

PUBLIC SECTOR

Leeds City Council

Annual Audit Letter 2009/10

23 December 2010

AUDIT

The contacts at KPMG in connection with this report are:

Mike McDonagh
Partner
KPMG LLP (UK)
Tel: 0121 335 2440
michael.a.mcdonagh@kpmg.co.uk

Steve Clark
Director
KPMG LLP (UK)
Tel: 0113 254 2910
stephen.clark@kpmg.co.uk

Jillian Burrows
Senior Manager
KPMG LLP (UK)
Tel: 0161 246 4705
jillian.burrows@kpmg.co.uk

Alison Ormston
Manager
KPMG LLP (UK)
Tel: 0113 231 3444
alison.ormston@kpmg.co.uk

Sam Bradford
Assistant Manager
KPMG LLP (UK)
Tel: 0113 231 3624
sam.bradford@kpmg.co.uk

Background

This Annual Audit Letter summarises the key issues arising from our 2009/10 audit of Leeds City Council (the Council). Although this letter is addressed to the Members of the Council, it is also intended to communicate these issues to key external stakeholders, including members of the public. The letter will also be published on the Audit Commission website at audit-commission.gov.uk. It is the responsibility of the Council to publish the letter on the Council's website at leeds.gov.uk. In the letter we highlight areas of good performance and also provide recommendations to help you improve performance. A summary of our key recommendations is summarised in Appendix A. We have reported all the issues in this letter to you throughout the year and a list of all reports we have issued is provided in Appendix B.

Scope of our audit

The statutory responsibilities and powers of appointed auditors are set out in the Audit Commission Act 1998. Our main responsibility is to carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the code) which requires us to report on:

Use of Resources (UoR)	We conclude on the arrangements in place for securing economy, efficiency and effectiveness ('value for money') in your use of resources.
Financial Statements	We provide an opinion on your accounts.

Fees

Our fee for 2009/10 was £504,000 excluding VAT (2008/09: £504,000). Our fee for the certification of grants and returns was £117,343 excluding VAT in 2008/09. Work is still ongoing in relation to the certification of grants and returns for 2009/10 however it is envisaged that the fee will be a similar level to the prior year.

This report is addressed to Leeds City Council (the Council) and has been prepared for the sole use of the Council. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Mike McDonagh who is the engagement lead to the Council or Trevor Rees, the national contact partner for all of KPMG's work with the Audit Commission. After this, if you still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. You can contact the Complaints Unit by phone (0844 798 3131), by email (complaints@audit-commission.gov.uk), through the audit commission website (www.audit-commission.gov.uk/aboutus/contactus), by textphone/minicom (020 7630 0421), or via post to Complaints Unit, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR.

Headlines

Use of Resources	Use of Resources assessment	<ul style="list-style-type: none">● In May 2010 the government announced that the Comprehensive Area Assessment (CAA) would be abolished. The Audit Commission subsequently confirmed that work related to CAA should cease with immediate effect. This included work for UoR scored assessments at local authorities. However, there is no change to the requirement in the statutory Code of Audit Practice for auditors to issue a value for money (VFM) conclusion.● At the time of the announcement, the vast majority of UoR work for 2010 had already been completed and this therefore informed our 2009/10 VFM conclusion.● Overall the Authority had maintained its performance across the UoR themes with improvements being made where our 2009 assessment flagged areas for development.
	Specific risk based reviews	<ul style="list-style-type: none">● During the year we have considered the specific use of resources risks around how the Council responded to the recession and the sustainability agenda as set out in our Audit Fee Letter 2009/10.● These risks were considered whilst forming our VFM conclusion.
	Our conclusion	<ul style="list-style-type: none">● We issued an unqualified VFM conclusion on 29 September 2010. This means that we are satisfied that you have put into place proper arrangements for securing economy, efficiency and effectiveness in your use of resources.

