auditor independence

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent. In particular there are no independence threats from our non-audit work disclosed below.

We also confirm that we have received confirmation from our external experts regarding their independence



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