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## **CORPORATE GOVERNANCE AND AUDIT COMMITTEE**

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**Meeting to be held in Civic Hall, Leeds on  
Monday, 14th February, 2011  
at 2.00 pm**

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### **MEMBERSHIP**

#### **Councillors**

G Driver (Chair)	C Campbell	P Harrand	J Elliott
P Grahame	G Kirkland	W Hyde	
N Taggart	S Smith		
A Lowe			
J Lewis			
T Hanley			

#### **Co-opted Member**

Gordon Tollefson  
(Chair of Standards Committee)

# A G E N D A

Item No	Ward	Item Not Open		Page No
1			<p><b>APPEALS AGAINST REFUSAL OF INSPECTION OF DOCUMENTS</b></p> <p>To consider any appeals in accordance with Procedure Rule 25 of the Access to Information Procedure Rules (in the event of an Appeal the press and public will be excluded).</p> <p>(*In accordance with Procedure Rule 25, written notice of an appeal must be received by the Chief Democratic Services Officer at least 24 hours before the meeting)</p>	
2			<p><b>EXEMPT INFORMATION - POSSIBLE EXCLUSION OF THE PRESS AND PUBLIC</b></p> <p>1 To highlight reports or appendices which officers have identified as containing exempt information, and where officers consider that the public interest in maintaining the exemption outweighs the public interest in disclosing the information, for the reasons outlined in the report.</p> <p>2 To consider whether or not to accept the officers recommendation in respect of the above information.</p> <p>3 If so, to formally pass the following resolution:-</p> <p><b>RESOLVED</b> – That the press and public be excluded from the meeting during consideration of the following parts of the agenda designated as containing exempt information on the grounds that it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the press and public were present there would be disclosure to them of exempt information, as follows:-</p>	

Item No	Ward	Item Not Open		Page No
3			<p><b>LATE ITEMS</b></p> <p>To identify items which have been admitted to the agenda by the Chair for consideration.</p> <p>(The special circumstances shall be specified in the minutes)</p>	
4			<p><b>DECLARATION OF INTERESTS</b></p> <p>To declare any personal / prejudicial interests for the purpose of Section 81(3) if the Local Government Act 2000 and paragraphs 8 to 12 of the Members Code of Conduct.</p>	
5			<p><b>APOLOGIES FOR ABSENCE</b></p> <p>To receive any apologies for absence.</p>	
6			<p><b>MINUTES OF THE PREVIOUS MEETING</b></p> <p>To confirm as a correct record the minutes of the meeting held on 24<sup>th</sup> January 2011.</p>	1 - 4
7			<p><b>CORPORATE PERFORMANCE MANAGEMENT ARRANGEMENTS</b></p> <p>To receive a report of the Assistant Chief Executive (Planning, Policy and Improvement) demonstrating how the procedures in place act as an early warning system for potential areas of concern, rather than the authority relying on inspection from internal bodies alone.</p>	5 - 14
8			<p><b>IMPLICATIONS OF THE LOCALISM BILL FOR THE ETHICAL FRAMEWORK IN LEEDS</b></p> <p>To receive a report of the Assistant Chief Executive (Corporate Governance) briefing Members of the Corporate Governance and Audit Committee on the aspects of the Localism Bill which relate to the Council's ethical governance arrangements.</p>	15 - 26

Item No	Ward	Item Not Open		Page No
9			<p><b>INTERNATIONAL FINANCIAL REPORTING STANDARDS</b></p> <p>To receive a report of the Director of Resources updating the Committee on progress towards implementing International Financial Reporting Standards (IFRS) based accounts for the 2010/11 financial year.</p>	27 - 36
10			<p><b>REPORTING ARRANGEMENTS FOR SIGNIFICANT LEGAL CASES INVOLVING THE COUNCIL</b></p> <p>To receive a report of the Chief Officer (Legal, Licensing and Registration) advising the Committee of current arrangements for advising management of significant legal cases involving the Council and to discuss how the process could be improved.</p>	37 - 44
11			<p><b>REPORTING ARRANGEMENTS FOR SIGNIFICANT CLAIMS AGAINST THE COUNCIL</b></p> <p>To receive a report of the Director of Resources advising the Committee of current arrangements for advising management of significant legal action against the Council.</p>	45 - 50
12			<p><b>INTERNAL AUDIT REPORT FEBRUARY 2011</b></p> <p>To receive a report of the Director of Resources detailing work undertaken by the internal audit section focussing particularly on 'value added' to the organisation through this work. The report also contains a summary of completed jobs along with their individual opinions.</p>	51 - 72
13			<p><b>COMMUNITIES AND LOCAL GOVERNMENT CONSULTATION - AMENDMENTS TO THE ACCOUNTS &amp; AUDIT REGULATIONS 2003</b></p> <p>To receive a report of the Director of Resources informing Members of the main amendments to the to the Accounts and Audit Regulations 2003 and seek Members' views on the proposed changes.</p>	73 - 102

Item No	Ward	Item Not Open		Page No
14			<p><b>WORK PROGRAMME</b></p> <p>To receive a report of the Assistant Chief Executive (Corporate Governance) notifying and inviting comment from the Committee upon the work programme.</p>	103 - 108

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# Agenda Item 6

## Corporate Governance and Audit Committee

Monday, 24th January, 2011

**PRESENT:** Councillor G Driver in the Chair  
Councillors P Grahame, C Campbell,  
G Kirkland, A Lowe, S Smith, J Elliott,  
W Hyde and J Lewis

**Co-optee** G Tollefson

Apologies Councillors N Taggart, P Harrand and  
T Hanley

### **78 Appeals Against Refusal of Inspection of Documents**

There were no appeals against the refusal of inspection of documents.

### **79 Exempt Information - Possible Exclusion of the Press and Public**

There were no resolutions to exclude the public.

### **80 Late Items**

There were no late items submitted to the agenda for consideration.

### **81 Declaration of Interests**

There were no declarations of interest made.

### **82 Apologies For Absence**

Apologies were received from Councillor P Harrand, Councillor T Hanley and Councillor N Taggart.

### **83 Minutes of the Previous Meeting**

The minutes of the Corporate Governance and Audit Committee meeting held on 14<sup>th</sup> December 2010 were approved as a correct record, subject to the addition of the apologies received from Councillors S Smith and P Grahame.

### **84 RIPA Policy and Quarterly Reports**

The Head of Property Finance and Technology from Corporate Governance presented a report of the Director of Environment and Neighbourhoods. The

Draft minutes to be approved at the meeting  
to be held on Monday, 14th February, 2011

report advised Members about the outcome of the latest Office of Surveillance Commissioners Inspection report, in relation to the use of directed surveillance, and also the outcome of an inspection by the Interception of Communications Commissioner's Office in relation to the acquisition of communications data. The report also proposed consequential changes to the Council's Regulation of Investigatory Powers Act 2000 (RIPA) policy.

The Committee noted the report and considered the types of cases that are acted on by the Council. The Committee also discussed that the review of the RIPA policy will take place annually.

The Committee sought assurance that the supplier which considered whether applications for data complied with the requirements of RIPA on behalf of the Council and that was also criticised by the Interception of Communications Commissioner's Office, had been removed.

**RESOLVED** - The Committee resolved to:

- (a) note the proposed amendments to the RIPA Policy which will be presented to the Executive Board for approval; and
- (b) note the outcomes of the Office of Surveillance Commissioners Inspection report and the Interception of Communications Commissioner's Office inspection report, and in relation to the latter to note that an appropriate action plan has been agreed.

## **85 Proposed Changes to the Leeds Initiative Partnership and the City Planning**

The Head Leeds Initiative and International Partnerships presented a report of the Assistant Chief Executive (Planning, Policy and Improvement). The report set out the changes to partnership structures and planning arrangements operating at a strategic level in Leeds.

The Committee discussed the report and highlighted the importance of working with the right partners so to achieve Council objectives. The Committee also raised concerns about the governance arrangements of partnerships and how good governance would be achieved.

**RESOLVED** – The Committee resolved to:

- (a) note the governance implications of the revised structures of the Leeds Initiative and the planning framework for the City; and
- (b) request a further report detailing the governance arrangements for the revised partnership structures and strategic planning arrangements.

## **86 Annual Audit Inspection Letter**

The Principal Finance Manager (Financial Management) presented a report of the Director of Resources. The report summarised the key external audit findings for the 2009/10 financial year. Two representatives from KPMG presented further details on the findings, namely Alison Ormston (Senior Audit Manager at KPMG) and Steve Clark (Director of KPMG).

The Committee discussed the Annual Audit Letter with the representatives of KPMG. Particular concern was raised over the value for money received for the services provided by KPMG in light of the economic challenges facing the Council.

**RESOLVED** - The Committee resolved to:

- (a) note the key external audit issues arising from the 2009/10 audit process; and
- (b) to discuss KPMG's charging fees at a future meeting.

## **87 Work Programme**

The Assistant Chief Executive (Corporate Governance) submitted a report notifying Members of the draft work programme.

The Committee reviewed its forthcoming work programme.

**RESOLVED** – The Committee resolved to

- a) note the draft work programme; and
- b) request that the Local Enterprise Partnerships item, currently unscheduled, be scheduled for a meeting before May 2011.

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Originator: Robert Wood

Tel: 247 4556

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**Report of the Assistant Chief Executive (Planning, Performance and Improvement)**

**Corporate Governance And Audit Committee**

**Date: 14<sup>th</sup> February 2011**

**Subject: Corporate Performance Management Arrangements**

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**Electoral Wards Affected:**

Ward Members consulted  
(referred to in report)

**Specific Implications For:**

Equality and Diversity

Community Cohesion

Narrowing the Gap

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**Executive Summary**

This report is in response to a request from the Committee for further information on the high level corporate performance management arrangements in place that would serve to highlight areas of particular concern. It will introduce the Committee to the Performance Dashboard which is produced on a quarterly basis and pulls together a wide range of information at a head of service level in order to provide assurance to senior officers that effective governance arrangements are in place.

## **1.0 Purpose Of This Report**

- 1.1 This report has been produced at the request of the committee following the inspection of safeguarding and looked after Children's Services in Leeds by Ofsted and the Care Quality Commission. The report aims to show the procedures in place that will act as an early warning system for potential areas of concern, rather than the authority relying on inspection from external bodies alone.
- 1.2 The report will introduce members of the committee to the Performance Dashboard that has been adopted by the authority. This tool draws together a wide range of information on a quarterly basis in order to give senior officers a high level, top down overview of performance across a number of areas.
- 1.3 The report will provide the Committee with assurance that through the Performance Dashboard and the underlying processes strong governance arrangements are in place in order to provide an early warning system of potential performance issues facing the authority.

## **2.0 Background Information**

- 2.1 At the meeting of the CGA Committee held on 17<sup>th</sup> March 2010 a report was presented following the Ofsted and Care Quality Commission Inspection of safeguarding and looked after Children's Services in Leeds. The committee requested that a further report be submitted detailing the wider corporate performance management governance adopted by the authority, that enables early warning of possible severe failure, rather than relying on inspection from external bodies.
- 2.2 In May 2009 CLT approved the development of a performance dashboard that would bring together a range of information at a Chief Officer level. This dashboard allows seniors officers to get a high level view of performance across a wide range of areas in order to prompt questioning and discussion around performance issues. It thereby acts as a powerful tool in identifying potential areas of concern for the authority. The first tool was produced for 2008/09 year end information and is now produced on a quarterly basis.

## **3.0 Main Issues**

- 3.1 Leeds City Council operates a wide range of services some of which are in highly sensitive areas such as the safeguarding of children and vulnerable people. The CGA Committee need assurance that governance arrangements are in place that ensure senior managers are able to monitor and react to any potential issues as early as possible without awaiting external inspections
- 3.2 The Performance Dashboard is produced on a quarterly basis by the Corporate Performance Team. The dashboard is used by the Chief Executive as part of his quarterly appraisals process with directors to highlight potential areas for discussion. It is also distributed to members of CLT in order that they can use the tool in discussions with their Chief Officers. It is the intention that the dashboard will also be presented to Corporate Governance Board for information from Quarter 3 onwards in order that they have an overview of the governance arrangements that are in place and are able to identify any concerns. For example, if there were concerns highlighted across all services in one particular measure this may indicate an issue with the governance arrangements rather than the performance. The

dashboard can therefore be seen as the key tool that provides assurance to senior officers of the governance arrangements across the organisation.

- 3.3 Appendix 1 provides an example of the front end of the dashboard. Each of the ratings can be clicked on to drill-down to provide the reviewer/user with further detailed information on the area and how the RAG/Direction of Travel rating has been made. The key to the dashboard is provided at Appendix 2 this provides information on the RAG/Direction of Travel rating criteria and what lies beneath each of the ratings.
- 3.4 The dashboard provides the user with a top level overview of performance at a Chief Officer level that is simple to use. It draws together information from a wide range of areas including budget positions, progress against strategic priorities and key performance indicators, findings of internal audit investigations, items contained on the corporate risk register, decision implementation monitoring, equalities, number of appraisals completed and staff sickness.
- 3.5 Rather than be an additional reporting requirement the dashboard relies entirely on utilising existing information, thus helping to ensure that a consistent approach is adopted when performance managing at a high level. Each of the areas included within the dashboard are subject to their own monitoring and management processes. For example, the quarterly accountability process through which progress against strategic priorities and performance indicators are managed. Similarly the risk management information is sourced from the quarterly risk management reporting process to update the corporate risk register, HR information is sourced from Organisational Health booklets are circulated quarterly to senior managers and budget monitoring information is drawn from the quarterly financial management reports.
- 3.6 It is therefore the role of the dashboard to bring together all this information into one place. It provides reassurance that appropriate governance arrangements are in place for each of the areas and that they are being managed and monitored accordingly. It also helps ensure that any early warning signs of potential serious service failures are identified and acted upon by providing a broad picture of each service rather than focusing purely on one element.
- 3.7 The Dashboard acts as a tool that helps senior managers form a high level view of performance over a wide range of functions as such it is not designed to give absolute answers but rather prompt questioning and challenge around performance issues. The dashboard works on the key principle that the 'lowest' rating for each of the included columns is always brought to the front of the dashboard. This ensures that no potential areas of concern are hidden by the stronger performance of others. For example, a 'red flag' against in a Director's performance indicators column would be shown even if it was only one of their indicators that was rated 'red' and that the rest were on track and 'green'. This flag may then prompt the user to drill down to the further detail to see a table showing all their performance indicators in detail along with the supporting commentary identify where there are issues and prompt any action required.
- 3.8 Pulling together information from different assessments and indicators can be instructive and powerful and offer an insight into areas where a service may need support. Nevertheless, it is necessary to accept some of the flaws and issues with the approach which include:
  - Accepting the complexity and the limits of this kind of information

- Recognising that some information may not be available for all services or may not be disaggregated for certain services
- Understanding that the information would be very high level and that it would only offer a snapshot or indication of performance; it will be the starting point for further exploration and discussion rather than a complete and perfect picture. The snapshot allows for these discussions to begin by clicking through to the more detailed information that lies beneath the front sheet.

3.8 The Performance Dashboard is constantly being developed to include further information in order to provide the broadest possible picture. The Corporate Performance Team are working with colleagues across the Council to look at potential future areas for inclusion including service plan updates, external audit reports and health and safety.

3.9 Directorate based performance teams produce tools such as dashboards and balanced scorecards that include a similar range of information disaggregated to a lower level and in more detail. Work is ongoing between the corporate performance team and directorate based performance teams to link in with these tools in order that a consistent approach is developed.

#### **4.0 Implications For Council Policy And Governance**

4.1 The use of the performance dashboard by the authority allows it to make better use of existing information and processes in order to strengthen governance arrangements.

#### **5.0 Legal And Resource Implications**

5.1 There are no additional legal or resource implications associated with the performance dashboard relies entirely on existing information and as it is already produced.

#### **6.0 Conclusions**

6.1 The performance dashboard is the main tool used by the authority to bring together a range of information for each Chief Officer, updated on a quarterly basis in order to provide a broad overview of performance and highlight areas of concern.

6.2 The dashboard provides assurance that a wide range of performance related information is being regularly considered by both senior officers and Members. It shows that performance concerns are specifically highlighted in order to prompt both challenge and action. Furthermore, the dashboard is flexible and can be developed in order to respond to changing circumstances.

#### **7.0 Recommendations**

7.1 That Corporate Governance and Audit Committee note the contents of the report.

#### Background Documents Used

None

## XXX Directorate - NOVEMBER 2010 UPDATE

Service	Chief Officer	Budget	Action Tracker(s) Update	LSP & Council Business Plan Pls Update	Internal Audit reports (Audit Assurance)	Corporate Risk Register	Governance Arrangements	Equalities	Appraisals completed	Staff Sickness	Staff Satisfaction (from 2009 Staff Survey Overall Job Satisfaction section)	IIP	2010/11 Service Plan(s) Submitted (Y/N)
Directorate Overall	Director					See Link							
Service 1	Chief Officer 1				N/A	See Link							
Service 2	Chief Officer 2					See Link							
Service 3	Chief Officer 3				N/A	See Link							
Service 4	Chief Officer 4			N/A	N/A	See Link						N/A	

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**COLUMN CONTENT AND TRAFFIC LIGHT / ARROWS CRITERIA**

<b>Service</b>	Link made to the service overview	
<b>Chief Officer</b>	Link made to Organisational Health data.	
<b>Budget</b>	Link made to the relevant report from the financial management system	
	  	<p>Where the difference between the current budget and the projected year end spend figures is greater than 10% ( and above £250 ) or £50000.</p> <p>The Direction of travel arrow indicates whether the position is an improvement or decline in performance when compared to last quarter</p>
	  	<p>Where the difference between the current budget and the projected year end spend figures is greater than 5% ( and above £100 ) or £25000</p> <p>The Direction of travel arrow indicates whether the position is an improvement or decline in performance when compared to last quarter</p>
	  	<p>Where the difference is below the threshold set for an amber traffic light so below 5% and £25000</p> <p>The Direction of travel arrow indicates whether the position is an improvement or decline in performance when compared to last quarter</p>
<b>Action Tracker(s) Update</b>	<p>Rated according to highest (with red as highest) RAG rating of one or more action trackers where that head of service is named as Accountable Officer.</p> <p>By clicking on the links the user is taken to a summary of the relevant action trackers and then on to each individual action tracker</p>	
		Significant delays or issues to address
		Minor delays or issues to address
		Progressing as expected – on schedule to complete actions & targets
N/A	Where the Service is not responsible for the production of any Action Trackers	

## COLUMN CONTENT AND TRAFFIC LIGHT / ARROWS CRITERIA

	<p>This column includes links to the Performance Indicators included in the Leeds Strategic and Council Business Plans.</p> <p>By clicking on the link the user is taken to the detailed performance indicator report for that Service.</p>	
<b>LSP &amp; Council Business Plan PIs Update</b>		If one or more of the PIs on the corporate balanced scorecard are red
		If one or more of the PIs on the corporate balanced scorecard are amber
		If all no PIs on the corporate balanced scorecard are red or amber then rated green.
	N/A	Where the Service is not responsible for any PIs on the corporate balanced scorecard.
<b>2009/10 Internal Audit reports (Audit Assurance)</b>	<p>Links made to the Internal Audit's final audit opinion (Management Summary and Action Plan). This column is RAG rated according to the business impact rating given as part of the audit.</p> <p>This does not include Establishment visits, Schools, Fraud/Investigations/Audit Queries/External work, Education Leeds and EMAS audit reports.</p>	
		Major Impact
		Moderate Impact
		Minor Impact
<b>Corporate Risk Register</b>	Link made to the Risk Management Unit's corporate risk register CLT report.	
<b>Governance Arrangements</b>	<p>Link made to Governance Services lists of key/major delegated decisions taken including:-</p> <ul style="list-style-type: none"> <li>decisions taken but not yet implemented</li> <li>key decisions not on the forward plan</li> <li>key decisions exempt from call in</li> </ul> <p>The column is RAG rated based on the time between a decision being made and implemented.</p>	
		Decision not implemented after 3 months
		Decision not implemented after 1 month
		Decision implemented within 1 month
<b>Equalities</b>	Link made to several equalities related measures. RAG rated according to the highest (with Red being the highest) rating for the service.	
	Organisational health targets	RAG rated according to if the service meets the corporate equality employment target

## COLUMN CONTENT AND TRAFFIC LIGHT / ARROWS CRITERIA

	Equality related complaints	The number of equality related complaints. RAG rated based on the current corporate standard of responding to 95% of complaints within 15 working days
	Consideration of equality in decision making	whether or not the EIA screening process has been carried out on reports to both Executive Board and Scrutiny Board
<b>Appraisals completed</b>	Link made to the latest position for the Service on the completion of staff appraisals.  RAG rated according to the percentage of appraisals completed	
		A Red light is shown if the percentage of appraisals completed is under 75%.
		An Amber light is shown if the percentage of appraisals completed is between 75%-95%
		A Green light is shown if the percentage of appraisals completed is over 95%.
<b>Staff Sickness</b>	Link made to the latest position for the Service on staff sickness levels.  The RAG ratings are based on the service year-end position compared against the previous year-end figure and the service target.	
		A Red light is shown for where the target is not achieved and performance has declined since last year or for where no targets/comparison if above council target.
		Amber is shown for where there has been a year on year improvement but the target has not been achieved.
		A Green light is shown for where the target has been achieved and performance has improved when compared to last year.
<b>Staff Satisfaction</b>	Taken from the 2009 Staff Survey using the response from the 'Are you satisfied working for the council' question to inform the RAG rating:  If there is more than one service covered the overall RAG rating will be based on the lowest service score.	
		If stayed the same or not improved since 2007 and/or not above the 2009 council average (82.5%)
		If improved since 2007 but not above the 2009 council average (82.5%) / Or above the council average, but reduced since 2007

## COLUMN CONTENT AND TRAFFIC LIGHT / ARROWS CRITERIA

		If improved since 2007 and above the 2009 council average (82.5%)
<b>IIP</b>	Based on the 2008 IIP re-accreditation. For where available, links are made to any improvement planning undertaken to address recommendations made during the re-accreditation.	
		If not yet met 5 or more indicators;
		If not yet met between 1 and 4
		If passed all indicators.
<b>2010/11 Service Plan(s) Completed (Y/N)</b>	This column confirms whether or not 2010/11 service plans have been completed and published on the intranet.	
		If all service plans have not been completed and published
		If all service plans have been completed and published



Originator: Amy Kelly

Tel: 0113 39 50261

### Report of the Assistant Chief Executive (Corporate Governance)

#### Corporate Governance and Audit Committee

Date: 14<sup>th</sup> February 2011

Subject: Implications of the Localism Bill for the ethical framework in Leeds

#### Electoral Wards Affected:

Ward Members consulted  
(referred to in report)

#### Specific Implications For:

Equality and Diversity

Community Cohesion

Narrowing the Gap

### Executive Summary

1. The purpose of this report is to summarise the contents of the Localism Bill which was presented to Parliament on 13<sup>th</sup> December 2010, and to seek feedback from Members of the Committee on the questions posed in this report. The Localism Bill contains several clauses which affect Leeds City Council, but this report concentrates on those which affect the standards regime.
2. It is proposed that the following Members will be consulted on the options available: the Group Leaders, Corporate Governance and Audit Committee, Standards Committee, and Group Whips before asking the General Purposes Committee to make a recommendation to full Council for it to make a final decision. The final decision will need to be made in advance of February 2012.
3. In order that the possibility of regional arrangements can be explored all the West Yorkshire Councils have been sent the briefing note attached as Appendix 1, and have been asked to provide feedback on the questions listed on the first page. This will assist officers in establishing whether there is an appetite for regional arrangements, and whether it would be possible to reach agreement on what those arrangements might be.
4. The Corporate Governance and Audit Committee is asked to:
  - Note the information in this report and the attached briefing note; and
  - Provide initial responses to the questions listed in paragraph 3.12 of this report.

