

**Annual Audit Letter**  
**Salford City Council**  
**Year ending 31 March 2020**





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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 2020. 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	<p>Our auditor's report issued on 27 November 2020 included our opinion that the financial statements:</p> <ul style="list-style-type: none"><li>• give a true and fair view of the Council's financial position as at 31 March 2020 and of its expenditure and income for the year then ended; and</li><li>• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.</li></ul>
Other information published alongside the audited financial statements	<p>Our auditor's report included our opinion that:</p> <ul style="list-style-type: none"><li>• the other information in the Statement of Accounts is consistent with the audited financial statements.</li></ul>
Value for money conclusion	<p>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 2020.</p>
Reporting to the group auditor	<p>Group audit instructions were issued by the NAO on 4<sup>th</sup> November, we have started the work with no issues to report to date, we expect to report in January to the group auditor in line with the requirements applicable to the Council's WGA return.</p>
Statutory reporting	<p>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.</p>



## 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 2020 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, stated that in our view, the financial statements give a true and fair view of the Council's financial position as at 31 March 2020 and of its financial performance for the year then ended. The report included an emphasis of matter paragraph in relation to material uncertainties in the valuation of the Council's investment properties and surplus assets and the Council's share of pension fund property assets.

### 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 2020:

Financial statement materiality	Our financial statement materiality is based on 2% of gross revenue expenditure at the surplus/deficit on provision of services	£14,955,000
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£449,000
Specific materiality	We have applied a lower level of materiality to the following areas of the accounts: - senior officers remuneration	£5,000



## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Our response to significant risks

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 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
<p><b>Management override of controls</b> 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.</p>	<p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none"> <li>Accounting estimates impacting on amounts included in the financial statements;</li> <li>Consideration of identified significant transactions outside the normal course of business; and</li> <li>Journals recorded in the general ledger and other adjustments made in preparation of the financial statements</li> </ul>	<p>Our audit work has provided the assurance we sought and has not identified any material issues to bring to your attention. There is no indication of management override of controls.</p>
<p><b>Property, Plant and Equipment (PPE) Valuation</b> The financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Council's holding of PPE. Although the Council uses a valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of PPE due to the significant judgements and number of variables involved in providing revaluations. We therefore identified the valuation of PPE to be an area of significant risk.</p>	<p>We addressed this risk by considering the Council's arrangements for ensuring that PPE values are reasonable and engaged our own expert to provide data to enable us to assess the reasonableness of the valuations provided by the internal valuer. We also assessed the competence, skills and experience of the valuer.</p> <p>We discussed methods used with the valuer and examined supporting information. We used indices provided by our own expert to confirm the assets not revalued are unlikely to have materially changed in value. We tested revaluations in year to valuation reports and supporting calculation sheets and re-performed the calculations to ensure that they were correct and source data agreed with floor plans and relevant indices. We also considered the impact of COVID-19 on the valuations to gain additional assurance on their reasonableness.</p>	<p>The valuer disclosed a "material valuation uncertainty" in relation to the valuation of the Council's property assets, arising from the potential impact of COVID-19 on values. This has been disclosed in note 4 of the final version of the financial statements. We plan, in line with normal practice, to include reference to this disclosure as an 'emphasis of matter' in our audit report. The purpose of this paragraph is to draw attention to this disclosure, it is not a qualification and does not modify our proposed unqualified opinion on the financial statements.</p>



## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Our response to significant risks (continued)

Identified significant risk	Our response	Our findings and conclusions
<p><b>Defined benefit liability valuation</b> The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. Moreover, in 2019/20 the local government pension fund assets and liabilities were subject to triennial revaluation. This resulted in an increased risk of material misstatement.</p>	<p>We discussed with key contacts any significant changes to the pension estimates. In addition to our standard programme of work in this area, we evaluated the management controls that you have in place to assess the reasonableness of the figures provided by the Actuary and considered the reasonableness of the Actuary's output, referring to our expert's report on all actuaries nationally.</p> <p>We reviewed the appropriateness of the key assumptions included within the valuations, compared them to expected ranges and reviewed the methodology applied in the valuation. We also considered the adequacy of disclosures in the financial statements.</p>	<p>The pension fund accounts disclosed a material valuation uncertainty in relation to property investments, arising from the potential impact of COVID-19 on values. This has been disclosed in note 4 of the final version of the financial statements. We plan, in line with normal practice, to include reference to this disclosure as an 'emphasis of matter' in our audit report. The purpose of this paragraph is to draw attention to this disclosure, it is not a qualification and does not modify our proposed unqualified opinion on the financial statements.</p>



## 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 have not identified any deficiencies in internal control as part of our audit.



### 3. VALUE FOR MONEY CONCLUSION

Value for money conclusion	<b>Unqualified</b>
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#### Our audit approach

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; and
- working with partners and other third parties.

