



INFRASTRUCTURE, GOVERNMENT  
AND HEALTHCARE

**Report to those  
charged with  
governance  
2008/09**

Leeds City Council

September 2009

AUDIT

# Content

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

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

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Mike McDonagh who is the engagement partner to the Council, telephone 0121 3352440, email [Michael.A.McDonagh@kpmg.co.uk](mailto:Michael.A.McDonagh@kpmg.co.uk) who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 236 4000, email [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk), who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Investigation Officer, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by e mail to: [complaints@audit-commission.gov.uk](mailto:complaints@audit-commission.gov.uk). Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421



## Section one

# Executive summary

### Scope of this report

The Audit Commission's Code of Audit Practice (the Code) requires us to summarise the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified and we report to those charged with governance (in this case the Corporate Governance and Audit Committee) at the time they are considering the financial statements. We are also required to comply with International Standard on Auditing (ISA) 260 which sets out our responsibilities for communicating with those charged with governance.

This report meets both these requirements. It summarises the key issues identified during our audit of Leeds City Council's ('the Council's') financial statements for the year ended 31 March 2009. In addition, this report summarises our assessment of the Council's arrangements to secure value for money in its use of resources.

This report does not repeat matters we have previously communicated to you. In particular, we draw your attention to our *Interim Audit Report 2008/09*, presented to you on 30 June 2009, which summarised our planning and interim audit work. A summary of all reports we have issued in the year is set out in Appendix 9. Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

### Summary of findings

#### *Use of Resources*

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and regularly reviewing their adequacy and effectiveness.

We are required to conclude whether the Council has adequate arrangements in place to ensure effective use of its resources. This assessment draws on the findings from the new use of resources assessment framework introduced by the Audit Commission.

This assessment is a harder test than the previous assessment and is focused on outcomes for local people rather than processes. It is not sufficient for bodies to put in place well designed processes. They must be able to demonstrate the impact that those processes have made in relation to value for money and outcomes for local people. As a consequence it is not possible to make direct comparisons with the previous year's assessment.

The new framework assesses local authorities against three themes: managing finances, governing the business and managing resources. We have assessed the Council as level 3 overall which means the Council is performing well.

The table below shows our Use of Resources assessment across the three themes.

KLOE	Theme Score
1 – Managing finances	3
2 – Governing the business	2
3 – Managing resources	3
<b>Overall score</b>	<b>3</b>

## Executive summary (continued)

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The Council has been able to demonstrate sound arrangements and clear outcomes in five out of nine individual sub-themes that have been assessed this year, these being planning its finances, financial reporting, risk management and internal control, managing its natural resources and managing its assets effectively. The fact that the Council achieved a level 3 score on KLOEs 1 and 3 is a good achievement in the first year of this harder test. Notwithstanding this there is scope to further improve arrangements to ensure that this score can be maintained in the future.

The other four sub-themes have been assessed as currently meeting the core requirements overall. We have highlighted in this report where the Council can make improvements to its arrangements that could contribute to a achieving a higher score in the future. This list is not exhaustive, and the Council will also need to be able to demonstrate consistent outcomes across all KLOE focus areas to be able to both retain and improve its scores.

Key areas of focus include:

- Gaining a greater understanding of the underlying drivers of cost to ensure that the way data is captured and information produced is clearly reflected;
- Ensuring that the Council demonstrates good practice and consistent outcomes across all areas of focus within the Governing the Business KLOE areas; and
- Preparing for the inclusion of workforce planning (KLOE 3.3) within the Use of Resources assessment next year.

Our findings are reported in greater detail in section two of this report and our proposed conclusion is set out in Appendix 1. Our findings and recommendations are detailed in Appendix 2.

### *Financial statements*

The Council is responsible for having in place effective systems of internal control which ensure the regularity and lawfulness of transactions, to maintain proper accounting records and to prepare financial statements that present fairly its financial position and its expenditure and income. It is also responsible for preparing and publishing an Annual Statement of Governance with its financial statements.

We have substantially completed our work on the 2008/09 financial statements. At the date of this report our audit of the financial statements is substantially complete subject to finalisation of the whole of government accounts.

We confirmed the majority of the recommendations raised in previous years had been implemented by the Council. In one case the recommendation relating to school bank account reconciliations has not been fully resolved but progress has been made.

The Council continues to benefit from an excellent accounts team who remain at the fore-front of local government accounting and has a sound process in place for the close down of its accounts. We did note that the quality assurance process has not been as consistent as it has been in previous years. Whilst the Council remains exemplary in relation to its overall accounts closedown process, further work needs to be done to ensure that the quality assurance process does not lead to material errors within the accounts in future years.

We identified four specific issues which required an adjustment to the accounts, these are detailed in Appendix 5.

Three of these adjustments related to fixed assets. These adjustments mainly arose as a result of there being a lack of resources to undertake a detailed quality assurance process. Two of the fixed asset adjustments related to the fact that the non-enhancing spend write off in year had not been reviewed as part of the quality assurance process. The third fixed asset adjustment related to the fact that the revaluation of the three fixed assets that had been done in year had not been picked up by the accounts team.

The fourth adjustment related to the fact that at the year end the Council had not decided how it would pursue the overspend of the capital budget by one of its ALMOs, the decision to raise this as a debtor was subsequently made and the appropriate debtor included within the accounts.

We require a signed management representation letter, and have provided a draft version at Appendix 11.