## **1.0 Purpose Of This Report**

- 1.1 The purpose of this report is to brief members of the Corporate Governance and Audit Committee on the aspects of the Localism Bill which relate to the Council's ethical governance arrangements, specifically;
- Members' Code of Conduct
  - Standards Committee
  - Local Assessment arrangements

## **2.0 Background Information**

- 2.1 The government set out its intention to abolish the 'Standards Board Regime' in the coalition agreement published in May 2010. It is the government's intention to effect the abolition through the Localism Bill which has its first reading in Parliament on 13<sup>th</sup> December 2010.

## **3.0 Main Issues**

- 3.1 The Localism Bill proposes to abolish the current standards regime established by the Local Government Act 2000. In summary, this will have the following consequences:
- The Members' Code of Conduct and the General Principles of Public Life will be revoked.
  - The requirement for the Council to have a standards committee will be abolished.
  - Standards for England (formerly known as the Standards Board for England) will be abolished, as will all its functions.
  - The First-tier Tribunal (Local Government Standards in England) (formerly known as the Adjudication Panel for England), which dealt with the most serious cases and heard appeals against Standards Committee decisions, will lose its jurisdiction over the conduct of Councillors.

### Duty to promote and maintain high standards of conduct

- 3.2 The Localism Bill as drafted places a new duty on Councils to promote and maintain high standards of conduct by Members and co-opted members of the authority. There are no further details available at the current time regarding how this duty is to be fulfilled or what it will entail.

### Voluntary codes of conduct

- 3.3 The Localism Bill also contains provisions to allow Councils to adopt a code of conduct to apply to Councillors and co-opted members whilst they are acting in that capacity. The Council could choose to:
- (a) Revise the existing code of conduct;
  - (b) Adopt a code of conduct to replace the existing code of conduct; or
  - (c) Withdraw its existing code of conduct without replacing it.
- 3.4 If a Council chose to continue to have a code of conduct in place then it must receive and consider complaints about potential misconduct. If, having received a complaint a Council considered that investigation was appropriate, the Council must investigate the allegation in such a manner as it thinks fit.

- 3.5 If, as a result of the investigation or otherwise, a Council found that a Member or co-opted member had failed to comply with their adopted code of conduct, that Council must decide whether to take action and what action to take.

#### Local standards committees

- 3.6 The Localism Bill specifies that the above functions of considering, investigating and taking action in relation to complaints, are not to be executive functions and therefore must be carried out by full Council, a Council Committee, or an officer acting under delegated powers. It would also be possible to create a joint standards committee<sup>1</sup> for the West Yorkshire authorities.

#### Disclosure and registration of Members' interests

- 3.7 The Localism Bill proposes to make regulations which will require the Monitoring Officer to establish and maintain a register of Members' interests. These regulations will also explain when Members will have to declare their interests in meetings, when these interests will prevent them from taking part in decision making, and will make provisions for the Council to grant dispensations to Members in some circumstances.
- 3.8 The Localism Bill also makes it an offence to fail to comply with the obligations in the regulations. The penalty that the magistrates court may impose upon conviction is a fine of up to £5,000 and an order disqualifying the person from being a Member of a relevant authority for up to five years.

#### **Consultation on possible local standards arrangements**

- 3.9 The Localism Bill is still in its early stages of development and may be amended significantly before reaching its final form and receiving Royal Assent (anticipated in November or December 2011). However it is necessary for Members to consider the implications of the Bill now in order that, should members view be that Leeds City Council should adopt a local Code of Conduct, work can commence with Members on drafting the code and the mechanisms that might be needed to support it in time for consultation and agreement by full Council.
- 3.10 The government has already announced transitional arrangements to be put in place between the Bill receiving Royal Assent and the 'Appointed Day' when the Act comes into force. Any local arrangements would therefore start after the 'Appointed Day'.
- 3.11 In the first instance the Assistant Chief Executive (Corporate Governance) is seeking views on the implications of the Bill from Group Leaders, Corporate Governance and Audit Committee, Standards Committee, and Group Whips.
- 3.12 The themes on which initial views are being sought are as follows:
1. Are we going to adopt a voluntary code of conduct?
    - a. If yes, should the Council:

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<sup>1</sup> This would not have the statutory functions or membership requirements of current standards committees as these legislative requirements are abolished by the Localism Bill.

- revise the existing code of conduct<sup>2</sup>; or
- adopt a completely new code of conduct to be drafted locally?

b. If the Council wishes to adopt a completely new code of conduct, what types of behaviour / situations should this cover?

2. If a code is to be introduced, should there be different processes for dealing with differing types of complaints, namely:

- Member against Member;
- officer against Member; and
- member of the public against Member?

a. If yes, how should these processes differ?

3. Do we wish to have a Standards Committee to carry out any of the above functions, or instead give the function to an existing committee exercising Council functions?

a. If an existing committee is preferred, which committee would be the most appropriate?

b. Alternatively, would the Council prefer to delegate some of these functions to an officer?

4. Is there an intention to have independent members<sup>3</sup> on any committee dealing with complaints of member misconduct and if so, is it to be chaired by an independent when dealing with complaints against Members?

5. Is there an appetite for having a regional Standards Committee?

3.13 Corporate Governance and Audit Committee's views are sought on these question areas.

3.14 From the initial discussions and soundings which are taking place it is anticipated that a further detailed options paper will be drawn up for further discussion with Political Groups.

3.15 Members may also be interested that in order that the possibility of regional arrangements can be explored all the West Yorkshire Councils have been sent the attached note (Appendix 1), and have also been asked to provide feedback on the questions. This will be of assistance in establishing whether there is an appetite for regional arrangements, and whether reaching agreement on what those arrangements might be would be practical.

#### **4.0 Implications For Council Policy And Governance**

4.1 As stated earlier, the proposals in the Localism Bill have consequences for the Council's governance arrangements, including the Code of Corporate Governance. Members will also need to consider what impact a local code would have on the local codes and protocols already in existence (in Part 5 of the Constitution), such as the Protocol for Member Officer Relations.

<sup>2</sup> At the least the Council would need to remove the reference to the General Principles which will be revoked, and the requirements regarding the registration and declaration of interests as these will be covered in separate Regulations.

<sup>3</sup> The position of Independent Member as it currently stands will be abolished, but the Council could choose to co-opt someone onto the committee to fulfil a similar function.

## **5.0 Legal And Resource Implications**

- 5.1 The legal implications of the Localism Bill (as they relate to the Council's ethical governance arrangements) are set out in the report.
- 5.2 No longer being required to have a standards committee, which must be chaired by an Independent Member and have Parish Members, will represent a saving to the Council in Special Responsibility Allowances.

## **6.0 Recommendations**

- 6.1 The Corporate Governance and Audit Committee is asked to:
- consider the implications of the Localism Bill as they relate to the Council's ethical governance arrangements; and
  - comment on the questions listed in paragraph 3.12 of this report.

### Background Documents

Localism Bill 2010/2011

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## Questions to be addressed

*Please see paragraphs 2.3 to 2.10 of the background information for more details about the proposals contained in the Localism Bill and the options available to the Council.*

1. Are we going to adopt a voluntary code of conduct?
  - a. If yes, should the Council:
    - revise the existing code of conduct<sup>1</sup>; or
    - adopt a completely new code of conduct to be drafted locally?
  - b. If the Council wishes to adopt a completely new code of conduct, what types of behaviour / situations should this cover?
2. If a code is to be introduced, should there be different processes for dealing with differing types of complaints, namely:
  - Member against Member;
  - officer against Member; and
  - member of the public against Member?
  - a. If yes, how should these processes differ?
3. Do we wish to have a Standards Committee to carry out any of the above functions, or instead give the function to an existing committee exercising Council functions?
  - a. If an existing committee is preferred, which committee would be the most appropriate?
  - b. Alternatively, would the Council prefer to delegate some of these functions to an officer?
4. Is there an intention to have independent members<sup>2</sup> on any committee dealing with complaints of member misconduct and if so, is it to be chaired by an independent when dealing with complaints against Members?
5. Is there an appetite for having a regional Standards Committee?

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<sup>1</sup> At the least the Council would need to remove the reference to the General Principles which will be revoked, and the requirements regarding the registration and declaration of interests as these will be covered in separate Regulations.

<sup>2</sup> The position of Independent Member as it currently stands will be abolished, but the Council could choose to co-opt someone onto the committee to fulfil a similar function.

## Background information

### **1.0 Consequences of the Bill for the existing ethical framework**

- 1.1 Schedule 4 of the Localism Bill repeals Part III of the Local Government Act 2000 in relation to local authorities in England. This means the abolition of Standards for England, standards committees, and the jurisdiction of the First-Tier Tribunal (Local Government Standards in England). The model code of conduct and the general principles of public life will be repealed, and the power for the Secretary of State to issue a model code of conduct and to specify general principles is removed altogether. There will be no requirement for Councils to have a standards committee in future and the position of Independent Member is also abolished.
- 1.2 All the provisions which relate to local assessment and review, and the powers of Monitoring Officers in relation investigations are also repealed.
- 1.3 Finally, there will be no requirement for each Member to formally agree to abide by the Code of Conduct through their acceptance of office, and any declaration previously made will cease to apply when the Code of Conduct is abolished. Currently, failure to complete such a declaration within two months of their election means that a Member loses their position on the Council.

### **2.0 Future standards regime - Proposals contained in the Bill**

- 2.1 For the purposes of Chapter 5 of the Bill (which contains all the provisions about standards), a Parish or Town Council is included in the definition of a 'relevant authority'. This means that instead of the Council being responsible for the Parish and Town Councils in its area, these Councils must make their own arrangements. This will include adopting their own voluntary code of conduct (if they choose to do so), and considering and investigating written allegations of misconduct (if applicable).

#### **Duty to promote and maintain high standards of conduct**

- 2.2 The Localism Bill imposes a new duty on local authorities to promote and maintain high standards of conduct by Members and co-opted members of the authority. There are no further details regarding how this duty is to be fulfilled or what it will entail.

#### **Voluntary codes of conduct**

- 2.3 The Localism Bill allows local authorities to adopt a code of conduct to apply to Councillors and co-opted members whilst they are acting in that capacity. The Council can choose to:
- (a) Revise the existing code of conduct;
  - (b) Adopt a code of conduct to replace the existing code of conduct; or
  - (c) Withdraw its existing code of conduct without replacing it.

- 2.4 The Council may publicise its adoption, revision or withdrawal of a code of conduct in whatever manner it considers appropriate.
- 2.5 If the Council does choose to continue to have a code of conduct in place, either by amending or replacing the existing one, then it must consider whether to investigate written allegations that a Member or co-opted member has failed or may have failed to comply with its code of conduct. If the Council decides that investigation is appropriate, it must investigate the allegation in such a manner as it thinks fit.
- 2.6 It is worth noting that during such an investigation Members would not be able to rely on the Local Authorities (Indemnities for Members and Officers) Order 2004 in order to provide insurance payments towards the cost of legal fees in their defence. This is because this Order specifies that Members can be indemnified against the costs of defending themselves if proceedings are brought against them in accordance with Part III of the Local Government Act 2000, but this will be repealed.
- 2.7 If, as a result of the investigation or otherwise, the Council finds that a Member or co-opted member has failed to comply with the code of conduct, it may have regard to the failure in deciding:
- (a) Whether to take action in relation to the Member or co-opted member; and
  - (b) What action to take.
- 2.8 There are no further details of what actions may be appropriate, although it is clear there will be no powers to suspend, partially suspend or disqualify a Member. The judgement of the Court of Appeal in *R v Broadland District Council ex p Lashley (2000)* confirmed the right of an authority to take administrative measures to ensure that it could continue to discharge its functions effectively, in that case by the Chief Executive barring a Councillor from the offices and from direct contact with individual officers. However, it is not a power to punish, and cannot be exercised in a manner which prevents a Councillor acting as a Councillor.
- 2.9 The Localism Bill specifies that the above functions of considering, investigating and taking action in relation to complaints, are not to be executive functions and therefore must be carried out by full Council, a Council Committee, or an officer acting under delegated powers.
- 2.10 The Local Government Act 1972 s101 allows two or more Councils to set up a joint committee to carry out their functions. It would therefore be possible to create a joint standards committee<sup>3</sup> for the West Yorkshire authorities. This would require the councils reaching agreement over the content of a voluntary code of conduct, the terms of reference, and the composition of the standards committee.

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<sup>3</sup> This would not have the statutory functions or membership requirements of current standards committees as these legislative requirements are abolished by the Localism Bill.

## **Disclosure and registration of Members' interests**

- 2.11 Section 17 of the Bill allows the Secretary of State to make regulations which will require the Monitoring Officer of a relevant authority (or other specified officer in relation to Parish or Town Councils) to establish and maintain a register of interests of the Members and co-opted members of the authority.
- 2.12 The regulations may:
- Specify the financial and other interests that are to be included in the register;
  - Require any Member or co-opted member who has an interest of a specified kind to disclose that interest before taking part in business of the authority relating to the interest;
  - Prevent or restrict the participation of a Member or co-opted member in any business of the authority to which their interest relates;
  - Make provisions for the Council to grant dispensations in specified circumstances;
  - Make provisions about the sanctions that a relevant authority may impose of a Member or co-opted member for failure to comply with regulations under this section<sup>4</sup>; and
  - Require a relevant authority to make copies of the register available to the public and to inform the public that copies are available.
- 2.13 The sanctions to be specified within the regulations will not include suspension, partial suspension or disqualification.

## **Offence of breaching the regulations under section 17**

- 2.14 The Localism Bill makes it an offence to fail, without reasonable excuse, to comply with obligations in the regulations referred to above. The penalty that the magistrates court may impose upon conviction is a fine of up to £5,000 and an order disqualifying the person from being a Member of a relevant authority for up to five years. A prosecution for the offence may be brought within 12 months of the Crown Prosecution Service having the evidence to warrant prosecution, but no proceedings may be brought more than three years after the offence or the last date on which an offence was committed.

## **3.0 Predetermination**

- 3.1 Chapter 4 of the Bill clarifies the existing position regarding predisposition, bias and predetermination. According to common law, predetermination occurs when someone has a closed mind, with the effect that they are unable to apply their judgement fully and properly to an issue requiring a decision. Councillors who have participated in decision making whilst having a predetermined view have caused the decision to be judged unsafe and to be quashed.

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<sup>4</sup> This implies that the Council will also have jurisdiction over breaches of the Regulations, but it is unclear how this will work in practice as the Bill makes such breaches a criminal offence.

- 3.2 The Localism Bill clarifies that if a Councillor has given a view on an issue, this does not show that the Councillor has a closed mind on that issue, so that if a Councillor has campaigned on an issue or made public statements about their approach to an item of Council business, he or she will be able to participate in the discussion of that issue in the Council and to vote on it if it arises as an item of Council business requiring a decision. The effect of this provision is that campaigning, talking with constituents, expressing views on local matters and seeking to gain support for those views, should not lead to an accusation that the Member has a closed mind.
- 3.3 However, in practice, the Court of Appeal has already asserted that such activities will not preclude participation in decision-making, unless the Councillor is so committed that they are not even prepared to listen to the evidence (e.g. by making statements such as “over my dead body...”). Therefore this clarification would not change the Council’s current approach to these matters.
- 3.4 Although bias and predetermination are not part of the current Code of Conduct regime, Standards for England have advised that a Councillor who chooses to take part in a decision when they are biased may bring their office or authority into disrepute.

#### **4.0 Recall of Elected Representatives**

- 4.1 Under the Recall of Elected Representatives Bill it is proposed that Elected Mayors and Parish Councillors will also be subject to electoral recall<sup>5</sup>. This provides that if 10% or more of the registered voters in the constituency of an elected representative sign a relevant recall petition then a recall election must be held within 4 months.
- 4.2 In order for a recall petition to be relevant the appropriate Returning Officer must be satisfied that there is evidence<sup>6</sup> in the petition that the elected representative has:
- Acted in a way which is financially dishonest or disreputable;
  - Intentionally misled the body to which he or she was elected;
  - Broken any promises made by him or her in an election address;
  - Behaved in a way that is likely to bring his or her office into disrepute; or
  - Loss of confidence of his or her electorate.
- 4.3 If the recall election result is negative for the Member concerned, a by-election must be held within the following three months, although the recalled Member may stand as a candidate in this election.

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<sup>5</sup> This Bill as drafted also applies to MPs and MEPs, but not to Local Authority Councillors. It is unclear why this is the case, and possible that this may change. This Bill is due to have its second reading on 10<sup>th</sup> June 2011, so further details may be available after this date.

<sup>6</sup> It is unclear how the petitioners will be able to obtain such evidence (i.e. will the Council have any powers to investigate on their behalf?). It is also unclear how much evidence will be required in order to satisfy the Returning Officer.

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Originator: Chris Blythe

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## Report of the Director of Resources

### Corporate Governance and Audit Committee

Date: 14<sup>th</sup> February 2011

### Subject: International Financial Reporting Standards

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#### Electoral Wards Affected:

Ward Members consulted  
(Referred to in report)

#### Specific Implications For:

Equality and Diversity

Community Cohesion

Narrowing the Gap

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## Executive Summary

1. The Council has a statutory obligation to comply with proper accounting practice when compiling and publishing its annual accounts. For the 2010/11 accounts, proper practice for Local Government is defined by International Financial Reporting Standards (IFRS). The scale and technical difficulties of this fundamental change in accounting practice is seen by the Audit Commission as a significant challenge for Local Authorities and recommends that Audit Committees oversee the arrangements to ensure compliance by the deadline of the 30<sup>th</sup> June 2011.
2. KPMG have reviewed the Council's progress to date and have assessed the Council as "on track" to achieve full IFRS implementation by the statutory deadline.
3. The IFRS Board continues to monitor progress on the critical areas of the IFRS conversion process. To date, all these critical areas are on track for completion in line with the work plan.
4. Draft restated IFRS accounts for 2009/10 have now been completed.