Our auditor’s report stated that, in 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 31<sup>st</sup> March 2020.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	<p>We reviewed financial, performance and risk management reports throughout the year and attended meetings of the Audit and Accounts Committee. We did not identify any concerns regarding data quality or the decision-making process.</p> <p>The Council reviewed budget monitoring reports and updates to the medium term financial strategy through the year and took early and effective action to address financial pressures.</p> <p>We considered the following aspects of proper arrangements specified by the National Audit Office as part of our risk assessment, and, based on our risk-based approach, we did not identify any significant issues or exceptions in the Council’s arrangements:</p> <p>a) Acting in the public interest, through demonstrating and applying the principles and values of sound governance;</p> <p>b) Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management;</p> <p>c) Reliable and timely financial reporting that supports the delivery of strategic priorities; and</p> <p>d) Managing risks effectively and maintaining a sound system of internal control.</p>	Yes



### 3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	<p>Financial and performance reports demonstrate a history of achieving cost reductions without adversely affecting services to date and a balanced medium term financial strategy is in place. The fair funding review has been delayed once again but the Council has a strategy in place to meet several different funding scenarios.</p> <p>We considered the following aspects of proper arrangements specified by the National Audit Office as part of our risk assessment, and, based on our risk-based approach, we did not identify any significant issues or exceptions in the Council's arrangements:</p> <ul style="list-style-type: none"> <li>a) Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions;</li> <li>b) Managing and utilising assets effectively to support the delivery of strategic priorities; and</li> <li>c) Planning, organising and developing the workforce effectively to deliver strategic priorities.</li> </ul>	Yes
Working with partners and other third parties	<p>The Council has a good record of working with partners and other third parties.</p> <p>We considered the following aspects of proper arrangements specified by the National Audit Office as part of our risk assessment, and, based on our risk-based approach, we did not identify any significant issues or exceptions in the Council's arrangements:</p> <ul style="list-style-type: none"> <li>a) Working with third parties effectively to deliver strategic priorities;</li> <li>b) Commissioning services effectively to support the delivery of strategic priorities; and</li> <li>c) Procuring supplies and services effectively to support the delivery of strategic priorities.</li> </ul>	Yes



### 3. VALUE FOR MONEY CONCLUSION

#### 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 audit risk. The work we carried out in relation to significant risks is outlined below.

Risk	Work undertaken	Conclusion
<p>The Council’s medium term financial strategy (MTFS) 2020/21 to 2022/23 sets out the financial challenges that the Council continues to face. Despite delivering some £211m of savings between 2010 and the end of 2019/20 the Council will need to secure further cumulative savings of £20.2m by the end of 2022/23.</p> <p>The latest budget monitoring and savings programme report forecasts a balanced position at the year end however the Integrated Fund with Salford CCG, through which a range of Children’s, Adults and Primary Care services are delivered, is reporting a £9.5m overspend of which the Council share is £5.1m. These financial challenges are not new and are not unique to Salford Council, they do however present a significant risk in respect of considering the arrangements that the Council has in place to deliver financial sustainability over the medium term..</p>	<p>We reviewed the arrangements the Council has in place for ensuring financial resilience, specifically that the medium term financial plan has taken into consideration relevant factors such as funding reductions and demand pressures.</p> <p>We also reviewed the arrangements in place to monitor progress delivering the budget and related savings plans.</p> <p>The Council was able to contain in-year financial pressures in services for looked after children by making one-off savings, finding alternative funding for some services, identifying further efficiencies in how goods and services are purchased and by working to increase income. This allowed the Council to avoid the use of additional reserves.</p>	<p>It is clear that the Council faces some of the most difficult decisions it has ever faced in balancing the budget going forwards, especially given the impact of the COVID-19 pandemic.</p> <p>Although the Council does have reserves available to minimise the immediate impact, and has a good track record of making savings, in accordance with the Council’s own strategy, further savings will need to be identified and delivered.</p> <p>In addition, the reserves available to support the budget are reducing and the available balances will soon reach the minimum needed to deal with unforeseen circumstances and risk. This means reserves will not be available to support the revenue budget in the way that they have in recent years.</p> <p>The position beyond 2020/21 is very uncertain as much depends on the outcome of the comprehensive spending review, fair funding review and the measures that will be taken in relation to the future operation of the business rates system.</p> <p>Decisive action to bridge the budget gap over the medium term is a key priority for the Council.</p>



## 4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
Completion of group audit reporting requirements	To be reported
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:

- The 2014 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 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 expect to submit this information to the NAO in January 2021.

### 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.



## 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 2020 .

Having completed our work for the 2019/20 financial year, we can confirm that our final fees are as follows:

Area of work	2019/20 proposed fee	2019/20 final fee
Delivery of audit work under the NAO Code of Audit Practice	£105,513	£129,453*

\* At the time of preparing this report we are proposing additional fees to meet additional work required as a result of changes in the regulatory environment within which we operate and which has increased the work required in a number of areas. We have also undertaken additional work in relation to the impact of COVID-19 in respect of property valuations and pensions (material valuation uncertainty), and also the Council's going concern assessment.