## Section one

# Executive summary (continued)

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### *Declaration of independence and objectivity*

In relation to the audit of Leeds City Council for the year ending 31 March 2009, we confirm that there were no relationships between KPMG LLP and Leeds City Council, its directors and senior management and its affiliates that may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 10 in accordance with ISA 260.

### *Exercise of other powers*

We have a duty under section 8 of the Audit Commission Act 1998 to consider whether, in the public interest, to report on any matter that comes to our attention in order for it brought to the attention of the public. In addition we have a range of other powers under the 1988 Act. We did not exercise these powers or issue a report in the public interest in 2008/09.

### *Certificate*

We are required to certify that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice. If there are any circumstances under which we cannot issue a certificate, then we are required to report them to you and to issue a draft opinion on the financial statements.

At present we are dealing with a small number of elector challenge issues and until these are resolved we will be unable to issue our certificate of completion of the audit.

### *Fees*

Our fee for the audit is £504,000. This has been contained within the fee agreed with you in our audit plan. We have not performed any non-audit work.

### **Acknowledgements**

We would like to take this opportunity to thank officers and members for their continuing help and co-operation throughout our audit work.

Section two  
**Use of resources**

**We are required to conclude whether the Council has adequate arrangements to ensure effective use of its resources. This assessment draws on the new use of resources assessment framework introduced by the Audit Commission.**

**This assessment is a harder test than the previous assessment and is focused on outcomes for local people rather than processes. The new framework assesses local authorities against three themes: managing finances, governing the business and managing resources and the Council has been assessed as performing well against these themes. We have assessed the Council as an overall score of level 3 which mean the Council is performing well.**

**Based on this, we concluded that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.**

**Introduction**

In our *Annual Audit and Inspection Plan 2008/09* we outlined the work streams which we complete to assess the adequacy of your arrangements which ensure that your resources are deployed effectively. Our conclusion is based on these work streams, our cumulative audit knowledge and any specific local risk work, as detailed below.

**The new use of resources assessment**

The Audit Commission introduced a new assessment this year. This assesses how well organisations are managing and using their resources to deliver value for money and better and sustainable outcomes for local people.

This new assessment forms part of the Comprehensive Area Assessment (CAA) framework. It defines use of resources in a broader way than previously, embracing the use of natural, physical and human resources. It also places a new emphasis on commissioning services for local people.

This assessment is a harder test than the previous assessment and is focused on outcomes for local people rather than processes. It is not sufficient for bodies to put in place well designed processes. They must be able to demonstrate the impact that those processes have made in relation to value for money and outcomes for local people. As a consequence it is not possible to make direct comparisons with the previous year’s assessment.

The assessment is based on three Key Lines of Enquiry (KLOEs) themes which cover:

- **Managing finances** - focusing on sound and strategic financial management;
- **Governing the business** - focusing on strategic commissioning and good governance; and
- **Managing resources** - focusing on the effective management of natural resources, assets and people.

The scoring of the theme are based on the scores assessed for the underlying Key Lines of Enquiry (KLOE). The KLOEs are generic and applicable equally to all organisation.

The Commission specifies each year which KLOEs are to be assessed and those relevant for single tier authorities for 2008/09 are set out in Appendix 3.

We have assessed the Council against the detailed guidance set out on the Audit Commission website which can be assessed by the following link <http://www.audit-commission.gov.uk/useofresources/guidance>. Judgements have been made for each KLOE using the four point scale from 1 to 4, (1 meaning that the Council does not meet minimum requirements and 4 being significantly exceeding minimum requirements).

**Findings**

The table below shows our Use of Resources assessment across the three themes.

KLOE	Theme Score
1 – Managing finances	3
2 – Governing the business	2
3 – Managing resources	3

## Use of resources (continued)

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We have assessed the Council as level 3 overall which means the Council is performing well.

The Council has been able to demonstrate sound arrangements and clear outcomes in five out of nine individual themes that have been assessed this year. In most cases there is scope to further improve arrangements to ensure that this score can be maintained in the future.

The remaining four themes have been assessed as currently meeting the core requirements overall. We have highlighted in this report where the Council can make improvements to its arrangements that could contribute to a higher score in the future. The list is not exhaustive and the Council will also need to be able to demonstrate consistent outcomes across all KLOE focus areas to be able to improve its scores.

### **KLOE 1 – Managing finances**

The Council has sound arrangements for financial planning and financial performance and the Council is able to demonstrate clear outcomes for these. There are strong links between the Council's strategic plan and its medium term financial strategy, business plans, risk registers and other policies and procedures. The Council set and approves a balanced budget and has a strong history of revenue surplus.

The Council's arrangements for understanding its costs and performance meet basic requirements. The Council will need to be able to demonstrate good practice and consistent outcomes across all areas to be able to improve its score.

The Council produces relevant and timely financial monitoring and forecasting information and produces financial reports that are clear and concise.

### **KLOE 2 – Governing the business**

The Council's arrangements for governing the business are adequate and meet basic requirements. The Council will need to be able to demonstrate good practice and consistent outcomes across all KLOE focus areas to be able to improve its scores.

The Council's arrangements for commissioning and procurement are adequate but the Council needs to consistently demonstrate the impact of its arrangements on the delivery of outcomes. Whilst the Council has clearly developed sound arrangements to govern itself and commission services that provide value for money leading to better services for residents, it needs to ensure that it continues to evidence the outputs achieved.