## **1.0 Purpose Of This Report**

- 1.1 The purpose of this report is to update members on progress towards implementing IFRS based accounts for the 2010/11 financial year.

## **2.0 Background Information**

- 2.1 As part of the 2007 Budget it was announced that all Government bodies will be required to adopt IFRS. Central government, NHS Trusts, Primary Care Trusts and NHS Foundation Trusts are all required to conform to IFRS for 2009/10. For Local Government the requirement is to comply with the standards for 2010/11.
- 2.2 There are two main reason cited for the adoption of IFRS. Firstly to bring benefits in consistency and comparability between financial reports in the global economy and to follow private sector best practice. Secondly, to enable Whole of Government Accounts to be compiled by ensuring all public bodies follow a consistent and up to date set of accounting standards.

## **3.0 Main Issues**

- 3.1 Members of this Committee received an update report on the conversion to IFRS based accounts on the 17<sup>th</sup> March 2010. Based on this report, members agreed to further updates in line with key milestones within the IFRS conversion process. Members received the latest of these updates when they were informed of the successful implementation of IFRS based accounting for PFI transactions in the 2009/10 accounts. This report is to inform members of progress on IFRS convergence at the next key milestone, namely the restatement of the 2009/10 financial statements.
- 3.2 In line with the IFRS implementation timetable, the 2009/10 financial statements have now been restated and are attached at Appendix 1. Whilst these statements reflect the new format of the IFRS based accounts, members should note that the figures may change as further work is undertaken on a number of key areas. Section 4 below provides an update on these key areas and identifies whether they will impact on these restated statements.
- 3.3 Officers on the IFRS Board continue to monitor progress against the IFRS work plan and to ensure appropriate resources are made available to meet the timescales. Currently, it is the Board's view that the work is on schedule for completing the conversion to IFRS accounts by the statutory deadline.
- 3.4 There are a number of very complex technical issues involved in the implementation of the new accounting standards. In order to tackle these problems officers have established two Local Authority working groups. Technical accountants from the Core Cities and the West Yorkshire Districts now meet on a regular basis in order to share ideas, knowledge and best practice. These contacts are particularly important when responding to the various consultation exercises as a collective response has been shown to carry more weight at a national level.
- 3.5 The work plan, agreed by the IFRS Board, has been devised to allow flexibility in the order individual work streams are undertaken. This is to allow work to be deferred in areas where there is an ongoing technical debate as to the correct basis for implementing a particular standard. This ensures that the Council does not waste resources completing the conversion of one area only to find that a different interpretation has subsequently been agreed. The plan also recognises that key officers involved in the IFRS convergence will also be involved with the budget setting process. Consequently the IFRS work programme allows for a reduced IFRS work load over the budget period.

## **4.0 Progress on the key IFRS implementation issues**

4.1 There are a number of key work areas which are critical to the implementation of IFRS. Delays in any of these critical areas could have a significant impact on the Council's ability to complete IFRS based accounts by the 30<sup>th</sup> June. The IFRS Board monitors progress in these critical areas to ensure they are progressing to timetable. The current position on these areas is as follows:

### **4.1.1 The accrual of employee benefits**

Any untaken holiday or flexi time entitlement must be accrued to the year it is earned. The process for collecting this data has now been established and the accrual calculated and included in the restated 2009/10 accounts (see Appendix 1). KPMG are to review the methodology and restated figures at their interim audit in March. Initial feedback from KPMG is that the General Fund accrual is not material and that the Council could use the 2009/10 figures as a reasonable approximation of the 2010/11 accrual in the draft accounts. The ability to use an estimated accrual in June will allow the Council more time to collate the actual data and either, verify the estimate, or amend the figures in the September accounts.

### **4.1.2 Re assessment of the Council's leasing arrangements under IFRS**

Work on the identification of all leases is now complete and the Council now has a comprehensive picture of the Council's leasing arrangements. This was a significant and time consuming piece of work with a number of leases going back to the turn of the century and agreements which went back as far as 1759. The results of this work shows that the Council has some 177 assets it leases in and 4,569 where the Council leases out an asset. Under IFRS all these leases need to be re assessed to determine whether they are operating or finance leases. This work is almost complete with only 228 leases still to be assessed. Of these leases, some 352 have been initially classified as finance leases and work is now ongoing to value the assets involved. As we still await the valuations, the accounting entries required for any new finance leases have not yet been included in the restated financial statements at Appendix 1.

4.1.3 For 2009/10, all current PFI schemes were re-evaluated under IFRS to determine whether the resulting assets were on or off the Council's balance sheet. For 2010/11 a further two PFI schemes (New Leaf and Harehills Joint Services Centre) commenced and work is ongoing to account for these schemes based on the methodology accepted by KPMG in 2009/10. The accounting for these new PFI schemes will not impact on the 2009/10 restated financial statements which already included the 2009/10 PFI schemes.

4.1.4 IFRS apply a different set of criteria for including an entity in the Group accounts. A review of the new Group account boundary has been completed and identified five additional group entities (Belle Isle TMO, Marketing Leeds, Grand Theatre, Craft Centre and Green Leeds). The financial accounts for these entities have been obtained and now require consolidating into the Group account statements.

4.1.5 Under previous accounting practice, any grants received are applied when the expenditure is incurred, with any unapplied grant being carried forward on the balance sheet as a receipt in advance (over £90m in 2009/10). Under IFRS each grant must now be reviewed to see if all the grant conditions have been met; if the conditions have been met then the Council must account for them as income in the year. Unspent grant will then need to be carried forward as an earmarked reserve to fund the expenditure when it is incurred. The review

of 2009/10 receipts in advance has identified a number of grants which will need to be recognised as income and carried forward as earmarked reserves.

4.1.6 Under IFRS any significant components within a fixed asset need to be separately recognised in the asset register. A potential example of a component would be say a burner at a crematorium. The burner has both a significant value and a different asset life to that of the main building. As a review of all assets for such components would be disproportionate to any benefit gained through better financial information, it is recommended by CIPFA that Councils consider a materiality level below which assets would not be reviewed for components. For Leeds City Council this threshold has been set at assets with a carrying value of £2m or less. Assets valued over £2m account for 68% of the value of the Council's assets but are only 18% of the total number of assets. Work is now ongoing to analyse all assets over £2m to see if they contain significant components. Unlike other accounting changes under IFRS, this change does not need to be brought in retrospectively and only applies from the current financial year. Consequently this work is not included in the restated 2009/10 accounts and has been programmed later than the other critical areas of work.

## **5.0 External assessment of the Council's progress towards IFRS implementation**

5.1 The scale and technical difficulties of this fundamental change in accounting practice is seen by the Audit Commission as a significant challenge for Local Authorities. Consequently, they have required External Auditors to undertake a series of assessments on Local Authority progress towards implementation. KPMG have recently completed the latest assessment of the Council's progress and, as with all previous assessments, have deemed the Council to be on track to implement IFRS. They have not identified any major areas of concern but they have still to undertake a detailed audit of the restated accounts. A more detailed assessment of the Council's progress will therefore be included in the KPMG Interim report due to this Committee in May.

## **6.0 Update on IFRS areas with a potentially significant impact on the Council's accounts**

6.1 The 2009/10 Local Government Capital Finance Regulations aimed to provide statutory overrides for any areas where the new accounting standards would have a significant financial impact on the Council. As reported to members of this Committee in March 2010, there were a number of omissions in the legislation which could potentially lead to a financial impact on the Council.

6.2 These omissions were reported back to the Government as part of their consultation process and the legislation has now been amended to provide statutory overrides for any potential financial impact on Local Authorities identified to date.

## **7.0 Implications For Council Policy And Governance**

7.1 Training on the interpretation of IFRS based accounts will be made available to members of this committee prior to the approval of the 2010/11 accounts.

7.2 Officers continue to work closely with KPMG to ensure full compliance with proper practice. KPMG are informed of any changes to our accounts prior to implementation and are asked to confirm compliance with approved accounting standards.

7.3 The last Audit Commission national IFRS implementation survey highlighted that 46% of Authorities had not informed their audit committee of the change in accounting standards and 59% of audit committees did not have a role in

overseeing IFRS transition. This report seeks to give members assurance that the Council has the resources, the skills and the procedures in place to successfully implement IFRS and that work is on schedule to meet the statutory deadline for implementation.

## **8.0 Legal And Resource Implications**

- 8.1 Under the Accounts and Audit (Amendment) (England) Regulations 2006 the Council's accounts must comply with proper practice. The regulations define this proper practice as the Local Authority Statement Of Recommended Practice (SORP). The 2010/11 SORP has been issued and requires the accounts to fully comply with IFRS.
- 8.2 The Audit Commission's national IFRS implementation survey stated that 63% of Authorities did not have the necessary in house skills to implement IFRS and had hired external advisors to deal with specific technical issues such as PFI. The IFRS Board continues to monitor both the resources and technical skills required for conversion to IFRS based accounts. To date, all resource requirements can be contained within existing Asset Management and Financial Management resources.

## **9.0 Conclusions**

- 9.1 The IFRS Board has agreed a flexible work plan for the convergence to IFRS and monitors progress on a regular basis. The work plan is on schedule and, although challenging, there is no indication that the work will not be completed on time and to the appropriate standard.
- 9.2 The Board has assessed the in-house expertise and resources available and does not consider additional external resources are currently required.
- 9.3 KPMG has completed a number of high level assessments of the plans and work to date and have confirmed that they believe the Council is on schedule to complete convergence to the statutory timescales.
- 9.4 Statutory overrides are now in place to mitigate any adverse impact of the accounting changes on Local Authorities financial position.

## **10.0 Recommendations**

- 10.1 Members of the Committee are asked to note the progress to date on implementation of IFRS.

### Background Documents Used

Reports to Corporate Governance & Audit Committee – International Financial Reporting Standards (23/04/2008 and 17/03/2010).

2009/10 Statement of Accounts

2010 IFRS based SORP.

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## Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement summarises the Authority's financial performance for the year on the basis of International Financial Reporting standards. However, the amounts chargeable to a local authority's council tax and its General Fund reserves for the year are controlled by legislation, and include a number of statutory adjustments and transfers to specific reserves. The effect of these statutory transactions is shown in the Movement in Reserves Statement.

£000s	2009/10		
	gross expenditure	gross income	net expenditure
Adult Social Care	310,837	63,612	247,225
Central Services	76,293	87,419	(11,126)
Children's and Education Services	877,403	605,804	271,599
Court Services	1,124	-	1,124
Cultural, Environmental and Planning Services	300,526	67,559	232,967
Highways, Roads, and Transport	85,458	17,276	68,182
Housing Revenue Account	8,452	201,621	(193,169)
Other Housing Services	243,644	236,215	7,429
Exceptional item - equal pay provision	4,423	-	4,423
Corporate and Democratic Core	18,432	-	18,432
Non-distributable costs	21,005	-	21,005
<b>Net cost of services</b>	<b>1,947,597</b>	<b>1,279,506</b>	<b>668,091</b>
(Gain) or loss on disposal of fixed assets			31,737
(Gain) or loss on disposal of long term investments			-
Parish Council precepts			1,408
(Surpluses) / deficits on trading undertakings			(3,880)
Amounts payable into the Housing Capital Receipts Pool			3,772
<b>Net Operating Expenditure</b>			<b>701,128</b>
Interest payable and similar charges			90,716
Pension interest costs and expected return on assets			58,200
Interest and investment income			(2,894)
<b>Net Expenditure after financing and investment</b>			<b>847,150</b>
Council Tax Income			(259,346)
Non-Domestic Rate			(242,248)
Non-Ringfenced Government Grants			(149,118)
<b>(Surplus) / deficit on provision of services</b>			<b>196,438</b>
(Surplus) / deficit on revaluation of fixed assets			(71,682)
(Surplus) / deficit on revaluation of available-for-sale assets			(112)
Actuarial (gains) / losses on pension fund			715,885
<b>Total Comprehensive Income and Expenditure</b>			<b>840,529</b>

## Movement in Reserves Statement

This statement shows the movements in the year on the different reserves held by the authority, analysed between usable reserves and unusable reserves. The statement shows how the movement in the authority's reserves is broken down between gains and losses recognised on an accounting basis and the statutory adjustments required to control the amounts chargeable to council tax for the year.

### 2010/11

	Useable reserves					Unuseable reserves		Total reserves	notes
	General Fund Reserve	HRA Reserve	Earmarked GF revenue reserves	Useable capital reserves	Total useable reserves	Statutory revenue reserves	Capital accounting balances		
Balance brought forward 1st April 2010	16,076	18,131	31,272	-	65,479	(1,544,092)	1,738,322	259,709	
Surplus / (deficit) on provision of services					-			-	
Other comprehensive income and expenditure					-			-	8.1
Total comprehensive income and expenditure	-	-	-	-	-	-	-	-	
Statutory adjustments between accounting basis and funding basis					-			-	8.2
Statutory transfer to Major Repairs Reserve	-	-	-		-	-	-	-	H9
Increase / (decrease) before transfers	-	-	-	-	-	-	-	-	
Transfers to/(from) earmarked revenue reserves					-			-	
Transfers to fund capital expenditure	-	-	-		-	-	-	-	8.3
Increase / (decrease) during year	-	-	-	-	-	-	-	-	
Balance carried forward 31st March 2011	16,076	18,131	31,272	-	65,479	(1,544,092)	1,738,322	259,709	

### 2009/10

	Useable reserves					Unuseable reserves		Total reserves	notes
	General Fund Reserve	HRA Reserve	Earmarked GF revenue reserves	Useable capital reserves	Total useable reserves	Statutory revenue reserves	Capital accounting balances		
Balance brought forward 1st April 2009	19,296	18,794	25,437	336	63,863	(784,950)	1,821,325	1,100,238	
Surplus / (deficit) on provision of services	(356,654)	160,216			(196,438)			(196,438)	
Other comprehensive income and expenditure					-	(715,885)	71,794	(644,091)	8.1
Total comprehensive income and expenditure	(356,654)	160,216	-	-	(196,438)	(715,885)	71,794	(840,529)	
Statutory adjustments between accounting basis and funding basis	359,269	(160,879)		(10,660)	187,730	(43,257)	(144,473)	-	8.2
Statutory transfer to Major Repairs Reserve	-	-	-	59,765	59,765	-	(59,765)	-	H9
Increase / (decrease) before transfers	2,615	(663)	-	49,105	51,057	(759,142)	(132,444)	(840,529)	
Transfers to/(from) earmarked revenue reserves	(5,835)	-	5,835		-			-	
Transfers to fund capital expenditure	-	-	-	(49,441)	(49,441)	-	49,441	-	8.3
Increase / (decrease) during year	(3,220)	(663)	5,835	(336)	1,616	(759,142)	(83,003)	(840,529)	
Balance carried forward 31st March 2010	16,076	18,131	31,272	-	65,479	(1,544,092)	1,738,322	259,709	

## Balance Sheet

The balance sheet is the key statement of an authority's financial position at the year-end. It shows its balances and reserves, and the values of its long term and current assets and liabilities.

<u>1 April 2009</u>		<u>31 March 2010</u>
	£000s	
	<i>Long-term assets</i>	
4,062,451	Property, plant and equipment	4,252,271
38,274	Investment property	-
8,540	Intangible fixed assets	8,166
26,116	Long-term investments	26,250
20,133	Long-term debtors	19,158
<u>4,155,514</u>		<u>4,305,845</u>
	<i>Current assets</i>	
121,288	Debtors	122,990
16,149	Investments	1,318
2,938	Inventories	2,484
-	Assets held for sale	-
-	Landfill allowances	-
2,136	Cash and cash equivalents	2,060
<u>142,511</u>		<u>128,852</u>
	<i>Current liabilities</i>	
(166,445)	Creditors	(182,561)
(6,880)	Provisions for current liabilities	(8,546)
(162,392)	Borrowing repayable on demand or within one year	(125,261)
<u>(335,717)</u>		<u>(316,368)</u>
3,962,308	Total assets less current liabilities	4,118,329
	<i>Long-term liabilities</i>	
(1,271,830)	Long-term borrowing	(1,333,830)
(714,767)	Net pensions liability	(1,473,096)
(382,715)	Deferred liabilities	(483,985)
(73,003)	Capital grants receipts in advance	(86,577)
-	Long term creditors	-
(3,536)	Provisions for long-term liabilities	(4,213)
<u>(2,445,851)</u>		<u>(3,381,701)</u>
<u>1,516,457</u>	Total assets less liabilities	<u>736,628</u>
	Financed by	
	<i>Unusable capital accounting balances</i>	
229,457	Revaluation Reserve	284,204
2,010,068	Capital Adjustment Account	1,934,268
8,573	Deferred Capital Receipts	7,723
28	Available for Sale Reserve	140
<u>2,248,126</u>		<u>2,226,335</u>
	<i>Usable capital funding reserves</i>	
7	Usable Capital Receipts Reserve	-
-	Capital Grants Unapplied	-
329	Major Repairs Reserve	-
<u>336</u>		<u>-</u>
	<i>Unusable statutory revenue reserves</i>	
(714,767)	Pensions Reserve	(1,473,096)
(70,684)	Financial Instruments Adjustment Account	(70,981)
(10,582)	Accumulated Absences Account	(11,094)
693	Collection Fund Adjustment Account	(15)
(192)	Equal Pay Back Pay Account	-
<u>(795,532)</u>		<u>(1,555,186)</u>
	<i>Usable revenue reserves</i>	
19,296	General Fund Reserve	16,076
18,794	Housing Revenue Account Reserve	18,131
25,437	Other earmarked reserves	31,272
<u>63,527</u>		<u>65,479</u>
<u>1,516,457</u>	Total reserves and balances	<u>736,628</u>

## Cash Flow Statement

This statement summarises the inflows and outflows of cash and cash equivalents arising from transactions with third parties. For the purposes of this statement, cash and cash equivalents are defined as cash in hand, plus deposits repayable on demand, less overdrafts repayable on demand, plus short term investments held for the purposes of cash flow management.

2009/10	£000s	2010/11	notes
	Operating activities :		
	<i>Cash outflows</i>		
(832,793)	Cash paid to and on behalf of employees		
(798,458)	Other operating cash payments		
(120,334)	Housing Benefit paid out		
(6,664)	Payments to the Capital Receipts Pool		
(36,807)	Revenue expenditure funded by capital under statute		
(43,594)	Precepts paid		
(56,107)	Interest paid		
(31,147)	Finance lease and PFI scheme interest paid		
(1,925,904)			-
	<i>Cash inflows</i>		
979,462	Government revenue grants		19
499,323	Income from local taxation		20
211,096	Cash received for goods and services		
183,513	Rents (after rebates)		
104,201	Other operating cash receipts		
16,850	Grants funding expenditure capitalised under statute		
2,733	Interest received		
1,997,178			-
71,274	Net cash flow from operating activities		- 21.1
	Capital and financial investment activities:		
	<i>Cash outflows</i>		
(203,695)	Purchase of fixed assets		
(2,101)	Long term loans and service investments		
-	Purchase of treasury investments		
	<i>Cash inflows</i>		
81,740	Capital grants received		
14,718	Disposal of fixed assets		
-	Disposal of service loans and investments		
15,000	Disposal of treasury investments		
6,305	Other capital cash receipts		
(88,033)	Net cash flow from investing activities		-
(16,759)	Net cash inflow / (outflow) before financing		-
	Financing:		
	<i>Cash outflows</i>		
(819,542)	Short term loans repaid		
(108,372)	Loans repaid		
(7,178)	Finance lease and PFI scheme principal repayments		
	<i>Cash inflows</i>		
831,775	New short term loans raised		
120,000	New loans raised		
16,683			- 21.2
(76)	Increase / (decrease) in cash and cash equivalents		- 21.2
2,136	Balance of cash and cash equivalents brought forward	2,060	
(76)	Increase / (decrease) for the year	0	
2,060	Balance of cash and cash equivalents carried forward	2,060	



**Report of the Chief Officer (Legal, Licensing and Registration)**

**Corporate Governance and Audit Committee**

**Date: 14<sup>th</sup> February 2011**

**Subject: Reporting Arrangements for Significant Legal Cases Involving the Council**

<p><b>Electoral Wards Affected:</b></p>          <input type="checkbox"/> Ward Members consulted (referred to in report)	<p><b>Specific Implications For:</b></p> <p>Equality and Diversity <input type="checkbox"/></p> <p>Community Cohesion <input type="checkbox"/></p> <p>Narrowing the Gap <input type="checkbox"/></p>
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**1. Executive Summary**

1.1 Members wish to consider the reporting arrangements in respect of significant legal cases involving the Council and make recommendations in respect of such arrangements.

**2. Purpose of This Report**

2.1 To advise the committee of current arrangements for advising management of significant legal cases involving the Council and to discuss how the process could be improved.