### Fees for other work

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



## 6. FORWARD LOOK

### Financial outlook

The COVID-19 pandemic and the consequences of local and regional lockdowns and restrictions will have a significant impact on the UK economy for years to come. The pandemic has created significant uncertainties and pressures in the Council's medium term financial planning arrangements. Clarity over the impact will only be known when the virus has been brought under control and the impact on the economy becomes clearer. The Council is monitoring and updating plans but is anticipating future pressures in the income it receives. In particular, Collection Fund income is likely to be affected by any negative impact to the local and national economy. Public spending is also likely to be tightly controlled as the Government begins to manage the levels of borrowing incurred.

There is also uncertainty stemming from the UK's new trading arrangements with the European Union. While this may not directly impact on the Council's supply chains, the impact on the overall economy may create indirect pressures.

It is critical that the Council continues to monitor and refresh its medium term plan so that potential funding shortfalls can be identified as early as possible and mitigations identified to minimise the impact on services.

### Operational challenges

The Covid-19 pandemic has had a significant impact on the services provided by the Council. Services have either been suspended or redesigned in order for them to be delivered in a safe manner for officers and users. Aside from Covid-19, other key challenges faced by the Council include:

- generating the savings necessary to deliver the medium term financial strategy;
- responding to the demand and funding pressures faced by the integrated Children's, Adults and Primary Care fund; and
- addressing future uncertainties around the funding position as much depends on the outcome of the comprehensive spending review, fair funding review and the measures that will be taken in relation to the future operation of the business rates system.

### How we will work with the Council

In terms of the technical challenges around the production of the statement of accounts, we will continue to offer accounting workshops to finance officers, and the audit team will continue to share our knowledge of new accounting developments. We will also be on hand to discuss any issues as and when they arise.

Given the impact of COVID-19 on the 2019/20 reporting timetable, there is some uncertainty in respect of the 2020/21 completion dates. We will continue to work with the finance team to ensure timely completion of our audit work.

We will also share relevant insights that we have as a national and international accounting and advisory firm with experience of working with other public sector and commercial service providers.



## 6. FORWARD LOOK

### Changes to the Code of Audit Practice

The Code of Audit Practice (the Audit Code), issued by the Comptroller and Auditor General, prescribes the way we carry out our responsibilities as your auditors. On 1<sup>st</sup> April 2020 a new Code came in to force and will apply to our work from 2020/21 onwards.

The new Audit Code continues to apply the requirements of International Standards on Auditing (ISAs) to our audit of the financial statements. While there are changes to the ISAs that are effective from 2020/21 the Audit Code has not introduced any changes to the scope of our audit of the financial statements. We will continue to give our opinion on the financial statements in our independent auditor's report.

There are however significant changes to the work on value for money arrangements, and the way we report the outcomes of our work to you.

#### The auditor's work on value for money arrangements

From 2020/21 we are still required to satisfy ourselves that you have made proper arrangements for securing the economy, efficiency and effectiveness in your use of resources. However unlike under the 2015 Audit Code, we will no longer report in the form of a conclusion on arrangements. Instead, where our work identifies significant weaknesses in arrangements, we are required to report those weaknesses to you, along with the actions that need to be taken to address those weaknesses.

Our work on value for money arrangements will focus on three criteria, specified in the revised Audit Code:

- Financial sustainability: how the Council plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Council ensures it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Under the new Audit Code we will be expected to report and make recommendations as soon as we identify a significant weakness in arrangements, as opposed to reporting our conclusion on arrangements at the end of the audit cycle as has previously been the case.

#### Reporting the results of the auditor's work

We currently issue you with an Annual Audit Letter which provides a summary of our work across all aspects of our audit. From 2020/21 the Annual Audit Letter will be replaced by the Auditor's Annual Report. This will continue to provide a summary of our work over the year of audit but will also include a detailed commentary on your arrangements in place to achieve economy, efficiency and effectiveness. This commentary replaces the conclusion on arrangements that was previously provided and will include details of any significant weakness identified and reported to you, follow up of any previous recommendations made, and the our view as to whether recommendations have been implemented satisfactorily.

The guidance supporting the new Audit Code is being developed by the National Audit Office and we will provide you with any further updates to our approach arising from this guidance when it is released.



## 6. FORWARD LOOK

### Redmond Review

In September 2020, Sir Tony Redmond published the findings of his independent review into the oversight of local audit and the transparency of local authority financial reporting. The report makes several recommendations which, if implemented, could affect both the financial statements local authorities are required to prepare and the work we are required to do.

The report and recommendations are wide-ranging, and include:

- the creation of the Office of Local Audit and Regulation (OLAR), set up to manage, oversee and regulate local audit;
- reviewing reporting deadlines;
- reviewing governance arrangements in local authorities, including the membership of the Audit Committee; and
- increasing the transparency and reducing the complexity of local authority financial statements.

The recommendations and findings will now be considered by the Ministry of Housing, Communities and Local Government. We look forward to working with all stakeholders to implement changes to ensure the development and sustainability of local audit.

The full report is available here: <https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review>



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