The Council's arrangements for ensuring that its data is reliable are adequate. The Council needs to strengthen its arrangements relating to data sharing and enhance data quality assurance / compliance arrangements contained in existing partnership agreements.

The Council's governance arrangements are adequate however the Council needs to consistently demonstrate the impact of its arrangements with its partners to evidence that partnerships are providing effective outcomes and value for money.

The Council continues to have good risk management and internal control arrangements and can demonstrate how risk management is an integral part of the delivery of all programmes. The Council has continued its drive to promote an anti-fraud and corruption culture.

## Use of resources (continued)

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### **KLOE 3 – Managing resources**

Only two out of three sub KLOEs have been assessed this year. The Council has sounds arrangements in place for both its use of natural resources and strategic asset management. Workforce planning is not applicable to upper tier authorities for this year.

The Council is managing its use of natural resources well and is reducing the environmental impact of providing services. The Council has adopted a strategic approach to the management of climate change and has arrangements in place to monitor its use of natural resources. Various initiatives are in place for delivering against the target of reducing consumption. There is clear engagement with staff and the Council has started to work with stakeholders and partners to address climate change.

The Council has a clear strategic asset management plan in place which links to its corporate priorities. There are numerous examples across the City of this plan delivering projects which meet the Council's strategic priorities.



## Use of resources (continued)

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### Other work

If we identify specific risks at the Council which may impact on our value for money conclusion, we are required to perform additional work to meet our responsibilities under the Code.

Our initial risk assessment was included in our *Annual Audit and Inspection Plan 2008/09*.

We identified the following areas for further review:

- The EASEL project;
- Children and Young People Services;
- The Scrutiny function; and
- Health inequalities.

For the first two areas above we have monitored progress of these throughout the year. For the health inequalities and Scrutiny function reviews we issued separate reports to the Council which reported our findings. These reviews were discussed at the Corporate Governance and Audit Committees throughout in June and July respectively.

### Use of resources (value for money) conclusion

We are required to give an annual conclusion on the adequacy of the Council's arrangements to ensure effective use of its resources. This is the use of resources or value for money (VFM) conclusion

For 2008/09, the KLOEs for the scored use of resources assessment directly map to the criteria for the VFM conclusion. The Audit Commission has specified which of the KLOEs will form the relevant criteria for the VFM conclusion and these are summarised in 3.

Based on our use of resources assessment, we conclude that the Council has appropriate arrangements in place to ensure the effective use of its resources. Our proposed conclusion is set out in Appendix 1.

## Financial statements

The Council is responsible for having effective systems of internal control to ensure the regularity and lawfulness of transactions, to maintain proper accounting records and to prepare financial statements that present fairly its financial position and its expenditure and income. It is also responsible for preparing and publishing an Annual Statement of Governance with its financial statements.

We have completed our work on the 2008/09 financial statements.

The Council continues to benefit from an excellent accounts team who remain at the fore-front of local government accounting and has a sound process in place for the close down of its accounts. We did note that the quality assurance process has not been as consistent as it has been in previous years. Whilst the Council remains exemplary in relation to its overall accounts closedown process, further work needs to be done to ensure that the quality assurance process does not lead to material errors within the accounts in future years.

We have identified four issues in the course of the audit that are considered to be material and which has been adjusted for.

We anticipate issuing an unqualified audit opinion by 30 September 2009. We will also report that the wording of your Annual Statement of Governance accords with our understanding.

### Introduction

Our financial statements work can be split into four phases. We previously reported on our work on the first two stages in our *Interim Audit Report 2008/09* issued 30 June 2009.

Stage	Tasks	Timing	Completed
Planning	<ul style="list-style-type: none"> <li>Updating our business understanding and risk assessment</li> <li>Assessing the organisational control environment</li> <li>Issuing our accounts audit protocol</li> </ul>	December 2008 to February 2009	✓
Control evaluation	<ul style="list-style-type: none"> <li>Reviewing the accounts production process</li> <li>Evaluating and testing controls over key financial systems</li> <li>Review of internal audit</li> </ul>	March to April 2009	✓
Substantive testing	<ul style="list-style-type: none"> <li>Planning and performing substantive work</li> <li>Evaluating the accounts production and audit process</li> <li>Concluding on critical accounting matters</li> <li>Identifying audit adjustments</li> <li>Reviewing the Annual Governance Statement</li> </ul>	July to September 2009	✓
Completion	<ul style="list-style-type: none"> <li>Declaring our independence and objectivity</li> <li>Obtaining management representations</li> <li>Reporting matters of governance interest</li> <li>Forming our audit opinion</li> </ul>	September 2009	-

This report focuses on the substantive testing and completion stages.

## Financial statements (continued)

### Substantive testing – accounts production and audit process

As part of our use of resources assessment we assess the Council's process for preparing the accounts and its support for an efficient audit. We considered these against three criteria:

Element	Commentary
Completeness of draft accounts	We received a complete set of accounts on 2 July 2009 in advance of our final accounts audit visit on 13 July 2009. The draft accounts required four material adjustments. In the main, disclosure notes were complete and the draft accounts were subject to a small number of cross referencing changes.
Quality of supporting working papers	As part of our interim audit we issued a 'Prepared By Client List' which detailed the working papers we expected to support the statement of accounts. The quality of the working papers was found to be very high and was again an improvement on the previous year. Officers have continued to discuss key accounting issues with us at the earliest opportunity and this has contributed to the smooth process of the audit.
Response to audit queries	The Council has been able to address our audit queries promptly and efficiently this year. This has contributed to an overall more efficient audit process than in the previous years. There is scope for the Council to build additional quality assurance into its closedown procedures that should help to reduce the number of audit adjustments.