**3. Background Information**

3.1 This Report should be read in light of the information contained in the Report to the Committee dated 15 December 2010 entitled 'Information relating to significant legal cases', and in conjunction with the Report entitled : Reporting Arrangements for Significant Claims Against the Council before the Committee today.

3.2 The Report at agenda item 12 entitled: Reporting Arrangements for Significant Claims Against the Council deals specifically with claims made against the Council and which are for the most part dealt with by the Insurance Section of the Finance Department and which are met from the Insurance Fund. Those cases in which legal proceedings are commenced are handled by the in-house legal team.

3.3 This Report provides information of other legal cases in which the Council is involved, either as claimant or defendant.

#### 4. The Issues

- 4.1 The issues which the Committee is considering are:  
i/ which members should be informed about legal cases involving the Council?  
ii/ what information should they be given?  
iii/ when should they be provided with information?  
iv/ who should provide it to them?
- 4.2 Members will note that in the Report dated 14 December 2010 the following Options were suggested:
- 3.1 *A Council the size of Leeds will, at any one time been involved in a number of matters that are, or are likely to become the subject of legal action. The management of such cases is the responsibility of the relevant Director who will effectively act as the 'client'. Legal advice and support is available as required by the Director.*
- 3.2 *Directors will come to their own arrangements for briefing executive members, and keeping them informed about such cases. and their development. Those arrangements will usually take the form of a briefing direct by the Director or one of their senior colleagues. Those briefings provide an ideal opportunity for the executive member to be informed of any threatened or actual court cases about which it is considered that the executive member ought to be aware of.*
- 3.3 *Where legal services receive formal instructions in respect of cases, which they consider to be 'high-risk' they are monitored by the service. Each month each section within legal services produces a performance management report for consideration by the management Team. That report contains detail of 'high-risk' cases. The definition is that a 'high-risk' case is one that "on receipt of instructions and as the case progresses is one where the outcome could be an award against the Council in excess of £250,000 or there could be significant reputational damage to the Council, and such an outcome is likely. Cases that should be deemed as high risk at the conclusion of the case are those where the outcome is likely to result in significant reputational damage to the Council or a complaint has been made or is likely to be made by any person concerning the handling of the case".*
- 4.3 Members expressed some concern about the appropriateness of the options proposed, particularly feeling that such an arrangement might mean that there may be significant cases which Members would wish to know about which fell outside of the definition.
- 4.4 It was agreed that some further information would be provided about the volume of work handled by legal services so that the option previously proposed could be evaluated in light of that information.
- 4.5 Appendix 1 to this Report shows the number of cases open as at January 2011 and the cases opened in each of the three months up to January 2011.

## **5. Implications for Council Policy and Governance**

- 5.1 It is important for the good governance of the Council that the relevant members are aware of significant legal cases involving the council.

## **6. Legal and Resource Implications**

- 6.1 The provision of Reports is an administrative task which will take some resource if those Reports are not currently provided. Making best use of current arrangements will be cost-effective.

## **7.0 Proposals**

- 7.1 The issues which the Committee is considering are:  
i/ which members should be informed about legal cases involving the Council?  
As a general rule the Executive Members need to be apprised of the significant cases in their portfolio area. What amounts to a significant case can be difficult to define and it is sometimes a matter of judgment. Experience shows that a similar decision can, in one case, conclude the matter whilst in another it can lead to adverse publicity for the Council. It is suggested that the definition currently used (as outlined in section 3.3 under paragraph 4.2 of this report) is robust and provides a useful starting point. Members with an interest in a constituent's case can, and often do, make direct contact with legal services and are provided with information about the progress of a case.

ii/ what information should they be given?

It is suggested that a brief outline would be sufficient, giving members the opportunity to seek further information in any particular case. The information passed, will often be highly confidential as it will relate either to the Council's position in litigation or consist of confidentially commercial information. Appendix 2 could be used as a template. Members enquiring about a specific case can be given such information as the constituent agrees to being released.

iii/ when should they be provided with information?

It is suggested that a regular monthly report supplemented by additional information at key stages of the case should be provided. Information can be provided to individual members on request.

iv/ who should provide it to them?

Executive Members will have in place arrangements for receiving appropriate briefings from Directors and other senior officers. Directors, or their nominees should be kept informed of the developments of significant cases by legal services. Legal services can provide information to members direct when consent of the claimant has been obtained.

## **8. Recommendations**

That the Committee consider and amend the proposals set out in paragraph 7 above as they consider appropriate and recommend a regime for future reporting arrangements of significant legal cases.

### Background Documents Used

None



**MATTERS OPEN PER SECTION**

<b>Open Matters</b>				
Civil Litigation	1214			
Development	958			
Employment & Education	463			
Property & Finance	2290			
Regulatory & Enforcement	1687			
Social Care (Legal)	891			
	<b>7503</b>			
		<b>Oct-10</b>	<b>Nov-10</b>	<b>Dec-10</b>
Civil Litigation		134	98	73
Development		39	33	25
Employment & Education		25	46	29
Property & Finance		126	111	90
Regulatory & Enforcement		142	98	87
Social Care (Legal)		33	31	42
		499	417	346
				<b>1262</b>

The 'matters open' represent cases which were shown as 'live' as at January. They are overwhelmingly individual cases although each section will have one or more General Advice Files in which are stored 'one-off' or short pieces of advice. The Civil Litigation figures include Insurance Fund casework.

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## APPENDIX 2

### SIGNIFICANT CASES<sup>1</sup> :

**Name of Case :**

**Date Commenced :**

**Outline :**

**Key Dates / Milestones :**

**Implications for Council :**

**Executive Member :**

**Informed ? (with reason if not or date if informed) :**

**Name of Case :**

**Date Commenced :**

**Outline :**

**Key Dates / Milestones :**

**Implications for Council :**

**Executive Member :**

**Informed? (with reason if not or date if informed) :**

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<sup>1</sup> [Definition for Guidance]

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## Report of the Director of Resources

### Corporate Governance and Audit Committee

Date: 14<sup>th</sup> February 2011

### Subject: Reporting Arrangements for Significant Claims Against the Council

#### Electoral Wards Affected:

Ward Members consulted  
(referred to in report)

#### Specific Implications For:

Equality and Diversity

Community Cohesion

Narrowing the Gap

## 1. Executive Summary

- 1.1 Members require a reporting mechanism whereby they can be informed of claims made against the Council be they be legal claims or any other claim which might have a significant impact on the Council.
- 1.2 Processes already exist which provide details of significant insurance claims to Financial Management and it may be suitable to adapt those systems to inform Members as required.
- 1.3 Similar processes exist with Legal Licensing & Registration and these may also be adapted to serve the required purpose.

## 2. Purpose of This Report

- 2.1 To advise the committee of current arrangements for advising management of significant legal action against the Council and to discuss how to make additional arrangements so that Members on the Corporate Governance and Audit Committee can also be made aware of significant cases.

## 3. Background Information

- 3.1 At any one time there are many legal actions taking place against LCC. The most frequent kind, claims for injury or loss of or damage to property are dealt with by the Council's Insurance Section. These number around two thousand per annum. All of these claims are recorded by the Insurance Section and at that point notified to the relevant department. Most of these claims are outsourced to Zurich Municipal for handling purposes. They are then given an estimated value, which is recorded on the Insurance Section database, pending closure.
- 3.2 Reports are submitted on a regular basis to departmental managers as follows.

- 3.3 A summary report of claims received, closed or altered in the previous 3 months grouped by Department then Cause is sent quarterly to Finance Managers in all the Directorates, ALMOs and BITMO. A detailed report of such claims relating to Passenger Services is sent to the Head of Service – Passenger Transport.
- 3.4 Detailed report of Employer’s Liability claims received, closed or altered in the previous 3 months also grouped by Department then Cause is sent quarterly to members of CORS.
- 3.5 A summary report of all claims received in the previous 5 years grouped by class of business showing trends in claims numbers and claims costs sent annually to Finance Managers.
- 3.6 In addition, Financial Management has a regular dialogue with the Insurance Section to closely monitor developments on potentially high value claims.
- 3.7 The following table shows all open public liability and employers’ liability claims banded by value with the number of claims shown for each value band, except for the highest value claims whose values are listed individually (N.B. the maximum payable by Leeds City Council for any one claim is £500k):

<b>Claims up to £5k</b>	945
<b>Claims £5k to £10k</b>	618
<b>Claims £10k to £25k</b>	602
<b>Claims £25k to £100k</b>	97
<b>Claims £100k to £200k</b>	10
<b>Individual High Value Claims</b>	
	£200,000
	£225,000
	£246,634
	£250,000
	£385,861
	£400,000
	£476,049
	£544,350
	£544,864
	£574,935
	£728,549

#### **4. Insurance Arrangements**

- 4.1 Leeds City Council has been insured by Zurich Municipal for compensation claims since 1<sup>st</sup> April 1999. The contracts are let on a five year basis. Zurich Municipal have won the business through the tender process twice since then.
- 4.2 Zurich Municipal insure Public Liability, Employer's Liability, Officials Indemnity, Libel and Slander and Land Charges risks. Leeds City Council is insured up to a maximum of £40m any one claim for employers and public liability and £5m for the other insurance covers mentioned above.
- 4.3 As a very large organisation, it is certain that we will receive a predictable number of compensation claims each year. Rather than pay Zurich Municipal to deal with all of them and have them charge us an insurance premium based on an equivalent figure with profit and overheads added, Zurich Municipal only insure claims with an individual value of £500,000 or more. Leeds City Council funds all claims which fall below that figure, including legal costs.
- 4.4 Claimants have up to three years in which to make their claim for compensation following an injury unless they are minors in which case they have up until three years after their eighteenth birthday. Persons who lack the capacity to be responsible for their own affairs are not limited at all. Section 33 of the Limitation Act 1980 allows courts to waive limitation if it is felt appropriate. This is most relevant in cases of abuse perpetrated many years ago.
- 4.5 In addition to insuring claims valued at £500,000 or above, Zurich Municipal also provide "aggregate stop protection" at a level of £10m. This means that for any one year, if the claims we pay from our own funds exceed £10m, then all claims for the remainder of that policy year will be paid in full by Zurich Municipal. In the past the aggregate stop protection has been as low as £6m. For the financial years 2000, 2001 and 2002 Leeds City Council reached the aggregate stop limit and Zurich Municipal are paying in full any claims which arrive for incidents which occurred in those years.
- 4.6 Zurich Municipal, in common with the other local authority insurers, insist on handling the self insured claims for Leeds City Council, because of their financial exposure in relation to the aggregate stop protection and in particular because of historic problems with local authorities who did their own claims handling not recording adequate estimates against current claims. An annual fee is paid to Zurich Municipal for liability claims handling. In 2008/09, 2,218 public liability claims and 155 employers liability claims were sent to Zurich Municipal for handling.
- 4.8 Annual audits of a sample of Zurich Municipal claim files are carried out by officers from Resources and Legal Services. Financial data is imported to the LACHS system on a monthly basis from Zurich Municipal's database.

4.9 All new claims are sent to the Insurance Section in Resources where they are recorded on our own claims database (LACHS). The Insurance Section then requests a report and any other relevant information from the relevant council department. No claim proceeds any further than this without the department concerned being made aware. The opportunity is therefore already in place for any 'issues' to be raised within that department at this point. The claim is then sent to Zurich Municipal for handling. Zurich Municipal investigate by obtaining all relevant information from the relevant employing department and either agree settlement or repudiate the claim. Zurich Municipal liaise closely with Leeds City Council where any individual claim has a potentially high value, is possibly fraudulent or has the potential for media coverage.

## **5. Trend Analysis**

5.1 One of the principal reasons for having a comprehensive database of claims information is to have the ability to analyse that information to identify any trends which may require attention.

5.2 An example of this is in relation to the ALMOs. It became apparent that pavement trips were increasing and that the ALMOs did not have a legal defence in the way that Highways have because they did not have any system for inspecting footways and recording inspections, defects and remedial action taken. Officers from the Insurance Section worked with the relevant ALMO officers in order to set up such a system, which they did by entering an arrangement with Highways to carry out inspections.

5.3 The Insurance Section is currently working on an analysis of Highways claims which have been paid in order to identify any 'tightening up' of procedures which could improve the successful defence rate.

5.4 Where a change in working practices could eliminate or reduce claims, recommendations will be made to the relevant services, but in most cases Leeds City Council has very good Health and Safety procedures and other procedures. For example, there is a relatively small number of employers liability claims made, given a workforce of approximately 27,000. In most cases claims are paid because our own procedures have not been followed or defects have been left unattended, e.g. faulty chair not replaced promptly resulting in it collapsing and causing a back injury to employee.

## **6. Implications for Council Policy and Governance**

6.1 There are no implications for Council Policy and Governance.

## **7. Legal and Resource Implications**

7.1 There are no Legal and Resource implications.

## **8. Conclusions**

8.1 Members of the Corporate Governance and Audit Committee and the relevant lead Member for affected services should be made aware of significant claims made against the Council and a process by which that information may be conveyed should be implemented in a manner satisfactory to Members.

8.2 It is proposed that the Insurance Manager will supply a brief report of significant claims to the Corporate Governance Committee in advance of each meeting. Members of the committee can request further information post meeting, if required.

**9. Recommendations**

9.1 It is recommended that Members confirm if they are satisfied with the process for dealing with trends in insurance claims and the proposed process for informing Members of significant claims against the Council.

**Background Documents Used - None**

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### **3.0 Implications For Council Policy And Governance**

3.1 The terms of reference of the Corporate Governance and Audit Committee require the Committee to review the adequacy of the Council's corporate governance arrangements. This report forms part of the suite of assurances that provides this evidence to the Committee.

### **4.0 Legal And Resource Implications**

4.1 None.

### **5.0 Conclusions**

5.1 There are no issues identified by Internal Audit that would necessitate direct intervention by the Corporate Governance & Audit Committee.

### **6.0 Recommendations**

6.1 That Corporate Governance and Audit Committee notes;

- The February Internal Audit Report 2010/11 and the assurances given.
- The changes to the 2010/11 Operational Plan
- The value added to the organisation by the internal audit section

### Background Documents Used

None

# **LEEDS CITY COUNCIL**

## ***INTERNAL AUDIT REPORT***

***February 2011***

# ***CONTENTS***

***Section***

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- The reporting Process**  
**Background**  
**Added Value of Internal Audit**
- 

- 2. AUDIT COVERAGE**
- Progress against the 2010/11 Operational Plan**  
**How Internal Control is Reviewed**
-

Section 1

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## **INTRODUCTION**

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### **1. The Reporting Process**

- 1.1. On behalf of the Corporate Governance and Audit Committee and the Director of Resources, Internal Audit acts as an assurance function providing an independent and objective opinion to the organisation on the entire control environment by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.
- 1.2. This bi-monthly report seeks to provide the Corporate Governance and Audit Committee with a summary of internal audit activity for the period and report the incidence of any significant control failings or weaknesses.

### **2. Background**

- 2.1. The Government's Spending Review and its reductions in grants presents a very significant challenge to the Council, which is without precedent in recent times. In addition to the substantial reduction in Government funding, the Council also faces significant cost pressures which will also need to be taken into account in setting budgets for the next four years and probably beyond.
- 2.2. The impact of this changing environment has already been felt by internal audit, particularly in terms of available resources and the type of work undertaken. The freeze on filling vacancies has reduced the total available resources and additional days have also been allocated to value for money type work, particularly business analysis, which will result in an additional 600 days being spent in this area by the year-end. On a day to day basis, there are 8 business analysts and 3 internal auditors working on value for money/efficiency/business process re-engineering work. These increasing pressures have compressed those days available for traditional planned assurance work.
- 2.3. This necessitates a thorough and ongoing re-evaluation of the minimum level of coverage required to give stakeholders, including the Corporate Governance & Audit Committee, an appropriate level of assurance on the control environment of the Council. As in previous

years, the internal audit operational plan has been subject to constant review throughout the financial year to ensure that audit resources are prioritised and directed towards the areas of highest risk. Section 2 of this report details the changes made in coverage from the original Audit Plan set in April 2010. Given the budget cuts a report will be submitted to every other Corporate Governance & Audit Committee rather than six monthly.

- 2.4. However, the internal audit team is in very good shape to respond positively to these challenges and has the skills, competencies and work ethic to fully contribute to the solutions the organisation must find. For a number of years the team has embraced and fully supported the principles of Continuing Professional Development (CPD). In this rapidly changing environment it is important that all Internal Auditors are kept abreast of the latest audit and accounting methodologies, changes in legislation and best practice as well as changes to the public sector arena so they have the necessary skills and knowledge to perform their roles to a high standard.
- 2.5. This is the time where internal audit can and will contribute positively and effectively to the significant challenges faced by the Council.
- 2.6. The next report to this committee will outline proposals for the 2011/12 Internal Audit Operational Plan.

### **3. Added Value of Internal Audit**

- 3.1. At the 29<sup>th</sup> July 2010 meeting of the Corporate Governance & Audit Committee details on the cost of Internal Audit to the Council and further information on the value added to the Council by the section through its value for money work was requested. It was agreed that this report would include some commentary on this question.
- 3.2. It would be easy to simply state the statutory requirement for an internal audit service, which can be summarised as;
  - The organisation has a duty to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control.
  - In 2006, CIPFA published a revised Code of Practice for Internal Audit in Local Government in the UK. The guidance accompanying the Accounts and Audit Regulations 2003 referred to this code as representing “proper internal audit practices”. The Code defines the way in which the internal audit service should be established and undertaken, encompassing organisational and structural aspects.
  - In April 2006 amendments to the Accounts and Audit Regulations (England) 2003 had a further affect on internal audit for English

authorities. Regulation 6, required bodies to review the effectiveness of their system of internal audit once a year and for the findings of the review to be considered by a committee of the body, or by the body as a whole.

3.3. However a statutory requirement is not really an explanation of how internal audit service can add value and, at Leeds, we continually strive to improve our outputs and positive contribution to good governance within the organisation.

3.4. There are a number of ways the team can demonstrate value for money in terms of quality and external opinions. Examples include;

- Internal audit has been part of the core cities benchmarking club for over ten years – consistently being a high performer across a whole range of key cost and quality measures. Examples include cost per audit day and percentage of productive time as well as customer questionnaires and perceptions of added value.
- Internal audit has a significant portfolio of work won in open competition. This includes partners wholly owned by the organisation, such as ALMOs, as well as other public sector service providers.
- KPMG, the Council's external auditors, rely upon internal audit work for opinion purposes. In 2009/10 KPMG concluded that;

*“We have a strong working relationship with the Internal Audit team at the Authority and again have been able to place full reliance on the work undertaken which reduces the impact on other officers at the Authority. We did not identify any significant issues with internal audit's work and are pleased to report that we are again able to place full reliance on internal audit's work of the key financial systems. We particularly noted improvements in terms of the quality of system documentation”*

- A customer satisfaction questionnaire (CSQ) is issued with every audit report. The questionnaires ask for the auditees opinion on a range of issues and asks for an assessment ranging from 5 (for excellent) to 1 (for poor). The feedback continues to be very positive.
- One of the key service objectives of the Section is to remain a centre of excellence for new and emerging issues within the audit field. Internal Audit continues to be represented on a number of national audit forums.
- All our work is undertaken in accordance with our quality management system; we have now been ISO accredited for over fourteen years.

3.5. In addition to these input based indicators, looking at the quality of the section, there are many examples of outcomes arising from internal audit work that clearly demonstrate added value. This list is not exhaustive but is intended to give a flavour of the type of work undertaken;

- The Head of Audit provides a written report to those charged with governance timed to support the Annual Governance Statement. This report includes an opinion on the overall adequacy and effectiveness of the organisation's control environment, presenting a summary of how that opinion is derived including reliance placed on work by other assurance bodies. This opinion is underpinned by the 200 plus internal audit reports issued to the Council's officers and members throughout the year. These reports contain numerous recommendations to improve the control environment, taking into account organisational objectives and cost of control.
- Internal audit also reports into the newly formed Internal Control Board that has been set up to help ensure that the internal control environment of Leeds City Council is sound. This Board has been set up to help reduce the risk of unexpected control system failures.
- Internal Audit continues to act as the custodians of the Council's Whistleblowing Policy. In 2010/11 to date, Internal Audit has dealt with a total of 74 potential irregularity referrals.
- Internal Audit continues to be pro-active in offering advice to officers on the application of Contract Procedure Rules (CPR). When these rules cannot be fully complied with a waiver is sought and through this process Internal Audit provides clear, risk based recommendations to Directors, advising on how to progress that particular procurement. More importantly, we work with departmental officers to examine ways to prevent re-occurrence and secure both best value and transparency.
- Internal audit has had a great deal of success in open book reviews of the Council's suppliers in 2010/11. This success, and the significant sums of money recovered, has been a driver in prompting the section to examine ways that resources can be used to create a 'hub of excellence' that not only undertakes its own open book reviews but also works with other officers in the Council to improve this important skill. It is hoped the 2011/12 Plan will be able to find the resources necessary to make this ambition a reality.

