Annual Audit Letter

Salford City Council

Year ending 31 March 2019

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1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for Salford City Council (the Council) for the year ended 31 March 2019. Although this letter is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Summary
Audit of the financial statements	Our auditor's report issued on 18 October 2019 included our opinion that the financial statements: • give a true and fair view of the Council's financial position as at 31 March 2019 and of its expenditure and income for the year then ended; and • have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19
Other information published alongside the audited financial statements	Our auditor's report issued on 18 October 2019 included our opinion that: • The other information in the Statement of Accounts is consistent with the audited financial statements.
Value for Money conclusion	Our auditor's report concluded that we are satisfied that in all significant respects, the 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.
Reporting to the group auditor	In line with group audit instructions issued by the NAO, on 18 October 2019 we reported to the group auditor in line with the requirements applicable to the Council's WGA return.
Statutory reporting	Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Council.
Certificate	We certified that we have completed the audit of Salford City Council in accordance with the requirements of the Code of Audit Practice on 18 October 2019.

2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements	**Unqualified**

The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2019 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, issued to the Council on 18 October 2019, stated that, in our view, the financial statements give a true and fair view of the Council's financial position as at 31 March 2019 and of its financial performance for the year then ended

Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Audit and Accounts Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2019:

Financial statement materiality	Our financial statement materiality is based on 2% of Gross Revenue Expenditure at surplus/deficit on provision of services.	£15,645,000
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£469,000
Specific materiality	We have applied a lower level of materiality to the following area of the accounts: - Officer remuneration Bandings	£5,000 (reflecting the published salary bandings)

2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant risks, key areas of management judgement and enhanced risk

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Council's financial statements that required special audit consideration. We reported significant risks and key areas of management judgement identified at the planning stage to the Audit and Accounts Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions

Identified significant risk	Our response	Our findings and conclusions
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.	**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.	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.

2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant risks, key areas of management judgement and enhanced risk

Identified significant risk	Our response	Our findings and conclusions
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.	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.	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.
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	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.	There are no significant matters arising from our work on the management override of controls

2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant risks, key areas of management judgement and enhanced risk

Key area of management judgement/Enhanced risk	Our response	Our findings and conclusions
Applicability of Group Financial Statements 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.	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.	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.
Valuation of Airport Shares 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.	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; and • 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.	We have not identified any significant matters from our testing of the valuation of the Council's shareholding in Manchester Airport Holdings Ltd.
Accounting for PFI and LIFT schemes 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.	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; and • 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.	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.

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2. AUDIT OF THE FINANCIAL STATEMENTS

Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. We identified the following deficiencies in internal control as part of our audit.

Description of deficiency	**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	The council will seek to maximise return of related party forms from members. Reminders will be sent from the consolidation team and progress reported to Audit & Accounts committee and Cabinet.

3. VALUE FOR MONEY CONCLUSION

Value for Money conclusion	Unqualified

Our approach to Value for Money

We are required to consider 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
- Working with partners and other third parties

Significant Value for Money risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our Value for Money 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 identified one significant Value for Money risk. The work we carried out in relation to significant risks is outlined overleaf.

Overall Value for Money Conclusion

Our auditor's report, issued to the Council on 18 October 2019, stated that that, is all significant respects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31st March 2019.

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.

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.

4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	**No matters to report**
Completion of group audit reporting requirements	**Consistent**
Other information published alongside the audited financial statements	**Consistent**

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Council's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power 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 statutory reporting powers.

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 did not receive any such objections or questions.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data, and to carry out certain tests on the data. We submitted this information to the NAO on 18 October 2019.

Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Council. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.

Certificate of closure of the audit

We certified that we have completed the audit of Salford City Council in accordance with the requirements of the Code of Audit Practice on 31 July 2019.

5. OUR FEES

Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to Audit and Accounts Committee in March 2019.

Having completed our work for the 2018/19 financial year, we can confirm that our final proposed fees are as follows:

Area of work	2018/19 proposed fee	2018/19 final fee
Delivery of audit work under the NAO Code of Audit Practice	£105,513*	£112,799*

*The final fee includes the following additional charges:

- Fee for additional testing and review required as a consequence of the draft statement of accounts being amended to remove the estimate that the Council applied whereby the value of fixtures and fittings within operational buildings was included as 7.5% of the value of the asset. This estimate is not consistent with guidance contained within the CIPFA Code - £6,686
- Fee for additional work in respect of the pension liability regarding GMP and McCloud legal rulings - £600.

These additional charges are subject to agreement by the Council and approval by PSAA Ltd.

Fees for other work

We confirm that we have not undertaken any non-audit services for the Council in the year.

6. FORWARD LOOK

Audit Developments

Code of Audit Practice

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. We have responded to the National Audit Office's consultation on the content of the Code (https://www.nao.org.uk/code-audit-practice/about-code/)

A new Code will be laid in Parliament in time for it to come in to force no later than 1 April 2020.

Financial Resilience

Government Spending Review

The Council will need to incorporate the outcome of the Spending Review in its Medium Term Financial Plan. The Government has announced that a one year spending review will be completed in September for 2020/21, with the next multi-year Government Spending Review being delayed until 2020. The Spending Review will set out the department allocations for 2020/21 and potentially beyond. Regardless of the timing and period covered by the Spending Review, the Council recognises the key issue is the management of general reserves to a level that ensures it remains financially resilient and able to deliver sustainable services. It must, therefore, ensure it clarifies and quantifies how it will bridge the funding gap through planned expenditure reductions and/ or income generation schemes.

Local Authority Financial Resilience Index

CIPFA is moving forward with its financial resilience index, which it believes will be a barometer on which local authorities will be judged. We would expect the Council to have at least considered the index once it is formally released.

Commercialisation

The National Audit Office will be publishing a report on Commercialisation during 2019. Depending on the Council's appetite for Commercialisation, we would expect the Council to consider the outcome of the report and ensure any lessons learnt are incorporated into business practice.

Further, the UK Debt Management Office's Annual Report, published on 23 July 2019, reported that, as at 31 March 2019, the Public Works Loan Board's loan book was £78.3 billion with 1,308 new loans totalling £9.1 billion advanced during the year. As a result, we expect local authorities to clearly demonstrate:

- the value for money in the use of Public Works Loan Board funds to acquire commercial property
- the arrangements for loan repayment through the updated Statutory Guidance on Minimum Revenue Provision in 2019/20, 2020/21 and beyond.

Financial Reporting

UK Local Government Annual Accounts

The CIPFA/LASAAC Local Authority Code Board specifies the financial reporting requirements for UK local government. A consultation is underway to inform the direction and strategy for local government annual accounts. We will be submitting our response and suggest practitioners also voice their opinion.

Lease accounting

The implementation of IFRS 16 *Leases* in the Code is delayed until 1 April 2020. The Council will need a project plan to ensure the data analysis and evaluation of accounting entries is completed in good time to ensure any changes in both business practice and financial reporting are captured.

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