### Substantive testing – critical accounting matters

Our Interim Audit Report included the key accounting issues for 2008/09 financial statement. We have now completed our testing of these areas and the outcome of our work is summarised in 7.

### Substantive testing – adjustments to the accounts

In accordance with ISA 260 we are required to report uncorrected audit differences to you. There are no uncorrected audit differences to bring to your attention. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities. During our audit we identified four adjustments that have been made to the accounts, details of these adjustments are provided in Appendix 5. These have no net impact on the General Fund.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2008: A Statement of Recommended Practice* ('SORP').

## Financial statements (continued)

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### Substantive testing – Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that

- it complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE in June 2007; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

### Completion – declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Leeds City Council for the year ending 31 March 2009, we confirm that there were no relationships between KPMG LLP and Leeds City Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 10 in accordance with ISA 260.

### Completion – management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have included a copy of a representation letter as Appendix 11. We have provided a draft to the Principal Accountant. We require a signed copy of your management representations before we issue our audit opinion.

For 2008/09 we are seeking specific assurance that sufficient and appropriate consideration has been given to potential impairments of the assets included in the accounts in light of the current macro economic climate and that, where any such impairment has been identified, it is reflected accordingly in the accounts. This includes compliance with the accounting policy for periodic revaluation of assets (under FRS 15), as well as the need for management to undertake a review of assets to determine whether there is any impairment to their value in accordance with FRS 11.

### Completion – other matters

ISA 260 requires us to communicate "audit matters of governance interest that arise from the audit of the financial statements" to you which includes:

- material weaknesses in internal control identified during the audit;
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. issues relating to fraud, compliance with laws and regulations, subsequent events etc); and
- other audit matters of governance interest.

There are no others matters which we wish to draw to your attention.

### Completion – opinion

At the date of this report our audit of the financial statements is complete and we anticipate issuing an unqualified audit opinion on 30 September 2009.

Our proposed opinion on the financial statements is presented in Appendix 4.

## Appendix 1: Proposed use of resources conclusion

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### Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

#### Authority's Responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

#### Auditor's Responsibilities

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. We report if significant matters have come to our attention which prevent us from concluding that the Authority has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

#### Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice. Having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, we are satisfied that, in all significant respects, Leeds City Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

**Michael McDonagh (Senior Statutory Auditor)**

**for and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*

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## Appendix 2: Use of resources key findings

This Appendix summarises key messages from the use of resources assessment by theme. As the new use of resources framework requires us to apply rounded judgements, we remind the Council that it is not a checklist approach. In our findings we highlight areas where the Council can make improvements to its arrangements, but they are not exhaustive. The recommendations have been included in Appendix 8.

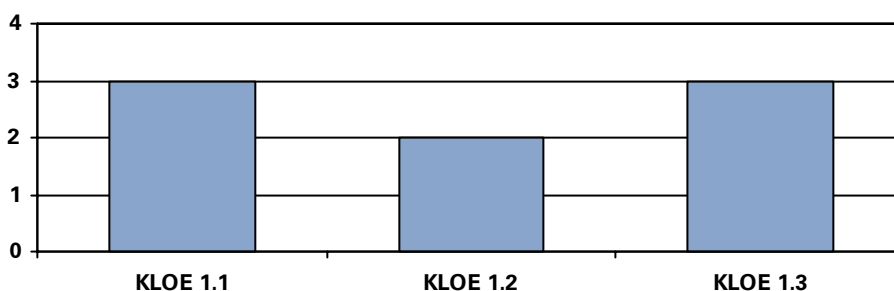
### KLOE 1 – Managing finances: overall score 3

The Council has sound arrangements for financial planning and financial performance and the Council is able to demonstrate clear outcomes for these. There are strong links between the Council's strategic plan and its medium term financial strategy, business plans, risk registers and other policies and procedures. The Council set and approves a balanced budget and has a strong history of revenue surplus.

The Council's arrangements for understanding its costs and performance meet basic requirements. The Council will need to be able to demonstrate good practice and consistent outcomes across all areas to be able to improve its score.

The Council produces relevant and timely financial monitoring and forecasting information and produces financial reports that are clear and concise.

The scores by sub KLOE are summarised in the graph below:



As the Council has scored at least level 2 for all criteria, it has met the requirements for the VFM conclusion.

### KLOE 1.1 – Financial planning

This KLOE considers if the Council plans its finances effectively to deliver its strategic priorities and secure sound financial health.

On balance, the Council's arrangements are considered to be robust. The Council has developed sound arrangements to monitor financial planning. The Council sets and approves a balanced budget that is communicated to key stakeholders; with Members and the corporate management team having a strong understanding of the financial environment operated in.

Stakeholders are involved in the financial planning process and through the use of Area Committees the Council is able to evidence that local priorities are being addressed.

There are a variety of training tools available for officers and members to develop their financial skills and up take is good.

## Appendix 2: Use of resources key findings (continued)

### KLOE 1.2 – Understanding costs and achieving efficiencies

This KLOE considers if the Council has a sound understanding of its costs and performance and if it achieves efficiencies in its activities.