3.6. In May 2010 the Business Process Re-Engineering team was transferred to work within internal audit with the aim of refocusing these key resources on Council priorities to supplement the organisation's response to the efficiencies challenge. The skills and competencies of the business analysts sit well within internal audit and will enhance the 'audit offer'. The pressures facing the organisation dictated a speedy transition was essential as there were a number of

areas where the skills of auditors and business analysts combined were needed. Positive feedback is being received about the work of this new team and, given this is the first time the committee has been updated on the work of this team, the following section gives more detailed examples of the type of work being undertaken and the methodology adopted.

### **3.7. Internal Audit work on VFM**

3.7.1. A basic assumption must be that there is a need to maximise the impact of all audit activity and understand exactly where assurances can be gained. As a result, work undertaken in the VFM/Efficiency/Business Process Re-engineering areas needs to both drive lean systems and give assurances on the control environment. Therefore the aim is to achieve four generic outcomes from each review:

- An 'as is' picture of the current system and processes. To include understanding and agreeing key outcomes and reviewing the policies and procedures that drive the culture, eligibility etc.;
- The 'to be' stage. A lean, efficient system where resources are geared towards achieving agreed outcomes and management controls are timely and effective;
- Understanding the sensitivity of change, such as demand, and the service's ability to both achieve agreed outcomes and budget;
- An assurance on the Internal Control Environment. Then internal audit can compliance check key controls.

It is essential that the team is working in areas of key risk to the organisation – otherwise assurances from this work would not add much value to the level of overall assurance.

3.7.2. Examples of the type of work the VFM team are undertaking include;

#### ***Housing Options***

- The review was commissioned by the Chief Officer for Resources and Strategy for Environment and Neighbourhoods to perform analysis around the Housing Options Services at Great George Street. The rationale for the review was twofold; to identify how the service could create capacity to respond to

increased demand for the service emanating from the current economic downturn and also to produce recommendations to achieve cashable savings if activity remained at current levels.

- The report identified potential FTE savings in the region of £208k through the following opportunities:
  - Reorganising the way in which resources are scheduled, to generate greater utilisation of staff time and create a more equitable balance of work;
  - Developing management information which will allow this process to occur based on reliable information;
  - Introducing greater standardisation to enable processes to occur more consistently.
- Following the issue of the final report, the Directorate is developing a business case to supplement the change, including the necessity to develop the IT capabilities.

### **Adult Social Care**

- Adult Social Care are undertaking major organisational changes. Five members of the internal audit team have been supporting the directorate in both identifying and reviewing its 'As – Is' business processes across the whole of Adult Social Care Operations. The review will:
  - identify areas where immediate improvements can be made,
  - provide a firm baseline from which the emerging 'to-be' business processes can be developed to support changed ways of working in line with the increasing personalisation of services,
  - be critical in informing the specification for both the replacement of the existing ESCR system, together with further technological requirements necessary to support future requirements.
- It is likely the team will be asked for further assistance when the new working processes are to be designed.

### **Childrens and Adults Transport**

- The team is working with colleagues across the organisation to identify ways to both maintain quality of service but reduce costs.

### ***Revenues and Benefits***

- This review will cover several areas in Benefits (assessing new claims, dealing with changes, interactions with council tax) and Council Tax (setting up new bills, changes of address, changes to charge payer details and accounts) and develop opportunities and options for a re-designed service model with resource implications and associated potential cost savings.

### ***Purchasing Cards***

- This review will cover policies and procedures relating to the use of purchasing cards; appropriateness of expenditure and procurement methods and value for money of supplier arrangements.

### ***Purchase to Pay***

- This review has involved establishing the baseline for the processes for purchase to pay in relation to office supplies and stationery and travel and identifying opportunities for efficiencies in the processes.

### ***Changing the workplace: customer access***

- The objectives of the review are to understand and baseline each of the services identified for migration to the single customer facing enquiry centre, determining their 'state of readiness'; and to define the new service delivery model for each of the appropriate services for migration.

### ***IT equipment and disposal***

- The team was commissioned to review the improvements made by ICT to procedures for purchasing and disposing of IT equipment in response to suspected misappropriation of equipment, in particular the effectiveness of the controls in place and identifying opportunities for improving the process. The review found that the controls in place were not adequate, and that there is no central hardware inventory across the authority or within individual directorates. Recommendations were made to improve controls.

### ***Hospitality and External Room Hire***

- The review is nearing completion and will aim to identify potential savings.

3.8. There are many other requests for internal audit resources to assist in reviews across the organisation, and these will be assessed as to potential benefits and impacts and, wherever possible when comparing competing priorities, resources identified to undertake the work.

3.9. At the start of the financial year 2010/11 the net budgeted cost of internal audit was £1,174,730. This increased to £1,626,800 when management responsibility for the Business Process Re-engineering team was transferred to Internal Audit in May 2010.

## Section 2

**AUDIT COVERAGE****4. Progress against the 2010/11 Operational Plan**

4.1. The following table shows the revised audit days expected to be completed in the financial year, broken down into audit areas. As can be seen, resources have been reprioritised based on continuous risk assessment. At the moment it is still expected the mix and volume of work will be sufficient to provide the Committee and other stakeholders with an evidence based assurance on the control environment of the Council.

**Detailed Reviews by Audit Type - Projected Days to 31st March 2011**

<b>Audit</b>	<b>Original days per Audit Plan 2010/11</b>	<b>Projected days to 31<sup>st</sup> March 2011</b>	<b>Increase/ Decrease in number of days</b>	<b>% change</b>
TOTAL FOR KEY FINANCIAL SYSTEMS	784	784	0	0
TOTAL FOR COMPLIANCE	800	425	-375	-47
TOTAL FOR UNANNOUNCED VISITS & SCHOOLS	240	217	-23	-9
TOTAL FOR RISK BASED REVIEWS	25	0	-25	-100
TOTAL FOR PROCUREMENT	70	97	27	39
TOTAL FOR CONTRACT AUDIT	210	96	-114	-54
TOTAL FOR INFORMATION TECHNOLOGY	130	34	-96	-74
TOTAL FOR CORPORATE GOVERNANCE	265	132	-133	-50
TOTAL FOR VALUE FOR MONEY	1400	2007	607	43
TOTAL FOR HEAD OF AUDIT ASSURANCES	112	69	-43	-39
TOTAL FOR CONTRACT WORK	1156	1216	60	5
TOTAL FOR EDUCATION LEEDS	60	46	-14	-24
TOTAL FOR PROFESSIONAL LIAISON	48	57	9	18
TOTAL FOR POLICY	67	16	-51	-76
TOTAL FOR CORPORATE WORKING GROUPS	95	85	-10	-11
TOTAL FOR CONTINGENCY	770	741	-29	-4
TOTAL FOR ANTI FRAUD AND CORRUPTION	862	575	-287	-33
<b>Operational Plan Total</b>	<b>7094</b>	<b>6597</b>	<b>-497</b>	

## 5. How Internal Control is Reviewed

- 5.1. There are three elements to each internal audit review. Firstly, the control environment is reviewed by identifying the objectives of the system and then assessing the controls in place mitigating the risk of those objectives not being achieved. Completion of this work enables internal audit to give an assurance on the control environment.
- 5.2. However, controls are not always complied with which in itself will increase risk, so the second part of an audit is to ascertain the extent to which the controls are being complied with in practice. This element of the review enables internal audit to give an opinion on the extent to which the control environment, designed to mitigate risk, is being complied with.
- 5.3. Finally, where there are significant control environment weaknesses or where the controls are not being complied with and only limited assurance can be given, internal audit undertakes further substantive testing to ascertain the impact of these control weaknesses.
- 5.4. To improve consistency in audit reporting, the following definitions of audit assurance are used for all systems and governance audits completed.

<b>Control Environment Assurance</b>		
<b>Level</b>		<b>Definitions</b>
1	SUBSTANTIAL	There is a sound control environment.
2	GOOD	There are minor weaknesses in the control environment.
3	ACCEPTABLE	There are some weaknesses in the control environment.
4	LIMITED	There are some significant weaknesses in the control environment.
5	NO ASSURANCE	There are fundamental weaknesses in the control environment.

<b>Compliance Assurance</b>		
<b>Level</b>		<b>Definitions</b>
1	SUBSTANTIAL	The control environment has operated as intended.
2	GOOD	The control environment has substantially operated as intended although some minor errors have been detected.
3	ACCEPTABLE	The control environment has mainly operated as intended although errors have been detected.
4	LIMITED	The control environment has not operated as intended. Significant errors have been detected.
5	NO ASSURANCE	The control environment has fundamentally broken down and is open to significant error or abuse.

Organisational impact will be reported as either Major, Moderate or Minor. All reports with major organisational impacts will be reported to CLT along with the appropriate directorate's agreed action plan.

Organisational Impact		
Level	Definitions	
1	MAJOR	The weaknesses identified during the review have left the council open to significant risk. If the risk materialises it would have a major impact upon the organisation as a whole.
2	MODERATE	The weaknesses identified during the review have left the council open to medium risk. If the risk materialises it would have a moderate impact upon the organisation as a whole.
3	MINOR	The weaknesses identified during the review have left the council open to low risk. This could have a minor impact on the organisation as a whole.

5.5. The individual reports, and the opinions given within those reports, are detailed in the following table. Not all audit reviews will have an opinion in each of the boxes as this is dependant on the type of review undertaken.

#### Schedule of Reports issued to 24<sup>th</sup> January 2010/11

Report Title	Audit Opinion			Directorate	Date Issued
	Control Environment	Compliance	Business Impact		
Temple Newsam Tearooms 2009/10	Acceptable	Good Assurance	Minor	City Development	01/06/2010
Beeston Phase 5 Group Repairs Audit 2009/2010	Good Assurance	Acceptable	Minor	Environment and Neighbourhoods	03/06/2010
BSC Central Payments	Substantial Assurance	Substantial Assurance	Minor	Resources	03/06/2010
East North East Homes Leeds Partnering Contract 2008/09 FINAL ACCOUNT	Limited Assurance	No Assurance		ENEH	04/06/2010
Children and Young People's Social (CYPSC) Care Service - Placement Payments 2009/10	Limited Assurance		Moderate	Children's Service	08/06/2010
Central & Corporate Functions Sundry Income - 2009/10	Acceptable	Acceptable	Moderate	Resources	08/06/2010
Review of Swarcliffe PFI 2008/9	Acceptable	Acceptable	Moderate	Environment and Neighbourhoods	08/06/2010
Creditors ASC 2009/10	Good Assurance	Acceptable	Minor	Adult Social Care	15/06/2010
Creditors City Development 2009/10	Substantial Assurance	Good Assurance	Minor	City Development	15/06/2010
Adult Social Care purchase orders		Acceptable	Minor	Adult Social Care	17/06/2010
Environment & Neighbourhoods purchase orders		Acceptable	Minor	Environment and Neighbourhoods	17/06/2010

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Report Title	Audit Opinion			Directorate	Date Issued
	Control Environment	Compliance	Business Impact		
Internal Audit Report-Orchard & PS Team General Computer Controls 2009/10	Substantial Assurance	Good Assurance	Minor	Environment and Neighbourhoods	22/06/2010
General Computer Controls – FMS, SAP, Academy, Powersolve & IMS	Substantial Assurance	Substantial Assurance	Minor	Resources	22/06/2010
Education Leeds Corporate Governance Review 2009/10	Good Assurance			Education Leeds	26/06/2010
Chapeltown Children's Centre 2010/11	Good Assurance	Acceptable	Minor	Children's Service	28/06/2010
West North West Homes Leeds - Corporate Governance 2009/10	Good Assurance	Acceptable		WNWHL	02/07/2010
East North East Homes Leeds Procurement Audit 2009/10	Acceptable	Limited Assurance		ENEH	05/07/2010
South Leeds Athletics and Bowls Centre 2009/10	Good Assurance	Good Assurance	Moderate	City Development	06/07/2010
Aireborough Leisure Centre 2009/10	Good Assurance	Acceptable	Moderate	City Development	06/07/2010
Rothwell Leisure Centre 2009/10	Good Assurance	Acceptable	Moderate	City Development	06/07/2010
Financial Management — Central Controls 2009/10	Substantial Assurance	Substantial Assurance	Minor	Resources	08/07/2010
Capital Programme Controls 2009/10	Acceptable	Acceptable	Moderate	Resources	09/07/2010
BITMO Annual Internal Audit Report — 2009/10	Acceptable	Acceptable		BITMO	13/07/2010
Taxi and Private Hire Licensing Compliance Audit 2010/11	Limited Assurance	Good Assurance	Moderate	Chief Executive	13/07/2010
Harewood Church of England Voluntary Controlled Primary School 2010/11	Good Assurance	Good Assurance	Minor	Education Leeds	13/07/2010
Broadgate Primary School (2010/11)	Good Assurance	Acceptable	Minor	Education Leeds	13/07/2010
ENEHL Annual Internal Audit Report — 2009/10	Acceptable	Acceptable		EHEH	15/07/2010
Area Committees 2009/2010	Good Assurance		Minor	Environment and Neighbourhoods	15/07/2010
WNWH Annual Internal Audit Report — 2009/10	Good Assurance	Acceptable		WNWHL	15/07/2010
Bank Reconciliation and Cashbook Audit 2010/11	Substantial Assurance	Substantial Assurance	Minor	Resources	20/07/2010
Suffolk Court care HOP follow up 2009/10	Acceptable	Limited Assurance	Minor	Adult Social Care	23/07/2010
Bewerley Croft Audit Report 2010/11	Acceptable	Acceptable	Minor	Adult Social Care	26/07/2010
Environmental Audit System (EMAS) — Systems Based Audit 2010/11	Substantial Assurance	Substantial Assurance	Minor	City Development	28/07/2010
Leeds Early Years/Integrated Youth Support Service (EY/IYSS) — Follow up Audit 2010/11	Acceptable			Children's Service	28/07/2010
Procurement Unit Central Controls 2009/10	Acceptable	Acceptable	Moderate	Chief Executive	04/08/2010
Claims and Compliance Section — Follow Up Review 2010/2011	Acceptable			<i>Environment and Neighbourhoods</i>	04/08/2010
Local Enterprise Growth Initiative (LEGI) Performance Indicator	Acceptable	Limited Assurance	Minor	City Development	04/08/2010

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Report Title	Audit Opinion			Directorate	Date Issued
	Control Environment	Compliance	Business Impact		
NI131 – Delayed transfers of care from hospitals	Acceptable	Acceptable	Minor	Adult Social Care	05/08/2010
Rents and Leases 2010/11	Good Assurance	Acceptable	Minor	City Development	06/08/2010
Community Care Homecare 2009/10 – East North East Area Wedge	Acceptable	Limited Assurance	Major	Adult Social Care	09/08/2010
East Leeds Link Road Contract Audit 2009/10	Good Assurance	Acceptable	Moderate	City Development	20/08/2010
Central Monitoring of Key Partnerships	Good Assurance			Chief Executive	24/08/2010
Education Leeds Creditors 2009/10	Substantial Assurance	Acceptable		Education Leeds	25/08/2010
BITMO Responsive Repairs Audit 2009/10	Acceptable	Good Assurance		BITMO	31/08/2010
Annual Governance Statement 2010	Good Assurance		Minor	Chief Executive	01/09/2010
NI145 Adults with learning disabilities in settled accommodation.	Acceptable	Limited Assurance	Minor	Adult Social Care	14/09/2010
Members' Allowances 2009/10	Substantial Assurance	Substantial Assurance	Minor	Chief Executive	15/09/2010
Strategic Landlord Key Performance Indicators 2010/11	Acceptable	Acceptable	Minor	Environment and Neighbourhoods	12/10/2010
Corporate Governance — East North East Homes Leeds (ENEHL) 2010/11	Acceptable		Minor	ENEH	14/10/2010
Lettings Enforcement — Strategic Landlord 2010/11	Good Assurance		Minor	Environment and Neighbourhoods	14/10/2010
ENEHL — Review of Key Performance Indicators 2010/11	Substantial Assurance	Good Assurance	Minor	ENEH	19/10/2010
Major adaptations (Private Homes) Follow Up Review 2010/11	Good Assurance	Substantial Assurance	Minor	Environment and Neighbourhoods	25/10/2010
Strategic Landlord Assurance Framework Aire Valley Homes Leeds – Procurement 2010/11	Limited Assurance	Limited Assurance	Moderate	External	25/10/2010
West North West Homes Leeds - Key Policies — Rent Arrears	Good Assurance	Good Assurance	Minor	WNWHL	02/11/2010
Bank Reconciliations and Treasury Management 2010/11	Good Assurance	Good Assurance	Minor	WNWHL	04/11/2010
Budgetary Control and Performance — West North West Homes Leeds	Good Assurance	Acceptable	Moderate	WNWHL	05/11/2010
Lettings Enforcement — Belle Isle Tenancy Management Organisation Leeds Q1 and Q2		Limited Assurance	Moderate	BITMO	09/11/2010
Strategic Landlord Assurance Framework Key Policies: Rent Arrears	Good Assurance	Acceptable	Minor	ENEH	09/11/2010
Key Performance Indicator NI61 - Follow up Audit	Good Assurance	Good Assurance		Children's Service	09/11/2010
Care Ring Follow Up Review	Limited Assurance	Limited Assurance	Minor	Environment and Neighbourhoods	09/11/2010
Asset Management Responsive Repairs — Belle Isle Tenant Management Organisation	Acceptable	Good Assurance	Minor	BITMO	11/11/2010

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Report Title	Audit Opinion			Directorate	Date Issued
	Control Environment	Compliance	Business Impact		
Employee Conflict of Interest	Limited Assurance	Limited Assurance	Moderate	City Development	11/11/2010
Knowle Manor Audit Report 2010/11	Good Assurance	Acceptable	Minor	Adult Social Care	12/11/2010
Rent Arrears — Belle Isle Tenant Management Organisation (BITMO)	Acceptable	Acceptable	Minor	BITMO	16/11/2010
Middleton Leisure Centre 2010/11	Good Assurance	Good Assurance	Minor	City Development	17/11/2010
Enforcement — East North East Homes Leeds Q1 and Q2		Good Assurance	Minor	ENEH	18/11/2010
Key Performance Indicators – Aire Valley Homes Leeds 2010/11	Good Assurance	Good Assurance	Minor	External	19/11/2010
Kirkland House HOP 2010/11	Good Assurance	Acceptable	Minor	Adult Social Care	25/11/2010
Strategic Landlord Assurance Framework Procurement Quarter 1 BITMO 2010/11	Acceptable	Limited Assurance	Moderate	BITMO	03/12/2010
Lettings Enforcement – West North West Homes Leeds Q1 and Q2 2010/11		Limited Assurance	Moderate	WNWHL	07/12/2010
Children’s Services – Key Performance Indicators Review	Acceptable	Acceptable	Minor	Children’s Service	07/12/2010
Human Resources File Review 2010/11	Good Assurance	Limited Assurance	Moderate	Resources	08/12/2010
Treasury Management & Bankline 2010/11 - interim memo	Substantial	Substantial		Resources	09/12/2010
Key Performance Indicators — BITMO 2010/11	Good Assurance	Good Assurance	Minor	BITMO	15/12/2010
Income Management System 2010/11	Substantial Assurance		Minor	Resources	17/12/2010
Asset Management Consultation – BITMO 2010/11	Good Assurance		Minor	BITMO	21/12/2010
East North East Bank Rec	Acceptable			ENEH	23/12/2010
East North East Responsive Repairs Mears	Good Assurance	Good Assurance		ENEH	23/12/2010
Aire Valley Homes Lettings		Limited Assurance	Moderate	AVHL	23/12/2010
<b>Schools/FMSiS/School Voluntary Fund Reviews</b>					
Quarry Mount Primary School Follow Up Audit 2009/10	Good Assurance	Good Assurance	Minor	Education Leeds	19/05/2010
Featherbank Infant School 2010/11	Substantial Assurance	Substantial Assurance	Minor	Education Leeds	19/05/2010
Gildersome Primary School FMSiS 2009/10	Conditional Pass	Conditional Pass		Education Leeds	19/05/2010
Pool-in-Wharfedale CoE Primary School FMSiS 2009/10 Follow Up	Pass	Pass		Education Leeds	21/05/2010
St James CofE Voluntary Controlled FMSiS 2009/10	Pass	Pass		Education Leeds	21/05/2010
Priesthorpe Sports Specialist College FMSiS 2009/10 Follow Up	Pass	Pass		Education Leeds	21/05/2010