Headlines

Financial Statements	Annual accounts	<ul style="list-style-type: none"> ● Our audit identified two significant audit adjustments with a total value of £4,324k: <ul style="list-style-type: none"> • We identified three assets which had been revalued during the year but this revaluation (upwards) had not been reflected in the fixed asset register. Further review of this found two more assets where the same situation occurred. The total value of this was £1,942k which increased the value of the tangible fixed assets and revaluation reserve. • Our review of the restated PFI grants for 2008/09 found one area where government grant had not been correctly transferred from Children’s services and re-classified in the government grant line. The value of the difference was £2,400k which affected the Children’s Services figure and Government Grants figure within the I&E. ● There were no significant matters which we were required to report to those charged with governance.
	Annual Governance Statement	<ul style="list-style-type: none"> ● No significant adjustments were required to the AGS.
	Our conclusion	<ul style="list-style-type: none"> ● We issued an unqualified opinion on your accounts on 29 September 2010. This means that we believe the accounts give a true and fair view of the financial affairs of the Council and of the income and expenditure recorded during the year.
Recommendations	Audit	<ul style="list-style-type: none"> ● We have raised three medium risk recommendations as a result of our 2009/10 audit work. These relate to the Council Tax reconciliation and Fixed Assets accounting and are summarised in Appendix A.
	Grants	<ul style="list-style-type: none"> ● We have not raised any recommendations as a result of our 2008/09 certification of grants and returns. As work is still ongoing in relation to the certification of grants and returns for 2009/10 a report relating to this work will be issued in February 2011. ● During 2008/09 we qualified the Housing and Council Tax Benefit grant due to minor reconciliation differences between the main financial systems and some minor processing errors.

Headlines

Fraud	Identification of fraud	<ul style="list-style-type: none"> There have been no significant fraud issues identified in the course of the audit.
	National Fraud Initiative	<ul style="list-style-type: none"> As part of the Audit Commission's National Fraud Initiative, the Authority has identified £137k of savings from detection of fraud during 2009/10.
High profile issues	Economic Downturn and pressure on the public sector	<ul style="list-style-type: none"> Following the Comprehensive Spending Review announcement in October 2010, there is now greater clarity on the spending cuts that will affect local government. Local government will face 7.1% annual cuts in government grants, representing 26% real terms reductions over the next four years. Although this is less than many commentators had predicted, this still represents one of the biggest cuts for any part of the public sector. Detailed analysis will be required as further details of these funding cuts are clarified - the real impact will not be known until the government departments produce their business plans in November and the Local Government Finance Settlement is announced which is due in December. The Authority has been preparing for cuts of this magnitude. Facing up to these challenges will require revolutionary transformation of public sector services, rather than tinkering. Strong leadership from Members and senior management will be essential. The Council expects grants reductions in excess of £150 million by 2015, including an anticipated £50 million reduction in 2011. In addition to these grant cuts, the Council will need to find further savings to meet service pressures, particularly within Adult Social Care and Children's Services. As a result 2500 to 3000 councils jobs are expected to go, however Council management believe these will be delivered through natural turnover as far as possible. The Council is focusing capital expenditure on projects that will save money in the medium to long term and ensuring that their purchasing power is utilised to the maximum, thus limiting the effect on front line services. It will be important over the coming months and years that the council prepares a resilient, sustainable and achievable Medium Term Financial Strategy and ensure the assumptions and targets contained within this are accurate and reasonable.

Headlines

High profile issues

International Financial Reporting Standards (IFRS)

- The Council is making clear progress in the transition to IFRS and is on target to meet the deadlines as per the Council's IFRS conversion action plan. There are further areas as highlighted through the Audit Commission's IFRS survey and further emphasised by the Audit Commission report 'Progress on the transition to IFRS' that all Local Authorities still need to address. This includes leases and componentisation of assets.
- Due to the volume of leases in place at the Authority, the exercise of reviewing all leases is still underway, however the Authority feel they have the resources to address this within the given timescales.
- In relation to the componentisation of fixed assets the Authority believe this will be completed within the required timescales. As this does not affect the restated balance sheet the Authority deem this as a lower priority area to address.

Future audit work

Changes to next year's value for work programme

- Given the scale of the pressures facing public bodies in the current economic climate, the Audit Commission has reviewed its work programme for 2010/11 onwards. As part of this exercise, the Commission has been discussing possible options for a new approach to local value for money (VFM) audit work with key national stakeholders. From 2010/11 we will therefore apply a new, more targeted and better value approach to our local VFM audit work. This will be based on a reduced number of reporting criteria specified by the Commission, concentrating on:
 - securing financial resilience; and
 - prioritising resources within tighter budgets.
- We will determine a local programme of VFM audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities. We will no longer make annual scored judgements relating to our local VFM audit work. Instead we will report the results of all the local VFM audit work and the key messages for the audited body in our annual report to those charged with governance and in a clear and accessible annual audit letter.

Future audit arrangements

- In August 2010 the Secretary of State for Communities and Local Government announced proposals to abolish the Audit Commission. The proposed abolition will be from 2012 and the government will seek legislation in this session of Parliament.
- There is no immediate change to the current audit arrangements. We will keep you informed about the future audit programme and any changes to audit arrangements.

Appendix A: Key Recommendations

This appendix summarises all key recommendations raised in 2009/10.