The Council is continuing to gain an understanding of its costs and comparative information on costs and performance is being used to review and challenge the achievement of Value for Money. There is scope to further understand cost drivers.

When forming decisions the Council usually utilises option appraisals to assess the wider impact on social, environmental and economic factors.

Costing information also includes whole life data, social and environment impacts and usually comparative data.

The Council has some examples of how cost information has lead to efficiencies in terms of the library strategy, waste strategy and sports services.

#### Recommendation one

The Council should gain a greater understanding of the underlying drivers of cost so that it can effectively review and challenge service delivery and value for money.

#### Recommendation two

The Council should work closer with partners to compare and evaluate processes, costs and outcomes to improve the use of benchmarking data and other comparative information on cost and performance.

### KLOE 1.3 – Financial reporting

This KLOE considers if the Council's financial reporting is timely, reliable and if it meets the needs of internal users, stakeholders and local people.

The Council uses forecast information and a risk based reserves strategy to analyse and extrapolate trends and show the impact on the projected outturn. Reporting uses summarised cost information, variance analysis and cost analysis.

The Council's financial system is accessible and allows access for flexible reporting as well as the ability to produce profiled financial data in a timely basis. Reports to members provide sufficient information in order for them to make decisions, linking financial and performance data.

There is a strong commitment in the Council to producing exceptionally high quality accounts and working papers and this direction comes from the executive level. All working papers at the Council are clear and easily followed. Audit queries are dealt with quickly and thoroughly by staff. Key areas are covered by a named officer who is responsible for queries and who has prepared the working papers.

The accounts are closed-down efficiently and promptly and there is strong officer involvement throughout the process. We did note that the quality assurance process has not been as consistent as it has been in prior years. Whilst the Council remains exemplary in relation to its overall accounts closedown process, further work needs to be done to ensure that the quality assurance process does not lead to material errors within the accounts in future years.

The Council is proactive in addressing changes to accounting standard e.g. the SORP and IFRS. Over the past four years the timeframe and the number of queries raised during the audit has reduced significantly.

## Appendix 2: Use of resources key findings (continued)

### KLOE 2 – Governing the business: overall score 2

The Council’s arrangements for governing the business are adequate and meet basic requirements. The Council will need to be able to demonstrate good practice and consistent outcomes across all KLOE focus areas to be able to improve its scores.

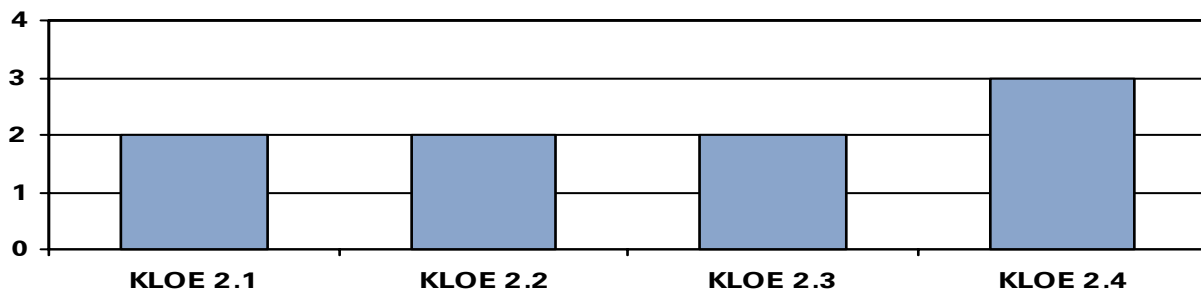
The Council’s arrangements for commissioning and procurement are adequate but the Council needs to consistently demonstrate the impact of its arrangements on the delivery of outcomes. Whilst the Council has clearly developed sound arrangements to govern itself and commission services that provide value for money leading to better services for residents, it needs to ensure that it continues to evidence the outputs achieved.

The Council’s arrangements for ensuring that its data is reliable are adequate. The Council needs to strengthen its arrangements relating to data sharing and enhance data quality assurance / compliance arrangements contained in existing partnership agreements.

The Council’s governance arrangements are adequate however the Council needs to consistently demonstrate the impact of its arrangements with its partners to evidence that partnerships are providing effective outcomes and value for money.

The Council continues to have good risk management and internal control arrangements and can demonstrate how risk management is an integral part of the delivery of all programmes. The Council has continued its drive to promote an anti-fraud and corruption culture.

The scores by sub KLOE are summarised in the graph below:



As the Council has scored at least level 2 for all criteria, it has met the requirements for the VFM conclusion.

### KLOE 2.1 – Commissioning and procurement

This KLOE considers the extent to which the Council commissions and procures quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money.

A ‘One Council’ approach to commissioning is being developed and this needs to be rolled out across the Council. The Council also needs to continue to build up a clear picture of the needs of the local population and from this there should be direct links to its commissioning intentions.

There are examples where the Council is performing well in redesigning services but further evidence of clear outputs and value for money achievements across all services is needed.

The Council understands the market and there has been demand management work across a range of services that have had a direct impact on improving the quality of service.

The Council has demonstrated sound arrangements in place for procurement and has provided examples of how savings have been achieved through procurement over recent years.

#### Recommendation three

The Council needs to ensure when redesigning services there is a focus on enhancing services and supplies for local people by ensuring outputs and value for money targets are achieved and evidenced.



## Appendix 2: Use of resources key findings (continued)

### KLOE 2.2 – Data quality and use of information

This KLOE considers the extent to which the Council produces relevant and reliable data and information to support decision making and managing performance.