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Report Title	Audit Opinion			Directorate	Date Issued
	Control Environment	Compliance	Business Impact		
Thornor CoE Voluntary Controlled Primary School 10/11	Acceptable	Acceptable	Minor	Education Leeds	08/06/2010
Roundhay School Technology and Language College	Substantial Assurance	Substantial Assurance	Minor	Education Leeds	08/06/2010
Allerton Bywater Primary School (FMSiS) — External Assessment 2009/2010 Follow Up	Pass	Pass		Education Leeds	08/06/2010
Shadwell Primary School FMSiS 09/10 Follow Up	Pass	Pass		Education Leeds	08/06/2010
Swillington Primary School FMSiS0910 Follow Up	Pass	Pass		Education Leeds	08/06/2010
Gildersome Primary School FMSiS 2009/10 Follow Up	Pass	Pass		Education Leeds	08/06/2010
FMSiS Mount St Mary's Primary Closing Audit	Fail	Fail		Education Leeds	08/06/2010
Gildersome Primary School Internal Audit follow-up review	Good Assurance	Substantial Assurance	Minor	Education Leeds	15/06/2010
Rothwell CoE Voluntary Controlled Primary FMSiS 09/10 Follow Up	Pass	Pass		Education Leeds	23/06/2010
BESD SILC — Elmete Central FMSiS 09/10 Follow Up	Pass	Pass		Education Leeds	23/06/2010
Bramham Primary School FMSiS 09/10 Follow Up	Pass	Pass		Education Leeds	23/06/2010
Mill Field Primary School 2010/11	Acceptable	Good Assurance	Minor	Education Leeds	26/06/2010
Swinnow Primary School 2010/11	Good Assurance	Acceptable	Minor	Education Leeds	26/06/2010
Lower Wortley Primary School 2010/11	Good Assurance	Good Assurance	Minor	Education Leeds	19/07/2010
Lady Elizabeth Hastings' Church of England Primary Thorp Arch 2010/11	Good Assurance	Substantial Assurance	Minor	Education Leeds	20/07/2010
Bramhope Primary School	Good Assurance	Good Assurance	Minor	Education Leeds	27/07/2010
Low Road Primary 10/11	Good Assurance	Good Assurance	Minor	Education Leeds	13/09/2010
Ingram Road Primary School	Good Assurance	Acceptable	Minor	Education Leeds	21/09/2010
Woodkirk High School	Good Assurance	Good Assurance	Minor	Education Leeds	21/09/2010
Micklefield CoE Voluntary Controlled Primary	Good Assurance	Good Assurance	Minor	Education Leeds	22/09/2010
Bruntcliffe High School 2010/11	Good Assurance	Good Assurance	Minor	Education Leeds	24/09/2010
Bruntcliffe High School 2010/11 FMSiS	Conditional Pass	Conditional Pass		Education Leeds	24/09/2010
Parkland Girls' High Follow Up	Acceptable	Substantial Assurance		Education Leeds	23/11/2010
Lawnswood High School FMSiS 2010/11	Pass	Pass		Education Leeds	25/11/2010
Drighlington Primary School FMSiS 2010/11	Pass	Pass		Education Leeds	25/11/2010
Bruntcliffe High School FMSiS 2010/11	Pass	Pass		Education Leeds	25/11/2010

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- 5.6. As can be seen, there are a number of reviews that have resulted in limited assurance or no assurance. However each review concluded with a number of recommendations that, if implemented, would allow appropriate levels of assurance to be given.
- 5.7. Although significant to the control environment in place for the individual system areas that have been audited these weaknesses are not material enough to have a significant impact on the overall opinion on the adequacy of the Council's control environment at the year end.
- 5.8. The *only* review that concluded a major impact for the organisation was **Community Care (Homecare) East North East Area 2009/10**, issued 9/8/10.
- 5.8.1. The audit review covered the procedures within Adult Social Care for the delivery of community care (non-residential) services in the East North East Area.
- 5.8.2. The key areas for improvement in the control environment were budgetary control (although a separate report was issued on budget pressures within Adult Social Care) and reducing delays in the provision of domiciliary care (Leeds is in the 3rd quartile for NI 133, with 86.9% of customers receiving services in 28 days of an assessment against a target of 92%.) Significant progress is already being made in each of these areas, including the commissioning of new framework providers and the formulation of an action plan to address budgetary issues within the service.
- 5.8.3. Limited assurance was provided for compliance as the review highlighted that the recording of information needed to be improved for the evidencing of decisions (this has also been identified through the independent file reviews), improving the recording of data within ESCR and data quality checks. The review also identified that periodic file reviews by the area offices had not been undertaken between October 2008 and December 2009. This was an agreed action following the Independence, Wellbeing and Choice inspection in 2008. These were recommenced in January 2010 and independent file reviews have been undertaken throughout the year.
- 5.8.4. An opinion of major organisational impact has been provided as the service significantly overspent in 2009/10. The weaknesses in the recording of information and decisions could also impact on the results of future inspections. The Head of Policy, Performance and Improvement has provided evidence from the independent file reviews that customers are being safeguarded.

5.8.5. The Service was already aware of a number of issues and work was already on-going to improve existing processes. This includes the following;

- Quality Assurance Policy and minimum data recording standards;
- Adult Social Care Risk Policy and Management Toolkit;
- An audit tool, based upon the framework used by the independent consultants for undertaking file reviews;
- The on-going work of the City-wide Panel for the approval of care packages over 10 hours a week;
- Resources have been invested in data cleansing to improve data quality within Adult Social Care;
- Undertaking, where practicable, telephone reviews to improve the timeliness of care package reviews;
- On-going training.

5.8.6. This area is currently being reviewed by Internal Audit and progress towards implementation of the recommendations made previously will be covered as part of the audit.

## **5.9. Duplicate Payments**

5.9.1. Since 2004/5 Internal audit has undertaken the role of identifying and recovering duplicate payments after the year end. In that time, the recovery of duplicate payments by Internal Audit has been in excess of £470,000. A further £214,726 in duplicated payments has been recovered by Rockfords and PSFR. In the year to date, Internal Audit has identified and recovered £10,723 in duplicate payments. There are currently a total of 66 duplicate payments totalling £65,276 relating to previous years which have not yet been recovered. Internal Audit is raising sundry charge accounts relating to these.

5.9.2. In 2010 the Business Support Centre procured a new piece of software which, in addition to providing essential management information, should identify duplicate payments in year, identifying training issues and speeding up recovery. In theory this will obviate the need for the year end internal audit data analysis and enable a traditional assurance approach to be taken.

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## Report of the Director of Resources

### Corporate Governance and Audit Committee

Date: 14<sup>th</sup> February 2011

Subject: Communities and Local Government consultation - amendments to the Accounts & Audit Regulations 2003.

#### Electoral Wards Affected:

Ward Members consulted  
(Referred to in report)

#### Specific Implications For:

Equality and Diversity   
Community Cohesion   
Narrowing the Gap

## 1.0 Purpose Of This Report

1.1 Communities and Local Government (CLG) are consulting with Local Authorities on proposed amendments to the Accounts and Audit Regulations 2003. The consultation documents are attached for Members' information at Appendix 1. This report aims to inform Members of the main amendments to the regulations and seek Members' views on the proposed changes. The consultation period ends on 4<sup>th</sup> March 2011 and therefore it is proposed that officers circulate a draft response for comments from the Members of this Committee.

## 2.0 Main Issues

2.1 The main amendments put forward in the consultation are as follows:

2.2 In respect of the approval and publication of the annual accounts, Members will not now be required to approve the unaudited accounts by the 30<sup>th</sup> June. The Responsible Financial Officer will still be required to certify that the accounts are a true and fair view by this date and Members will be required to continue to approve the audited accounts by the end of September. This new proposal will bring Local Authorities in line with the process for approving company accounts. In considering this proposed amendment, Members may wish to take into consideration the fact that the Council's year end financial position is also reported to the Executive Board in May. In addition, it is also worth noting that it is a requirement of the regulations that the accounts are made available for public inspection and it is standard practice that this is undertaken before the audited accounts are approved.

2.3 Currently any contravention of the regulations is a criminal offence. The proposal is that none of the regulations should be identified as attracting criminal penalties.

2.4 The current regulations require the Council to annually review the effectiveness of its *system of internal audit*. The Council has previously asked for clarification of the meaning of the term '*system of internal audit*', as opposed to a review of the

effectiveness of the internal audit function. CLG now recognise the confusion and propose to clarify the requirement by requiring an annual review of the effectiveness of internal audit – we welcome this clarification and will report the findings of that review to the Corporate Governance and Audit Committee.

- 2.5 The statement on internal control (referred to as the Corporate Governance Statement in Leeds), is no longer to be published as part of the Statement of Accounts. The statement on internal control will accompany the published accounts, to make it clear that the statement is not part of the accounts.

### **3.0 Implications For Council Policy And Governance**

- 3.1 It is currently the responsibility of the Responsible Financial Officer to certify that the unaudited accounts are a true and fair view of the Council's financial position. It is also the responsibility of Members of this Committee to approve the unaudited accounts by the 30<sup>th</sup> June. The accounts are then made available for public inspection. Under these new proposals the responsibility of the Responsible Financial Officer remains the same but members are only required to approve the audited accounts before the 30<sup>th</sup> September.

### **4.0 Legal And Resource Implications**

- 4.1 There have been no known examples of a criminal prosecution for failure to comply with the current regulations. As compliance with procedural arrangements in local government is normally achieved without recourse to criminal law, the proposed decriminalisation of non-compliance is supported.
- 4.2 The CLG deadline for responses is the 4<sup>th</sup> March 2011. Consequently, Members' views are being sought at this committee in order for Members' views to be reflected in the Council's response.

### **5.0 Recommendations**

- 5.1 Members to be asked to identify any issues or concerns raised by the consultation amendments so that they can be incorporated into the Council's response.

#### Background Documents Used

Communities and Local Government (CLG) Consultation Document



Revision and consolidation of the Accounts and Audit Regulations 2003 (SI 2003 No 533) as amended  
**Consultation**

[www.communities.gov.uk](http://www.communities.gov.uk)



Revision and consolidation of the Accounts and  
Audit Regulations 2003 (SI 2003 No 533) as  
amended

**Consultation**

January 2011  
Department for Communities and Local Government

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January 2011

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# Consultation on revision and consolidation of the Accounts and Audit Regulations 2003 (SI 2003 No 533) as amended

## Scope of the consultation

<b>Topic of this consultation:</b>	Consolidation of the Accounts and Audit Regulations 2003 and four amending instruments, and incorporation of a series of technical amendments.
<b>Scope of this consultation:</b>	The consultation invites views on the draft consolidated regulations attached to the paper, including the amendments incorporated and the format of the consolidation.
<b>Geographical scope:</b>	England
<b>Impact Assessment:</b>	No impact assessment has been prepared because the regulations do not apply to businesses or the voluntary sector, and reduce administrative and reporting burdens on the public authorities to which they apply.

## Basic Information

<b>To:</b>	This consultation is directed primarily to the statutory consultees listed in paragraph 10.1. But responses would also be welcome from any of the “relevant bodies” to which the regulations apply and from any other persons interested.
<b>Body/bodies responsible for the consultation:</b>	This consultation is being organised by the Local Government Finance Directorate in the Department for Communities and Local Government.
<b>Duration:</b>	This consultation is to run for six weeks, from 24 January 2011 to 4 March 2011.
<b>Enquiries:</b>	<p>If you have any enquiries about the consultation, please contact:  <a href="mailto:graham.fletcher@communities.gsi.gov.uk">graham.fletcher@communities.gsi.gov.uk</a>            (Telephone: 0303 44 41740)</p> <p>Any complaints about the way this consultation is being handled should be addressed to:  <a href="mailto:consultationcoordinator@communities.gsi.gov.uk">consultationcoordinator@communities.gsi.gov.uk</a></p>

<b>How to respond:</b>	By email to: <a href="mailto:graham.fletcher@communities.gsi.gov.uk">graham.fletcher@communities.gsi.gov.uk</a> or by post to: Graham Fletcher Department for Communities and Local Government Zone 5/J4, Eland House Bressenden Place London SW1E 5DU
<b>Additional ways to become involved:</b>	As this is a consultation on the technical rules governing accounts and audit it is being conducted as a written exercise. However, we would be happy to agree to meet key interested parties, and in particular the statutory consultees, if that would help in preparing their responses.
<b>After the consultation:</b>	A summary of responses to the consultation will be published on the Department's website within three months of the end of the consultation period.
<b>Compliance with the Code of Practice on Consultation:</b>	The consultation complies with the Code of Practice, except that a consultation period of six weeks instead of 12 weeks is being specified. This is because it concerns only the technical rules of accounting and audit in local authorities and other local bodies.

## Background

<b>Getting to this stage:</b>	This consultation is part of a regular series of updates to the Accounts and Audit Regulations designed to keep them in line with developments in financial governance, accounting and audit. Previous updates were made, most recently, in 2003, 2006 and 2009. Section 2 of the consultation paper explains why consolidation of the regulations is proposed at this stage.
<b>Previous engagement:</b>	The proposals contained in the consultation reflect recommendations, requests and issues raised by the Audit Commission, the Chartered Institute of Public Finance and Accountancy and some categories of the relevant bodies to which the regulations apply. Discussions with these organisations have been helpful in preparing the draft regulations, but responsibility for the current draft lies entirely with the Department.

## Introduction

1.1 This consultation is issued to consult under section 27(3) of the Audit Commission Act 1998 on a proposal to revise and consolidate the Accounts and Audit Regulations 2003 and four amending instruments. Responses are invited from the statutory consultees identified in paragraph 10.1 and from others interested including the local authorities and other bodies to which the regulations apply.

1.2 A draft of the proposed consolidated regulations is attached, and the following paragraphs explain the changes incorporated in the consolidation. Comments are invited on the draft regulations, including the form of the consolidation and the changes proposed. **Responses should be submitted by 4 March 2011.** Details of the consultation procedure and how to respond are set out in sections 10 and 11 of this paper.

## Why consolidate the regulations now?

2.1 The Accounts and Audit Regulations contain important provisions on financial management, annual accounts and audit procedures affecting all local authorities and a number of other local public bodies (“relevant bodies”). The 2003 Regulations have been substantially amended, in particular by an amending instrument made in 2006 and two made in 2009. The amendments proposed in this consultation would add further difficulties to working with the 2003 regulations. Consolidation is therefore highly desirable so that there is a clear statement of these important provisions for the benefit of those they affect.

2.2 The Government announced on 13 August 2010 that the Audit Commission would be disbanded and audit refocused on helping local people hold councils and local public bodies to account. The disbanding of the Commission will require primary legislation to be passed through Parliament, and in the meantime we consider that a clear restatement of the regulations will assist those who may be taking a new interest in relevant bodies’ financial management and accounts as part of the development of the new audit framework.

## The form of the consolidation

3.1 The aim of the consolidation has been to make the regulations easier to understand. They have been restructured to separate out provisions on the annual accounts applying to smaller and larger relevant bodies. The intertwining of different requirements affecting the two categories added to the complexity of the regulations. The regulations are now divided into parts as follows:

Part 1 Introductory

Part 2 Financial management and internal control

Part 3 Published accounts and audit – larger relevant bodies

Part 4 Published accounts and audit – smaller relevant bodies

Part 5 Particular authorities

Part 6 Audit procedure

3.2 We have also taken the opportunity to simplify parts of the text of the regulations which the numerous amendments have made difficult to follow. Spent provisions have been removed, and references to statutory bodies updated.

### **Definition of smaller relevant body**

4.1 Smaller relevant bodies are permitted by the regulations to prepare simpler published accounts than the larger bodies, and are also subject to less demanding procedural requirements. In addition, under arrangements made by the Audit Commission, such bodies are subject to a limited assurance audit regime. As part of the general move to reduce administrative burdens on public authorities, consideration has been given to raising the threshold for placing a body in the smaller category.

4.2 Currently, to be classed as a smaller relevant body, a body must have gross income or expenditure (whichever is higher) of less than £1m in the year of account or in either of the two preceding years. For the future it is proposed that the limit should be based on the thresholds laid down by companies legislation in the definition of small companies. Small companies are subject to less demanding requirements for accounting and audit than other companies. The Companies Act threshold provides a useful guide to where the highest level requirements for accounting and audit should take effect for relevant bodies.

4.3 The small companies definition depends on turnover, balance sheet totals and number of employees. For local public bodies financed through taxation we consider that only the first of these factors is relevant and that it should be measured as the higher of gross income and gross expenditure in the same way as the present limit. Based on the current requirements of section 382 the Companies Act 2006 (as amended by the Companies Act 2006 (Amendment) (Accounts and Reports) Regulations 2008, SI 2008 No 393) the limit would be £6.5m. We propose that a body would be classed as smaller if its gross income or expenditure (whichever was the higher) was no more than that figure in the year of account or either of the two preceding years. For newly established bodies the threshold would be applied to the year of account in its first year, and either the year of account or the preceding year in its second year.

4.4 We expect the above change to benefit the larger parish councils and many internal drainage boards, joint boards and joint committees. However, it may also bring some other categories of local body into the smaller category which, for compelling reasons, ought to be in the larger category, including some national park authorities. These are bodies that have the freedoms given by the prudential system of capital controls (set out in Part 1 of the Local Government Act 2003). They are also required to make returns for the purposes of HM Treasury's Whole of Government Accounts initiative. For both

reasons it is important that the highest levels of accounting and audit requirements continue to apply to them. We propose therefore that a body would not be a smaller relevant body if it is defined as a local authority for the purposes of Part 1 of the Local Government Act 2003. **(New regulation 2)**

4.5 We propose to give all smaller bodies the option of following the rules applying to larger bodies if they wish. This may in particular be of assistance to bodies close to the threshold. **(New regulation 12)**

### **Approval and publication of annual accounts**

5.1 The current regulations require members to approve the annual accounts before they have been reviewed by the external auditor. This is out of step with requirements in the private sector and elsewhere in the public sector, where directors or board members will be aware of the findings of the audit before they approve the accounts. We consider that it would be more appropriate for bodies covered by the regulations to follow the general practice of other bodies, so that members give their approval in the knowledge of the audit findings.

5.2 To facilitate this we propose that, for the larger relevant bodies, the regulations should include the following provisions on the procedure for approval and publication of the annual accounts:

- no later than 30 June following the financial year end the responsible financial officer must certify the presentation of the annual accounts in accordance with the current requirements of regulation 10(2)
- the annual accounts must be published with the audit opinion and certificate, and before that must have been approved by members. The body must use its best endeavours to secure approval and publication by no later than 30 September
- the responsible financial officer must re-certify the presentation of the annual accounts before member approval is given. **(New regulation 8)**

Although this is not a matter for the regulations, it is understood that finalisation of the audit opinion and certificate would follow shortly after member approval.

5.3 One consequence of the removal of the need for member approval before 30 June is that the bodies will have additional time, perhaps one or two weeks, to prepare their accounts. As the larger bodies will be moving to accounts based on International Financial Reporting Standards for 2010-11 this additional time should assist them in planning and carrying through the preparation process.

5.4 For the smaller relevant bodies it will not be possible to apply the above arrangements, because they would not be compatible with the requirements of the Audit Commission's limited assurance regime. That regime achieves

significant savings in audit input (and so also in audit charges), which we would not wish to see lost. We propose therefore that the annual return for smaller bodies will continue to require member approval not later than 30 June. However the approval would be for the purposes of submission to the auditor. Some smaller bodies may wish, as a matter of good practice, to consider and approve the audited return, but this will not be a requirement of the regulations and so will not be time constrained. **(New regulation 13)**

5.5 The current regulations allow member approval to be given either by a committee of the body or by the body meeting as a whole. We propose to withdraw the former option for smaller relevant bodies. In view of their small size we consider that the approval of the accounts should be a responsibility of all their members. There would of course be nothing to stop preliminary consideration being given to the accounts by a committee in order to advise the full body. The same change is proposed for the other instance where member approval is required by the regulations, the consideration of the review of internal control and approval of the statement of internal control. **(New regulations 4 and 13)**

### **Passenger Transport Executives**

6.1 The regulations apply to Passenger Transport Executives, and all six of them fall into the category of larger relevant bodies. Hence they are required to prepare a statement of accounts, and the statement must be prepared in accordance with proper practices. But the Executives are not covered by the statutory definition of “proper practices” for accounting purposes in section 21 of the Local Government Act 2003, nor does the power in that section to make regulations on accounting practices apply. Modifications to the accounting practices applicable to the Executives can only be made by the Accounts and Audit Regulations.

6.2 Regulation 7A of the current regulations requires the statement of accounts of a Passenger Transport Executive to be no less informative than if the disclosure requirements of the Companies Act 1985, so far as appropriate, applied to the Executive. The regulation also includes a safeguard against the effects of the accounting standard on pensions based on the original wording of Regulation 30 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003.

6.3 The Executives have now asked that the Code of Accounting Practice for Local Authorities should apply to them together with some of the modifications made by regulations under section 21 of the 2003 Act. This would be consistent with changes happening elsewhere in the public sector, and we are happy to support this request. We propose therefore that the change should take effect for the 2010-11 financial year, so that the executives can move to accounts based on International Financial Reporting Standards on the same timetable as local authorities.