#	Risk	Issue, Impact and Recommendation	Management Response / Responsible Officer / Due Date
1	M	<p>Reconciliation of Council Tax Benefits per the Council Tax system to the Benefits System.</p> <p>Our review of Internal Audit’s work identified one reconciliation which had not been fully reconciled in the month chosen for sampling. This has already been reported to you by Internal Audit.</p> <p>We have been informed that the difference on the reconciliation was due to a timing difference between the two system reports that has been present since Academy was introduced. This did not affect our work on the financial statements.</p>	<p>The system providers have made a number of amendments in order to help minimise the timing differences in the reports. Throughout the year the largest timing issue recorded on the reconciliation has been £3,396, against a net benefit payment in that quarter of over £49m. The final accounts and the benefit claim are adjusted to account for these minor timing differences.</p> <p>It is not envisaged that the Council will remedy this issue given the small values involved.</p>

Key:

- Low Risk L
- Medium Risk M
- High Risk H



Appendix A: Key Recommendations

This appendix summarises all key recommendations raised in 2009/10.

#	Risk	Issue, Impact and Recommendation	Management Response / Responsible Officer / Due Date
2	M	<p>Fixed Asset Disposals</p> <p>Our review of Fixed Asset revaluations found there were six properties which were revalued in the year which were included on the fixed asset register which should not have been.</p> <p>Of these, five of the properties had been disposed of in prior years and one asset had been duplicated on the fixed asset register.</p> <p>The value of these properties was £3.2m, this had already been adjusted by the authority in the accounts approved by Committee.</p> <p>We recommend that the Authority reviews all items within the Fixed Asset register which have not been revalued recently to ensure that these assets are still owned by the Council. This indication of control weakness is considered serious but mitigated as the Authority were aware of this prior to our audit.</p>	<p>Agreed.</p> <p>More comprehensive controls on the reconciliation of receipts from the sale of assets and the asset register were introduced in 2007/08. The assets identified as sold related to assets disposed of before this improvement in the control environment. A review of assets which have yet to be revalued since the changes were introduced will be undertaken to ensure all assets are properly accounted for.</p> <p>In addition there will also be a review of the Council's Asset Register for any indication of duplicate assets.</p> <p>Action -Principle Accountant, Corporate Financial Management.</p> <p>Due date –April 2011.</p> <p>We will review progress against this recommendation as part of our audit in 2010/11.</p>

Key:

- Low Risk L
- Medium Risk M
- High Risk H

Appendix A: Key Recommendations

This appendix summarises all key recommendations raised in 2009/10.

#	Risk	Issue, Impact and Recommendation	Management Response / Responsible Officer / Due Date
3	M	<p>Fixed Asset Valuations</p> <p>During our work we identified three assets which had been revalued during the year, however these revaluations (upwards) had not been reflected in the fixed asset register.</p> <p>Further review found two more assets where the same situation occurred. This has resulted an increase to the Fixed Asset balance in the accounts of £1.942m.</p> <p>The Authority should ensure that all fixed asset valuations are updated to the Fixed Asset Register each year.</p>	<p>Agreed.</p> <p>One definitive list of all asset valuations in year to be agreed between Corporate Financial Management and the Council's valuer. This definitive list will provide a control total for the Asset Register.</p> <p>Action-Principle Accountant, Corporate Financial Management.</p> <p>Due date – immediate</p> <p>We will review progress against this objective as part of our interim audit in 2010/11.</p>

Key:

- Low Risk L
- Medium Risk M
- High Risk H

Appendix B: Summary of Reports issued

This appendix summarises the reports we issued, since our last Annual Audit Letter.

Financial Statements Audit Plan (March 2010)	The Audit Plan set out our approach to the audit of the Council's Use of Resources and Financial Statements .
---	---

Report to those charged with governance (September 2010)	<p>The Report to Those Charged with Governance summarised the results of our audit for 2009/10 including key issues and recommendations raised as a result of our observations.</p> <p>We also provided the mandatory declarations required under auditing standards as part of this report.</p>
---	--



Certification of Grants & Returns (March 2010)	This report summarised the outcome from our certification work on the Council's 2008/09 grants and returns.
---	---

Interim Audit Report (May 2010)	The Interim Audit Report summarised the results from the preliminary stages of our audit, including testing of financial and other controls and our review of use of resources arrangements.
--	--

Audit Report (September 2010)	The Audit Report included our audit opinion for the year, the Value for Money conclusion and our Audit Certificate.
--------------------------------------	---

Annual Audit Letter (December 2010)	This Annual Audit Letter provides a summary of the results of our audit for 2009/10.
--	--