The Council has a corporate Data Quality champion who is supported by a Policy and Performance team and key working groups. There is evidence that a risk based approach has been taken to performance management, as strategic performance improvement opportunities are linked to the Council's Business Plan and Strategic Plan.

Spot checks confirmed that no significant data quality issues were identified from our detailed audit testing of three performance indicators or from the Housing Benefit certification work.

The Council needs to strengthen its arrangements relating to data sharing and enhance data quality assurance / compliance arrangements contained in existing partnership agreements. To facilitate this the Council is developing a single corporate data sharing protocol. This will contain data quality standards, against which all internal and external data sharing activity will be benchmarked.

#### Recommendation four

The Council needs to strengthen its arrangements relating to data sharing and enhance data quality assurance / compliance arrangements contained in existing partnership agreements so that the partnerships can deliver enhanced outcomes.

### KLOE 2.3 – Good governance

This KLOE considers the extent to which the Council promotes and demonstrates the principles and values of good governance.

The Council has developed arrangements to promote and demonstrate the principals of good governance. There are constructive working relationships between Members, management and staff. Members, management and staff receive a full range of development opportunities and personal development plans are in place in some areas of the Council.

The Council was short-listed in the Local Government Chronicle 2009 awards in the standards and ethics category for its approach to improving and promoting ethical standards amongst members whilst boosting public confidence in local democracy.

The Council's Plan outlines its vision, and what it wants to achieve, based on an understanding of local needs. These local needs were identified through consultation and area committee decision days.

In year the Council approved a revised Governance Framework for Significant Partnerships. The Framework is based on the principles set out in the Council's Code of Corporate Governance. This includes a requirement that all significant partnerships produce a governing document setting out the roles, responsibilities and accountabilities of the partnership members.

#### Recommendation five

The Council need to collect and act upon feedback on how effective training and development opportunities are for Members and staff.

#### Recommendation six

The Council need to demonstrate that stakeholders and local people have confidence in the organisation's partnerships and that these partnerships are providing effective outcomes and value for money.

## Appendix 2: Use of resources key findings (continued)

### KLOE 2.4 – Risk management and internal control

This KLOE considers the extent to which the Council manages its risks and maintains a sound system of internal control.

The Council has developed good arrangements to manage the risk of fraud and corruption and has embedded risk management policies. All risks are linked to the corporate plan, are assessed against their likelihood and impact and are allocated a named responsible officer. The risk management arrangements of partners are also considered. The Audit Committee proactively publishes its corporate risk registers, and benchmarks itself against other Audit Committee functions within the Core Cities group.

Through good risk management the Council has delivered a number of innovative projects. These projects include the Northern Ballet Theatre / Phoenix Dance Co project, where the Council had to consider the risks and costs of developing the building to BREEAM standards.

By using Data-tank the Council has compared single person discount cases with third party data. The has resulted in over 3,500 cases being cancelled, generating approximately £600k of saving in the first year.

The Council also entered into a partnership with the Department of Work and Pensions 'One City One Team'. This is to provide a counter-fraud service that delivers improved performance, improves scope and range of counter fraud activity, drives efficiencies and raises stakeholder confidence in security of the benefits system.

## Appendix 2: Use of resources key findings (continued)

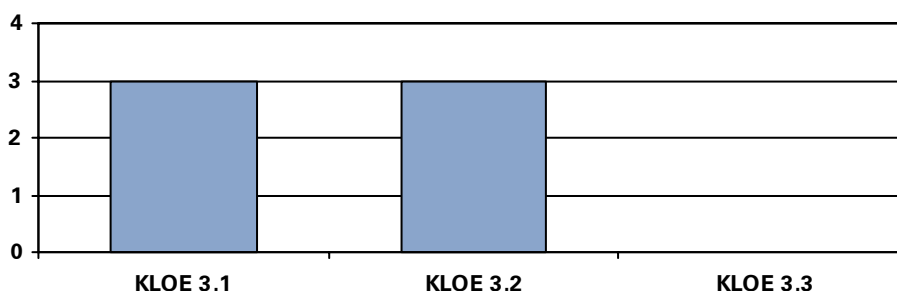
### KLOE 3 – Managing resources: overall score 3

Only two out of three sub KLOEs have been assessed this year. The Council has sound arrangements in place for both its use of natural resources and strategic asset management. Workforce planning is not applicable to upper tier authorities for this year.

The Council is managing its use of natural resources well and is reducing the environmental impact of providing services. The Council has adopted a strategic approach to the management of climate change and has arrangements in place to monitor its use of natural resources. Various initiatives are in place for delivering against the target of reducing consumption. There is clear engagement with staff and the Council has started to work with stakeholders and partners to address climate change.

The Council has a clear strategic asset management plan in place which links to its corporate priorities. There are numerous examples across the City of this plan delivering projects which meet the Council’s strategic priorities.

The scores by sub KLOE are summarised in the graph below:



As the Council has scored at least level 2 for all criteria, it has met the requirements for the VFM conclusion.

### KLOE 3.1 – Use of natural resources

This KLOE considers the extent to which the Council makes effective use of natural resources.

There is a strategic approach to managing the Council’s use of natural resources and overall aspirations are set out in the Leeds Strategic plan and Corporate Plan. The Council has a good understanding of its use of natural resources and can quantify its natural resource usage.