6.4 It is proposed to achieve this by providing that Passenger Transport Executives must prepare their statements of accounts as if the proper practices relating to accounting in local authorities were, so far as appropriate, applicable to them. The general application to them of accounting regulations applying to local authorities would mean that specific provision was no longer needed in the Accounts and Audit Regulations for their pensions accounting. **(New regulation 17)**

## **Offences**

7.1 Section 27(4) of the Audit Commission Act 1998 makes contravention without reasonable excuse of a regulation in the Accounts and Audit Regulations into a criminal offence if contravention of the regulation is declared an offence in the regulations. Regulation 22 of the current regulations declares contravention of all or part of 13 of the regulations to be a criminal offence.

7.2 For the future it is proposed that contravention of none of the regulations should be identified as attracting criminal penalties under section 27(4). Compliance with procedural requirements in local government and other local public bodies is generally achieved without recourse to the criminal law, and so far as is known there have been no prosecutions in recent years under section 27(4) or its equivalent in earlier legislation. Removal of the penalties is consistent with the Government's policy of abolishing obsolete or unnecessary criminal offences.

## **Remuneration reporting**

8.1 The Accounts and Audit (Amendment No 2) (England) Regulations 2009 (SI 2009 No 3322) introduced into the regulations new requirements on the disclosure of the remuneration of senior employees. These requirements apply when a relevant body is required to prepare a statement of accounts, and have the effect of bringing the larger bodies in line with requirements elsewhere in the public sector.

8.2 Experience has shown that some clarification of these requirements is needed to remove doubts about their meaning. The regulations have been amended to achieve consistency between the definition of remuneration in current regulation 7(2)(b) and the categories of remuneration set out in current regulation 7(2)(d). **(New regulation 7)**

## **Other changes**

9.1 A number of other more minor changes are proposed in the new regulations. These are set out in the following paragraphs.

9.2 Current regulation 4(4) requires the statement of internal control to be included with an authority's published accounts. This has been amended to require the statement to accompany the published accounts, to make clear that the statement is not part of the accounts. **(New regulation 4(4))**

9.3 Current regulation 6 refers to a “system of internal audit”. The words “system of” have been removed because it has been found that they cause confusion. The regulation applies to all aspects of the internal audit function and not just the systems used by internal audit. **(New regulation 6)**

9.4 Current regulation 6(3) requires all relevant bodies to conduct an annual review of internal audit. This requirement is considered too onerous for the smaller bodies and has been removed from them. Smaller bodies are, however, still required to review their overall system of internal control annually. **(New regulation 6)**

9.5 Current regulation 7(2) provides for the notes it specifies to accompany the statement of accounts. This has been changed to “include” to make clear that the notes are a part of the statement of accounts. **(New regulation 7)**

9.6 Current regulation 7B specifies how internal drainage boards are to account for retirement benefits, giving them the same protection from the financial consequences of the relevant accounting standards as applies to local authorities. The wording of this provision has been changed to follow the revised regulation on retirement benefits applicable to local authorities (introduced by the Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2010, SI 2010 No 454). This wording avoids the need to refer to specific pension scheme legislation. **(New regulation 18)**

9.7 Current regulations 10(5), 12(5) and 17(2), which contain transitional provisions, have been removed because they are spent.

9.8 Current regulation 19 requires a body to consider and publish the annual letter from the auditor or the Audit Commission. The reference to the Commission has been removed because the annual audit letters now come from the auditor. **(New regulation 27)**

9.9 All the changes listed in this section are subject to consultation in the same way as the major changes set out in the previous sections.

### **Consultation procedure**

10.1 We are consulting the organisations we are required to consult by section 27(3) of the Audit Commission Act 1998:

- the Audit Commission
- such associations of local authorities as appear to the Secretary of State to be concerned – the Local Government Association, the National Association of Local Councils and the Association of Drainage Authorities. Representatives of the Passenger Transport Executives are also being consulted
- such bodies of accountants as appear to the Secretary of State to be appropriate – the Chartered Institute of Public Finance and

Accountancy and the Institute of Chartered Accountants in England and Wales

This document is also available on the Department's website ([www.communities.gov.uk](http://www.communities.gov.uk)) and we will be drawing it to the attention of all principal councils in England and other interested parties. It is open to all to make representations on the proposed regulations, which will carefully be considered.

10.2 Your response must be received by 4 March 2011 and may be sent by email to: [graham.fletcher@communities.gsi.gov.uk](mailto:graham.fletcher@communities.gsi.gov.uk)

Responses may also be returned to:  
Graham Fletcher  
Department for Communities and Local Government  
Zone 5/J4, Eland House  
Bressenden Place  
London SW1E 5DU

10.3 Please title your response 'Response to Accounts and Audit Regulations consultation'.

10.4 It would be helpful if you could make clear in your response whether you represent an organisation or group, and in what capacity you are responding.

10.5 The Department will take account of the responses received to this consultation before decisions are taken on the proposed changes to the Accounts and Audit Regulations.

**Publication of responses – confidentiality and data protection**

11.1 Information provided in response to this consultation, including personal information, may be published, or disclosed in accordance with the access to information regimes (These are primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004.)

11.2 If you want any of the information that you provide to be treated as confidential you should be aware that, under the Freedom of Information Act, there is a statutory Code of Practice with which public authorities must comply, and which deals, amongst other things, with obligations of confidence. In view of this, it would be helpful if you could explain to us why you regard the information you have provided as confidential.

11.3 If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

11.4 The Department will process your personal data in accordance with the Data Protection Act and, in the majority of circumstances, this will mean that your personal data will not be disclosed to third parties.

**2011 No.**

**LOCAL GOVERNMENT, ENGLAND**

**The Accounts and Audit Regulations (England) 2011**

*Made* - - - - - \*\*\*

*Laid before Parliament* \*\*\*

*Coming into force* - - - - - *31st March 2011*

These Regulations are made in exercise of the powers conferred by section 27 of the Audit Commission Act 1998(a) and section 134(6) of the Greater London Authority Act 1999(b).

In accordance with section 27(3) of the 1998 Act, the Secretary of State consulted with the Audit Commission, such associations of local authorities as appeared to him to be concerned and such bodies of accountants as appeared to him to be appropriate.

The Secretary of State makes the following Regulations:

**PART 1**

**Introductory**

**Citation, commencement and application**

1.—(1) These Regulations may be cited as the Accounts and Audit Regulations 2011 and come into force on 31st March 2011.

(2) These Regulations apply in relation to England only.

**Interpretation and application**

2.—(1) In these Regulations—

“the 1972 Act” means the Local Government Act 1972(c);

“the 1989 Act” means the Local Government and Housing Act 1989(d);

“the 1998 Act” means the Audit Commission Act 1998;

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(a) 1998 c. 18. The functions of the Secretary of State under section 27 are, so far as exercisable in relation to Wales, vested in the Welsh Ministers. Those functions were transferred to the National Assembly for Wales constituted by the Government of Wales Act 1998 (c. 38) by the National Assembly for Wales (Transfer of Functions) Order 1999 (S.I. 1999/672), article 2; see the entry in Schedule 1 for the Audit Commission Act 1998. By virtue of paragraphs 30 and 32 of Schedule 11 to the Government of Wales Act 2006 (c. 32), they were transferred to the Welsh Ministers immediately after the end of the initial period as defined by section 161(5) of that Act

(b) 1999 c. 29.

(c) 1972 c. 70.

(d) 1989 c. 42.

“notice by advertisement” means a notice published in one or more local newspapers circulating in the area of the relevant body;

“parish meeting” means a parish meeting of a parish not having a separate parish council;

“relevant body” means a body whose accounts are required to be audited in accordance with section 2 (required audit of accounts) of the 1998 Act other than a NHS body as defined in paragraph 1 of Schedule 15 to the National Health Service Act 2006(a), a local probation board or a probation trust;

“larger relevant body” means a relevant body which is not a smaller relevant body;

“smaller relevant body” means a relevant body which is not a local authority for the purposes of Part 1 (capital finance etc and accounts) of the Local Government Act 2003(b), which—

(a) for an established body, meets the qualifying condition for the year concerned, or for either of the two immediately preceding years,

(b) for a newly established body, meets the qualifying condition for its first or second year, the qualifying condition being that the body’s gross income or gross expenditure (whichever is higher) is not more than £6.5 million;

“working day” means any day other than a Saturday, a Sunday, Christmas Day, Good Friday or a day which is a bank holiday in England under the Banking and Financial Dealings Act 1971(c); and

“year” means the period of 12 months ending with 31st March.

(2) Any reference in these Regulations to the “responsible financial officer” means—

(a) the person who, by virtue of—

(i) section 151 (financial administration) of the 1972 Act;

(ii) section 17(1) (accounts) of the Norfolk and Suffolk Broads Act 1988(d);

(iii) section 112(1) (financial administration as to certain authorities) of the Local Government Finance Act 1988 (e);

(iv) section 6(1) (officer responsible for financial administration of certain authorities) of the 1989 Act;

(v) paragraph 13(6) of Schedule 7 (National Park Authorities) to the Environment Act 1995(f); or

(vi) section 127(2) (proper financial administration and chief finance officer) of the Greater London Authority Act 1999 (g);

as the case may be, is responsible for the administration of the financial affairs of a relevant body or, if no person is so responsible, the person who is responsible for keeping the accounts of such a body, or

(b) if the person referred to in sub-paragraph (a) is unable to act owing to absence or illness, such member of his staff as is nominated by him for the purposes of section 114 (functions of responsible officer as regards reports) of the Local Government Finance Act 1988(h) or, if no nomination is made under that section, the person nominated by him for the purposes of these Regulations.

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(a) 2006 c. 41. Paragraph 1(3) was inserted into Schedule 15 by article 6 of S.I. 2008/817.

(b) 2003 c. 26. Bodies specified in, or in regulations made under, section 23 of the Local Government Act 2003 are local authorities for the purposes of Part 1 of that Act.

(c) 1971 c. 80.

(d) 1988 c. 4.

(e) 1988 c. 41.

(f) 1995 c. 25.

(g) 1999 c. 29.

(h) Section 114 was amended by section 130 of the Greater London Authority Act 1999 (c. 29), S.I. 2002/2237, section 43 of and paragraph 34 of Schedule 4 to the Police and Magistrates’ Courts Act 1994 (c. 29), section 139 of and paragraph 66 of Schedule 5 to the Local Government and Housing Act 1989 (c. 42), section 88 and paragraph 28 of Schedule 6 to the Police Act 1997 (c. 50) and section 128 of and paragraph 48 of Schedule 6 to the Criminal Justice and Police Act 2001 (c. 16).

(3) Any reference in regulations 4 to 28 to a relevant body must, in the case of a parish meeting, be construed as a reference to the chairman of that meeting.

(4) These Regulations apply as follows—

- (a) Regulations 2, 4 to 6(2), and 21 to 28 apply to all relevant bodies;
- (b) Regulations 6(3) to 11 apply to larger relevant bodies;
- (c) Regulations 12 to 16 apply to smaller relevant bodies; and
- (d) Regulations 17 to 20 apply to the particular relevant bodies mentioned in that Part.

(5) Regulations 4 to 28 apply, with all necessary modifications, to the accounts of an officer whose accounts are required to be audited by section 26 (audit of accounts of officers) of the 1998 Act.

### **Revocations**

3. The instruments listed in the Schedule to these Regulations are revoked.

## **PART 2**

### **Financial management and internal control**

#### **Responsibility for financial management**

4.—(1) The relevant body is responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk.

(2) The relevant body must conduct a review at least once in a year of the effectiveness of its system of internal control.

(3) The findings of the review referred to in paragraph (2) must be considered by—

- (a) in the case of a larger relevant body, by the members of the body meeting as a whole or by a committee, and
- (b) in the case of a smaller relevant body, by the members of the body meeting as a whole, and

following the review, the body or committee must approve a statement on internal control, prepared in accordance with proper practices in relation to internal control.

(4) The relevant body must ensure that the statement referred to in paragraph (3) accompanies—

- (a) any statement of accounts it is obliged to prepare in accordance with regulation 7, or
- (b) any accounting statement it is obliged to prepare in accordance with regulation 12.

#### **Accounting records and control systems**

5.—(1) Subject to paragraphs (3) and (4), and, insofar as they are not in conflict with this paragraph, to any instructions given by a relevant body to its responsible financial officer, that officer must determine, on behalf of the body, its—

- (a) accounting records, including the form of accounts and supporting accounting records; and
- (b) accounting control systems,

and such an officer must ensure that the accounting control systems determined by him are observed and that the accounting records of the body are kept up to date.

(2) The accounting records determined in accordance with paragraph (1)(a) must be sufficient to show and explain a relevant body's transactions and to enable the responsible financial officer to

ensure that any statement of accounts or accounting statement which are prepared under these Regulations, comply with these Regulations.

(3) The accounting records determined in accordance with paragraph (1)(a) must in particular contain—

- (a) entries from day to day of all sums of money received and expended by the body and the matters to which the income and expenditure or receipts and payments account relate;
- (b) a record of the assets and liabilities of the body; and
- (c) a record of income and expenditure of the body in relation to claims made, or to be made, by them for contribution, grant or subsidy from any Minister of the Crown, a body to whom such a Minister may pay sums out of moneys provided by Parliament or a Community institution.

(4) The accounting control systems determined in accordance with paragraph (1)(b) must include—

- (a) measures—
  - (i) to ensure that the financial transactions of the body are recorded as soon as reasonably practicable and accurately as reasonably possible;
  - (ii) to enable the prevention and detection of inaccuracies and fraud, and the ability to reconstitute any lost records; and
  - (iii) to ensure that risk is appropriately managed;
- (b) identification of the duties of officers dealing with financial transactions and division of responsibilities of those officers in relation to significant transactions; and
- (c) procedures to ensure that uncollectible amounts, including bad debts, are not written off except with the approval of the responsible financial officer, or such member of his staff as is nominated by him for this purpose, and that the approval is shown in the accounting records.

### **Internal audit**

6.—(1) A relevant body must maintain an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.

(2) Any officer or member of a relevant body must, if the body requires—

- (a) make available such documents of the body which relate to its accounting and other records as appear to that body to be necessary for the purposes of the audit; and
- (b) supply the body with such information and explanation as that body considers necessary for that purpose.

(3) A larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit.

(4) The findings of the review referred to in paragraph (3) must be considered, as part of the consideration of the system of internal control referred to in regulation 4(3), by the committee or body referred to in that paragraph.

## **PART 3**

### **Published accounts and audit – larger relevant bodies**

#### **Statement of accounts**

7.—(1) A larger relevant body must prepare, in accordance with proper practices in relation to accounts, a statement of accounts for each year, which must include such of the following accounting statements as are relevant to the functions of the relevant body—

- (a) housing revenue account;
  - (b) collection fund;
  - (c) firefighters' pension fund;
  - (d) any other statements relating to each and every other fund in relation to which the body is required by any statutory provision to keep a separate account.
- (2) The statement required by paragraph (1) must include a note—
- (a) demonstrating whether the Dedicated Schools Grant (made under section 14 (power of Secretary of State to give financial assistance for purposes related to education or children etc) of the Education Act 2002(a)) has been deployed in accordance with regulations made under sections 45A, 45AA, 47, 48(1) and (2) and 138(7) of, and paragraph 1(7)(b) of Schedule 14 to, the School Standards and Framework Act 1998(b);
  - (b) except in relation to persons to whom paragraph (c) applies, of the number of employees or senior police officers in the year to which the accounts relate whose remuneration fell in each bracket of a scale in multiples of £5,000 starting with £50,000;
  - (c) of the remuneration, set out according to the categories listed in paragraph (3), and the relevant body's contribution to the person's pension, by the relevant body during the relevant year of—
    - (i) senior employees, or
    - (ii) relevant police officers,
 in respect of their employment by the relevant body or in their capacity as a police officer, whether on a permanent or temporary basis, to be listed individually in relation to such persons who must nevertheless be identified by way of job title only (except for persons whose salary is £150,000 or more per year, who must also be identified by name).
- (3) The categories are:
- (i) the total amount of salary, fees or allowances paid to or receivable by the person in the current and previous year;
  - (ii) the total amount of bonuses so paid or receivable in the current and previous year;
  - (iii) the total amount of sums paid by way of expenses allowance that are chargeable to United Kingdom income tax, and were paid to or receivable by the person;
  - (iv) the total amount of any compensation for loss of employment paid to or receivable by the person, and any other payments made to or receivable by the person in connection with the termination of their employment by the relevant body, or, in the case of a relevant police officer, the total amount of any payment made to a relevant police officer who ceases to hold office before the end of a fixed term appointment;
  - (v) the total estimated value of any benefits received by the person otherwise than in cash that do not fall within (i) to (iv) above, are emoluments of the person, and are received by the person in respect of their employment by the relevant body or in their capacity as a police officer; and
  - (vi) in relation to relevant police officers, any payments, whether made under the Police Regulations 2003 or otherwise, which do not fall within (i) to (v) above.
- (4) In this regulation—
- “contribution to the person's pension” means an amount to be calculated as follows—
- (a) in relation to contributions to the local government pension scheme established under section 7 of the Superannuation Act 1972(c), the sum of—

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(a) 2002 c. 32.  
 (b) 1998 c. 31.  
 (c) 1972 c. 11.

- (i) the common rate of employer's contribution specified in a rates and adjustments certificate prepared under regulation 36 (actuarial valuations and certificates) of the Local Government Pension Scheme (Administration) Regulations 2008, being the amount appropriate for that body calculated in accordance with the certificate and regulation 39(4) (employer's contributions) of those Regulations, multiplied by the person's pensionable pay; and
- (ii) if applicable, the appropriate sum within the meaning of regulation 40 (employer's payment following resolution to increase membership or award additional pension) of those Regulations;
- (b) in relation to contributions to the firefighters' pension scheme established under the Fire Services Acts 1947 and 1959, the percentage of the aggregate of the pensionable pay calculated for the purposes of paragraph G2(3) and (4) of Schedule 2 to the Firemen's Pension Scheme Order 1992, multiplied by the person's pensionable pay;
- (c) in relation to contributions to the firefighters' pension scheme established under the Fire and Rescue Services Act 2004, the percentage of the aggregate of the pensionable pay calculated for the purposes of paragraphs (2) and (3) of Rule 2 of Part 13 of Schedule 1 to the Firefighters' Pension Scheme (England) Order 2006, multiplied by the person's pensionable pay;
- (d) in relation to contributions to police pension schemes established under the Police Pensions Regulations 1987 or the Police Pensions Regulations 2006, the percentage of pensionable pay specified in regulation 5(1) of the Police Pension Fund Regulations 2007, multiplied by the person's pensionable pay;

“employee” includes a member of the relevant body, and a holder of an office under the relevant body, but does not include a person who is an elected councillor, and “employment” is to be construed accordingly;

“relevant police officer” means—

- (e) in relation to a police force maintained under section 2 of the Police Act 1996, the chief constable,
- (f) in relation to the metropolitan police force, the Commissioner of Police of the Metropolis,
- (g) in relation to the City of London police force, the Commissioner of Police for the City of London, and
- (h) any other senior police officer whose salary is £150,000 per year or more;

“remuneration” means all amounts paid to or receivable by a person, and includes sums due by way of expenses allowance (so far as those sums are chargeable to United Kingdom income tax), and the estimated money value of any other benefits received by an employee otherwise than in cash;

“senior employee” means an employee whose salary is £150,000 or more per year, or an employee whose salary is £50,000 or more per year (to be calculated pro rata for an employee employed for fewer than the usual full time hours for the relevant body concerned) who falls within at least one of the following categories—

- (i) a person employed by a relevant body to which section 2 of the 1989 Act applies who—
  - (i) has been designated as head of paid service under section 4 of that Act;
  - (ii) is a statutory chief officer within the meaning of section 2(6) of that Act; or
  - (iii) is a non-statutory chief officer within the meaning of section 2(7) of that Act;
- (j) the person who is the head of staff for any relevant body to which section 4 of the 1989 Act does not apply; or
- (k) a person who has responsibility for the management of the relevant body to the extent that the person has power to direct or control the major activities of the body (in particular activities involving the expenditure of money), whether solely or collectively with other persons; and

“senior police officer” means a member of a police force holding a rank above that of superintendent.

(5) In the case of a local authority which is required by section 74 of the 1989 Act (duty to keep Housing Revenue Account) to keep a Housing Revenue Account, the statement of accounts required by paragraph (1) must include also an account in respect of a reserve for major repairs to property of the authority to which section 74(1) of the 1989 Act for the time being applies (to be called a major repairs reserve), showing in particular—

- (a) a credit of an amount in respect of any change for depreciation included in the Housing Revenue Account for that year under item 8 of Part II of Schedule 4 to the 1989 Act;
- (b) a debit in respect of any capital expenditure, within the meaning of section 16 of the Local Government Act 2003 (“capital expenditure”), which was—
  - (i) incurred in that year,
  - (ii) met by payments out of the major repairs reserve, and
  - (iii) in respect of any land, houses or other property to which section 74(1) of the 1989 Act for the time being applies, other than capital expenditure for the purpose of demolition of any such property;
- (c) a debit in respect of any repayment, made in that year, of the principal of any amount borrowed where the repayment was met by payments out of the major repairs reserve; and
- (d) a debit in respect of the meeting of any liability, in that year, in respect of credit arrangements, other than any liability which, in accordance with proper practices in relation to accounts, must be charged to a revenue account, where the meeting of that liability was met by payments out of the major repairs reserve.