To identify and manage the significant environmental aspects and impacts in a systematic manner the council has implemented a formal environmental management system. The Council is reducing the environmental impact and resource usage of its services. It also has systems in place to manage environmental risks and there is a comprehensive flood risk management plan.

### KLOE 3.2 – Strategic asset management

This KLOE considers the extent to which the Council manages its assets effectively to help deliver its strategic priorities and service needs.

The Council has a strategic asset management plan in place which has been developed in consultation with stakeholders. The Council has a good track record of delivery against the plan, for example when significant investment in the highways was highlighted as a concern, the Council reassessed its strategic priorities and incorporated the state of the highways into the plan.

The Council utilises a Geographic Information System which holds comprehensive information and accurate data on the asset base which enables an assessment of the fitness for purpose of assets. The Council benchmark data on the basis of the National Property Performance Management Initiative (NAPPMI) performance indicators and also benchmarking comparisons are made with other core cities’.

There is strong evidence that the Council seeks to involve partners in asset management and there are a number of examples of achieving this across the city.

### KLOE 3.3 – Workforce planning

**Not applicable to upper tier councils in 2009.**

## Appendix 3: Use of resources criteria and link to VFM conclusion

The Audit Commission has specified which of the use of resources KLOEs form the criteria for the VFM conclusion. These criteria are summarised below.

Use of resources KLOE	Relevance to the Council
<b>Managing finances</b>	
1.1 – Financial planning	✓
1.2 – Understanding costs and achieving efficiencies	✓
1.3 – Financial reporting	✓
<b>Governing the business</b>	
2.1 – Commissioning and procurement	✓
2.2 – Data quality and use of information	✓
2.3 – Good governance	✓
2.4 – Risk management and internal control	✓
<b>Managing resources</b>	
3.1 – Use of natural resources	✓
3.2 – Strategic asset management	✓
3.3 – Workforce planning	X *

\* Single tier councils are not assessed on KLOE 3.3 in 2008/09, however, this area will be assessed in 2009/10 and KLOE 3.1 will not.

## Appendix 4: Proposed audit report

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### Independent auditors' report to the Members of Leeds City Council

#### Opinion on the accounting statements

We have audited the accounting statements and related notes of Leeds City Council [and its Group] for the year ended 31 March 2009 under the Audit Commission Act 1998. The accounting statements comprise the Authority and Group Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Authority and Group Balance Sheet, the Authority and Group Statement of Total Recognised Gains and Losses, the Authority and Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Account, the Statement of Movement on the Housing Revenue Account, and the Collection Fund. The accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to Leeds City Council as a body, in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to Leeds City Council, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Leeds City Council as a body, for our audit work, for this report, or for the opinions we have formed.

#### Respective responsibilities of the Responsible Financial Officer and auditors

The Responsible Financial Officer's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the accounting statements and related notes present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008:

- the financial position of the Authority and its income and expenditure for the year;
- the financial position of the Group and its income and expenditure for the year;

We review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. We report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the governance statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

We read other information published with the accounting statements and related notes and consider whether it is consistent with the audited accounting statements and related notes. This other information comprises only the Explanatory Foreword. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounting statements and related notes. Our responsibilities do not extend to any other information.

## Appendix 4: Proposed audit report (continued)

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### Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

### Opinion

In our opinion the accounting statements and related notes present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority and its Group as at 31 March 2009 and its income and expenditure for the year then ended.

### Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

**Michael McDonagh (Senior Statutory Auditor)**

**for and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*

1 The Embankment

Leeds

LS1 4DW

30 September 2009

## Appendix 5: Audit differences

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to the Audit Committee. We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.




### Corrected audit differences

The following table sets out the significant audit differences identified by our audit of Leeds City Council's financial statements for the year ended 31 March 2009. It is our understanding that these will be adjusted.

Income and expenditure	Statement of Movement on GF Balance	Impact			Basis of audit difference
		Assets	Liabilities	Reserves	
Cr 6,431k Net cost of services	Dr 6,431k	Dr 638k Fixed Assets		Cr 6,431k - Capital Adjustment account Dr 5,793k – Revaluation Reserve	The Council had charged expenditure relating to the City Museum to another related asset. This asset had not increased in value so the Council wrote off this expenditure to the Income and Expenditure Account. However, as the City Museum had a balance within the revaluation reserve the correct treatment is to remove any upwards revaluations before taking the remaining expenditure to the Income and Expenditure account.
Cr 4,307k Net cost of services	Dr 4,307k	Dr 4,425k Fixed Assets		Cr 4,307k - Capital Adjustment account Cr £118k Revaluation Reserve	The Council had not taken into consideration the revaluation of the Prince Henrys High School, Roundhay Park Lakeside Cafe or Pudsey Open Market when writing off spend in year on this asset. As the assets had increased in value, not all of the in year expenditure should have been written off.
Cr £481k Net cost of services	Dr £481k	Dr 862k Fixed Assets		Cr £481k - Capital Adjustment account Cr £381k Revaluation Reserve	The Council had not taken into consideration the revaluation of two new assets Castleton Children's Centre and South Gipton Children's Centre built in year when writing off the spend in year on this asset. As the asset had increased in value not all the in year expenditure should have been written off.
Cr 2,250 Net cost of services	Dr 2,250	Dr 2,250k Debtors		Cr 2,250 HRA reserve	The Council's ALMO's, Aire Valley Homes, had overspent against the capital budget as they had failed to manage this budget appropriately. This overspend was not initially recognised as a debtor as the Council were uncertain how they would require the ALMO to re-pay this.
<b>Cr 13,469k</b>	<b>Dr 13,469k</b>	<b>Dr 8,175k</b>		<b>Cr 8,175k</b>	<b>Total effect of these adjustments</b>

## Appendix 6: Financial Statements Recommendations

We have given each recommendation a risk rating (as explained below) and agreed what action management will need to take. We will follow up these recommendations next year.