(6) The Common Council of the City of London must in relation to the accounts referred to in paragraph 2 of Schedule 2 to the 1998 Act prepare for each year, in accordance with proper practices in relation to accounts, a statement of accounts including—

- (a) a summarised statement of capital expenditure in relation to each of the funds mentioned in that paragraph, differentiated in respect of different services and showing the sources of finance of the year's total capital expenditure incurred in the period;
- (b) summarised statements of the income and expenditure of each of those funds; and
- (c) balance sheets in respect of each of those funds,

and in relation to amounts shown in pursuance of sub-paragraphs (b) and (c) must show any corresponding amounts for the immediately preceding period.

### **Signing, approval and publication of statement of accounts etc**

**8.—(1)** A larger relevant body must ensure that the statement of accounts required by regulation 7(1) or 7(6), as the case may be, is prepared in accordance with these Regulations.

(2) Before the approval referred to in paragraph (3) is given, the responsible financial officer of a larger relevant body must, no later than 30th June immediately following the end of a year, sign and date the statement of accounts, and certify that it presents a true and fair view of the financial position of the body at the end of the year to which it relates and of that body's income and expenditure for that year.

(3) Subject to paragraph (4), a larger relevant body must—

- (a) consider either by way of a committee or by the members meeting as a whole the statement of accounts;
- (b) following that consideration, approve the statement of accounts by a resolution of that committee or meeting;
- (c) following approval, ensure that the statement of accounts is signed and dated by the person presiding at the committee or meeting at which that approval was given;

- (d) publish (which must include publication on the body's website), the statement of accounts together with any certificate, opinion, or report issued, given or made by the auditor under section 9 of the 1998 Act; and

must use its best endeavours to do these things no later than 30th September in the year immediately following the end of the year to which the statement relates.

(4) The responsible financial officer must re-certify the presentation of the statement of accounts before the relevant body approves it.

(5) A larger relevant body must keep copies of the documents mentioned in paragraph (3)(d) for purchase by any person on payment of a reasonable sum.

### **Procedure for public inspection of accounts**

9. The procedure for public inspection of accounts for a larger relevant body, mentioned in regulation 22, is that it must make the accounts and other documents mentioned in section 15 of the 1998 Act available for public inspection for 20 working days before the date appointed by the auditor under regulation 21.

### **Notice of public rights**

10.—(1) The procedure for a larger relevant body to give notice of public rights is, not later than 14 days before the commencement of the period during which the accounts and other documents are made available in pursuance of regulation 9, the body must give notice by advertisement and on its website of the matters set out in paragraph (2).

(2) The matters referred to in paragraph (1) are—

- (a) the period during which the accounts and other documents referred to in paragraph (1) will be available for inspection in accordance with regulation 9;
- (b) the place at which, and the hours during which, they will be so available;
- (c) the name and address of the auditor;
- (d) the provisions contained in section 15 and section 16 of the 1998 Act; and
- (e) the date appointed under regulation 21.

### **Notice of conclusion of audit**

11. As soon as reasonably possible after conclusion of an audit, a larger relevant body must give notice by advertisement and on its website stating that the audit has been concluded and that the statement of accounts is available for inspection by local government electors and including—

- (a) a statement of the rights conferred on local government electors by section 14 of the 1998 Act;
- (b) the address at which and the hours during which those rights may be exercised; and
- (c) details of where the statement of accounts can be found on the body's website.

## **PART 4**

### **Published accounts and audit - smaller relevant bodies**

#### **Accounting statements**

12.—(1) Subject to paragraph (2), a smaller relevant body must prepare for each year either—

- (a) an income and expenditure account and a statement of balances, in accordance with, and in the form specified in any Annual Return required by, proper practices in relation to accounts; or

- (b) a statement of accounts prepared in accordance with regulation 7, as if that regulation applied to smaller relevant bodies.

(2) Where in relation to a smaller relevant body, the gross income or expenditure (whichever is the higher) was not more than £200,000 for the year or for either of the two immediately preceding years, the body may prepare in accordance with, and in the form specified in any Annual Return required by, proper practices in relation to accounts a record of receipts and payments of the body in relation to that year.

### **Signing, approval and publication of accounting statements**

**13.—**(1) A smaller relevant body must ensure that the relevant accounting statements required by regulation 12 are prepared in accordance with these Regulations.

(2) Before the approval referred to in paragraph (3) is given, the responsible financial officer of a relevant body must—

- (a) in a case where the body has prepared a statement of accounts, sign and date the statement of accounts, and certify that it presents a true and fair view of the financial position of the body at the end of the year to which it relates and of that body's income and expenditure for that year;
- (b) in a case where the body has prepared a record of receipts and payments, sign and date that record, and certify that it properly presents that body's receipts and payments for the year to which the record relates; or
- (c) in any other case, sign and date the income and expenditure account and statement of balances, and certify that they present fairly the financial position of the body at the end of the year to which they relate and that body's income and expenditure for that year.

(3) A smaller relevant body must—

- (a) consider the accounting statements by the members meeting as a whole;
- (b) following that consideration, approve the accounting statements for submission to the auditor by a resolution of the body;
- (c) following approval, ensure that the accounting statements are signed and dated by the person presiding at the meeting at which that approval was given;

and must use its best endeavours to do these things no later than 30th June.

(4) A smaller relevant body must either—

- (a) publish the accounting statements by means other than solely by reference in the minutes of meetings, together with any certificate, opinion, or report issued, given or made by the auditor under section 9 of the 1998 Act; or
- (b) display a notice containing the documents mentioned in sub-paragraph (a) in a conspicuous place or places in the area of the body for a period of at least 14 days;

and must use its best endeavours to do this no later than 30th September in the year immediately following the end of the year to which the statement relates.

(5) A smaller relevant body must keep copies of the documents mentioned in paragraph (4)(a) for purchase by any person on payment of a reasonable sum.

### **Procedure for public inspection of accounts**

**14.—**(1) The procedure for public inspection of accounts for a smaller relevant body, mentioned in regulation 22, is that, subject to paragraph (2), the body must make the documents specified in that regulation available for public inspection for 20 working days before the date appointed by the auditor under regulation 21.

(2) In relation to a period where regulation 12(2) (gross income or expenditure not more than £200,000) applies, a smaller relevant body must make the accounts and other documents available for public inspection on reasonable notice.

### **Notice of public rights**

**15.**—(1) The procedure for a smaller relevant body to give notice of public rights mentioned in regulation 24 is that it must display, in a conspicuous place or places in the area of the body for a period of at least 14 days immediately prior to the period during which the accounts and other documents are made available under regulation 14, a notice containing the matters set out in paragraph (2).

(2) Subject to paragraph (3), the matters referred to in paragraph (1) are—

- (a) the period during which the accounts and other documents referred to in paragraph (1) will be available for inspection in accordance with regulation 14;
- (b) the place at which, and the hours during which, they will be so available;
- (c) the name and address of the auditor;
- (d) the provisions contained in section 15 and section 16 of the 1998 Act; and
- (e) the date appointed under regulation 21.

(3) Instead of the information referred to in paragraph (2)(b), a smaller relevant body may give details of the manner in which notice should be given of an intention to inspect the accounts and other documents.

### **Notice of conclusion of audit**

**16.** As soon as reasonably possible after conclusion of an audit, a smaller relevant body must display a notice in a conspicuous place or places in the area of the body for a period of at least 14 days stating that the audit has been completed and that the relevant accounting statements required by these Regulations are available for inspection by local government electors and including—

- (a) a statement of the rights conferred on local government electors by section 14 of the 1998 Act (inspection of statements of accounts and auditors' reports); and
- (b) the address at which and the hours during which those rights may be exercised.

## **PART 5**

### **Particular authorities**

#### **Passenger Transport Executives**

**17.** A statement of accounts of a Passenger Transport Executive must be prepared as if the proper practices in relation to accounts applicable to a local authority were, so far as appropriate, applicable to an Executive.

#### **Internal drainage boards**

**18.** An internal drainage board must charge to a revenue account an amount equal to the payments and contributions statutorily payable for that year under an arrangement accounted for as a defined benefit pension plan or as other long-term employee benefits (as defined in accordance with proper practices in relation to accounts).

#### **Summary statement of accounts – Greater London Authority**

**19.** The summary statement of accounts which the Greater London Authority (“ the Authority”) is required to prepare by section 134 of the Greater London Authority Act 1999 must be prepared in accordance with proper practices in relation to accounts and must include—

- (a) a summary of the income and expenditure of the Authority;
- (b) a summary of the income and expenditure of each of the functional bodies and the London Pensions Fund Authority;

- (c) a summary of the capital expenditure of the Authority;
- (d) a summary of the capital expenditure of each of the functional bodies and the London Pensions Fund Authority.

#### **Joint committees etc**

**20.**—(1) Any joint committee, joint board, combined authority or National Park authority to which these regulations apply must deposit with each constituent authority—

- (a) where the committee, board or authority is a smaller relevant body, within the period of fourteen days specified by regulation 16, a copy of the auditor's report and accounting statements, and
- (b) where the committee, board or authority is a larger relevant body, on giving notice under regulation 11, a copy of the auditor's report and statement of accounts.

(2) In this regulation—

- (a) “constituent authority” means any county, district, London borough or parish council for the time being entitled to appoint members of the committee, board or authority in question; and in relation to a National Park authority includes—
  - (i) the Secretary of State; and
  - (ii) Natural England.

## **PART 6**

### **Audit procedure**

#### **Appointment of date for the exercise of rights of electors**

**21.** The auditor must, for the purpose of the exercise of rights under section 15(2) (right of local government elector to request an opportunity to question the auditor about the accounts) and 16(1) (right of local government elector to make objections to the auditor) of the 1998 Act, appoint a date on or after which those rights may be exercised, and must notify the relevant body concerned of that date.

#### **Public inspection of accounts**

**22.** A relevant body notified under regulation 21 must make the accounts and other documents mentioned in section 15 (inspection of documents and questions at audit) of the 1998 Act available in accordance with the procedure specified for larger relevant bodies in regulation 9, or for smaller relevant bodies in regulation 14, as appropriate.

#### **Alteration of accounts**

**23.** Except with the consent of the auditor, accounts and other documents must not be altered after the date on which they are first made available for inspection in pursuance of either regulations 9 or 14.

#### **Notice of public rights**

**24.** A relevant body must give notice of public rights in accordance with the procedure specified for larger relevant bodies in regulation 10, or for smaller relevant bodies in regulation 15, as appropriate.

### Written notice of objection

25.—(1) Any written notice of an objection given in pursuance of section 16(2) of the 1998 Act must state the facts on which the local government elector relies, and contain, so far as possible—

- (a) particulars of any item of account which is alleged to be contrary to law, and
- (b) particulars of any matter in respect of which it is proposed that the auditor could make a report under section 8 of that Act.

(2) In relation to relevant bodies to which Part 3 of the Local Government Act 2000(a) (conduct of local government members and employees) applies, paragraph (1) must apply in respect of matters occurring before such a body first adopted a code of conduct under that Act or such a code was first applied to it, with the addition of particulars of any person from whom it is alleged that the auditor should certify under section 18 (recovery of amount not accounted for etc.) of the 1998 Act that a sum or amount of loss or deficiency is due and the sum of that amount.

### Notice of conclusion of audit

26. A relevant body must give notice of conclusion of audit in accordance with the procedure specified for larger relevant bodies in regulation 11, or for smaller relevant bodies in regulation 16, as appropriate.

### Publication of annual audit letter

27. As soon as reasonably possible after receipt of the annual letter from the auditor, a committee of the relevant body or the members of the relevant body meeting as a whole, must meet to consider it and following that consideration must—

- (a) publish the annual audit letter received from the auditor; and
- (b) make copies available for purchase by any person on payment of such sum as the relevant body may reasonably require.

### Extraordinary audit

28. Where, under section 25 (extraordinary audit) of the 1998 Act, the Commission directs an auditor to hold an extraordinary audit of accounts of a relevant body, the body must—

- (a) in the case of a larger relevant body, give notice by advertisement, and
- (b) in the case of a smaller relevant body, display a notice in a conspicuous place or places in the area of the body,

concerning the right of any local government elector for the area to which the accounts relate to make objections to any of those accounts.

## SCHEDULE

Regulation 3

(1)	(2)	(3)
Instruments revoked	References	Extent of revocation
The Accounts and Audit Regulations 2003	S.I. 2003/533	The whole Regulations
The Accounts and Audit (Amendment) Regulations 2004	S.I. 2004/556	The whole Regulations
The Fire and Rescue Services Act 2004 (Consequential	S.I. 2004/3168	Regulation 67

(a) 2000 c. 22.

Amendments) (England) Order 2004		
The Accounts and Audit (Amendment) (England) Regulations 2006	S.I. 2006/564	The whole Regulations
The Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2006	S.I. 2006/2914	Paragraph 4 of Schedule 1 to the Regulations
The Offender Management Act 2007 (Consequential Amendments) Order 2008	S.I. 2008/912	Paragraph 5 of Schedule 2 to the Regulations
The Accounts and Audit (Amendment) (England) Regulations 2009	S.I. 2009/473	The whole Regulations
The Accounts and Audit (Amendment No. 2) (England) Regulations 2009	S.I. 2009/3322	The whole Regulations

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Signed by authority of the Secretary of State for Communities and Local Government

	<i>Name</i>
Address	Parliamentary Under Secretary of State
Date	Department for Communities and Local Government

**EXPLANATORY NOTE**

*(This note is not part of the Order)*

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Originator: Phil Garnett

Tel: 51632

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**Report of the Assistant Chief Executive (Corporate Governance)**

**Corporate Governance and Audit Committee**

**Date: 24 January 2011**

**Subject: Work Programme**

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**Electoral Wards Affected:**

Ward Members consulted  
(referred to in report)

**Specific Implications For:**

Equality and Diversity

Community Cohesion

Narrowing the Gap

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**1.0 Purpose Of This Report**

1.1 The purpose of this report is to notify members of the Committee of the draft work programme for the current municipal year. The draft work programme is attached at Appendix 1 to this report.

**2.0 Background Information**

2.1 The work programme provides information about future items for the Corporate Governance and Audit Committee agenda, when items will be presented and the which officer will be responsible for the item.

**3.0 Main Issues**

3.1 The draft work programme is attached at Appendix 1.

3.3 Members are requested to consider whether they wish to add any items to the work programme.

**4.0 Implications for Council Policy And Governance**

4.1 There are no implications for Council Policy and Governance.

**5.0 Legal And Resource Implications**

5.1 There are no legal or resource implications

## **6.0 Recommendations**

- 6.1 Members are asked to note the draft work programme and advise officers of any additional items they wish to add.

**CORPORATE GOVERNANCE AND AUDIT COMMITTEE  
WORK PROGRAMME**

ITEM	DESCRIPTION	RESPONSIBLE OFFICER
<b>21<sup>st</sup> March 2011 – 10a.m.</b>		
Value for Money Arrangements	To receive a report regarding the Council's arrangements in relation to achieving Value for Money.  (Report to be brought to the Committee to gain assurance that value for money is being achieved across the Council)	Chief Officer (Audit and Risk) Tim Pouncey
KPMG report on certification of Grants 2009/10	To receive a report updating the Committee on work undertaken by KPMG in relation to Grants and Returns.  (Annual report prepared by KPMG)	Chief Officer Financial Management Doug Meeson
Information Security Annual Report	To receive a report on the Council's Information Security arrangements.	Chief Officer (Business Transformation) Lee Hemsworth
Compliance with Contract Procedure Rules	To receive a report informing the Committee of the Control arrangements in place to ensure compliance with Contract Procedure Rules across Directorates, particularly whether they are fit for purpose, how the arrangements are communicated and what the issues and risks are in terms of the arrangements being embedded.  (requested by the Committee at its meeting held on 29 <sup>th</sup> September 2010 during discussion of the annual Governance Statement)	Chief Procurement Officer Wayne Baxter
Financial Statement Audit Plan 2010/11	To receive a report detailing the financial statement audit plan for 2010/11.	Chief Officer Financial Management Doug Meeson
<b>18<sup>th</sup> April 2011 – 10a.m.</b>		
Corporate Governance Statement Action Plan	To receive a report detailing progress made against actions in the Corporate Governance Statement Action Plan.	Head of Governance Services Andy Hodson

## CORPORATE GOVERNANCE AND AUDIT COMMITTEE WORK PROGRAMME

ITEM	DESCRIPTION	RESPONSIBLE OFFICER
Internal Audit Report	To receive a report presenting the Internal Audit report on current issues.  (This is a report brought to the Committee on bi-monthly basis)	Chief Officer (Audit and Risk) Tim Pouncey
Leeds Partnership and City Planning Initiative	To receive a report detailing the governance arrangements for the revised partnership structure and strategic planning arrangements	Assistant Chief Executive (Planning, Policy and Improvement) James Rogers
City Planning and the Leeds Partnership Initiative	To receive a report detailing the governance arrangements for the revised partnership structures and strategic planning arrangements	Assistant Chief Executive (Planning, Policy and Improvement) James Rogers
<b>11<sup>th</sup> May 2011 – 10a.m.</b>		
Annual Report on Community Engagement	To receive a report presenting the annual report on Community Engagement.	Assistant Chief Executive (Planning, Policy and Improvement) James Rogers
Planning Decisions Process	To receive a report to gain assurance of the process by which planning decisions are taken by the Council.  (This report was requested at the meeting held on 12 <sup>th</sup> May 2010 during discussions on the process by which planning decisions are taken by the Council)	Chief Planning Officer Phil Crabtree

## CORPORATE GOVERNANCE AND AUDIT COMMITTEE WORK PROGRAMME

ITEM	DESCRIPTION	RESPONSIBLE OFFICER
Local Enterprise Partnerships	To receive a report on the governance arrangements for the new Local Enterprise Partnership specifically exploring governance issues contained within the partnership governance toolkit.  (requested at the 14 <sup>th</sup> December 2010 meeting following a discussion on the Leeds City Region)	Chief Officer (Leeds Initiatives and Partnerships) Kathy Kudelnitzkey
KPMG Interim Audit Report	To receive an interim audit report from KPMG on findings on the audit and of progress towards an IFRS based statement of accounts.	Chief Officer Financial Management Doug Meeson
<b>June – 2011</b>		
Corporate Governance and Audit Committee Annual Report 2010/11	To receive a report presenting the draft Corporate Governance and Audit Committee Annual Report 2010/11.	Head of Governance Services Andy Hodson
ALMO Annual Assurance Report	To receive the Annual Assurance report from Strategic Landlord based on the assurances received from the ALMOs.	Strategic Landlord John Statham
KPMG report on the 2010/11 Statement of Accounts	To receive a report detailing the statement of accounts for 2010/11.	Chief Officer (Financial Management) Doug Meeson
Internal Audit Report	To receive a report presenting the Internal Audit report on current issues.  (This is a report brought to the Committee on bi-monthly basis)	Chief Officer (Audit and Risk) Tim Pouncey

## CORPORATE GOVERNANCE AND AUDIT COMMITTEE WORK PROGRAMME

ITEM	DESCRIPTION	RESPONSIBLE OFFICER
<b>July – 2011</b>		
Annual Monitoring of Key and Major Decisions	To receive a report presenting the outcome of the monitoring process relating to Key and Major decisions.  (The annual report to the Committee to gain assurance that Key and Major decisions are being made in line with procedure)	Head of Governance Services Andy Hodson
Annual Report on Risk Management	To receive a report regarding the Council's risk management arrangements.	Chief Officer (Audit and Risk) Tim Pouncey
<b>Un-scheduled items for 2010/11</b>		
Impact of Disbanding the Audit Commission	To receive a report on the impact of disbanding the Audit Commission, on how the assurance framework is assessed and reported to the Committee.  (requested by the Committee at its meeting held on 26 <sup>th</sup> September 2010 during discussion on the disbanding of the Audit Commission)	Chief Officer (Audit and Risk) Tim Pouncey
6 Monthly Update Report on risk Management	To receive a report updating members on the Council's risk management arrangements.  (This report is part of the Committee's annual work programme)	Chief Officer (Audit and Risk) Tim Pouncey
Overall External Audit and Inspection Plan 2011/12	To receive a report consulting Members on the content of the External Audit and Inspection Plan 2011/12.	Chief Officer (Audit and Risk) Tim Pouncey