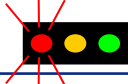


Priority rating for recommendation		
<p><b>Priority one:</b> issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.</p> 	<p><b>Priority two:</b> issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p> 	<p><b>Priority three:</b> issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p> 

No.	Risk	Issue and recommendation	Management response	Officer and due date
1	● (two)	<p><b>Building Regulations 1998</b></p> <p>There is a requirement under the Building (Local Authority Charges) Regulations 1998 for the Council to ensure that the income received from its chargeable activities fully recover the cost of carrying out its building control functions over a rolling three year accounting period. For the three year period to 31 March 2009, the Council has made a deficit of £336k, therefore breaching the Regulations. Given the current economic position, there is a risk to the Council of further deficits if the position is not monitored and managed.</p> <p>The Council does not currently have a robust plan in place to address the current deficit position.</p> <p>We recommend that the Council devises a financial plan to remedy the deficit position and closely monitors this to ensure that appropriate action is taken to ensure that this deficit position is returned to a break-even or surplus position.</p>	<p>Under normal circumstances the Council has a sound strategy for maintain a balanced Building Regulations account in line with statutory requirements and guidelines. This strategy has been successfully maintained since the introduction of the legislation. However, the nature and scale of the current recession was not anticipated and would require large scale corrective action. Any such large scale actions would take time to implement and would then need to be reversed once the fee income reverts to more normal levels. Officers will continue to monitor fee income whilst making every effort to minimise costs.</p>	<p>Principal Financial Manager (City Development) / timeframe - ongoing</p>



## Appendix 7: Use of Resources Recommendations

We have given each recommendation a risk rating (as explained below) and agreed what action management will need to take. We will follow up these recommendations next year.

Priority rating for recommendation		
<p><b>Priority one:</b> issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.</p> 	<p><b>Priority two:</b> issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p> 	<p><b>Priority three:</b> issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p> 

No.	Risk	Issue and recommendation	Management response
1	● (two)	The Council should gain a greater understanding of the underlying drivers of cost so to ensure that the way data is captured and information produced is clearly reflected.	The audit recommendations will be incorporated into the Council's action plan for improving the UoR score.
2	● (two)	The Council should work closer with partners to compare and evaluate processes, costs and outcomes to improve the use of benchmarking data and other comparative information on cost and performance.	The audit recommendations will be incorporated into the Council's action plan for improving the UoR score.
3	● (two)	The Council need to ensure when redesigning services there is a focus on enhancing services and supplies for local people by ensuring outputs and value for money targets are achieved and evidenced.	The audit recommendations will be incorporated into the Council's action plan for improving the UoR score.
4	● (two)	The Council need to strengthen their arrangements relating to data sharing and enhance data quality assurance / compliance arrangements contained in existing partnership agreements so that the partnerships can deliver enhanced outcomes.	The audit recommendations will be incorporated into the Council's action plan for improving the UoR score.
5	● (two)	The Council need to collect feedback on how effective training and development opportunities are for Members and staff and act upon this feedback.	The audit recommendations will be incorporated into the Council's action plan for improving the UoR score.
6	● (two)	The Council need to demonstrate that stakeholders and local people have confidence in the organisation's partnerships and that these partnerships are providing effective outcomes and value for money.	The audit recommendations will be incorporated into the Council's action plan for improving the UoR score.

## Appendix 8: Follow up of previous recommendations

This Appendix summarises the progress made to implement the recommendations identified in our previous reports. Where recommendations have been fully implemented in year the detail has not been provided within this report.

Report	Number of recommendations that were:		
	Included in original report	Implemented in year or superseded	Remain outstanding (re-iterated below)
ISA 260 Report 2007/08	2	2	0
ISA 260 Report 2006/07	1	0	1
<b>Total</b>	<b>3</b>	<b>2</b>	<b>1</b>

No.	Risk	Issue and recommendation	Management response	Officer and due date	Status at September 2009
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### ISA 260 Report 2006/07

#### School bank accounts

We identified that monthly reconciliations were not always undertaken by all of the schools. The percentage of nil returns over the 2006/07 averaged 57%.

We agreed with the council that we would expect as a minimum that year end reconciliations would be monitored and reviewed.

School bank reconciliation returns to Education Leeds Financial Services are monitored twice yearly. The Schools' Finance Officer then contacts the school to establish if there are any reasons for non-returns (e.g. staff absences) and to remind them of their responsibilities. If this does not produce a response from the school Education Leeds formally write to schools, requesting that the issue is resolved.

To strengthen these controls it is now proposed that more regular monitoring is carried of school returns. In addition it is also proposed that a follow up letter be sent, both reminding them of their obligations, and stating that further non-compliance would have implications on the school meeting the Financial Management Standard in Schools, and could result in the facility being withdrawn.

#### 2007/08 Updated position

We identified that during 2007/08 there was one of the schools which had not completed any returns in year.

In addition we found that at year end 17 out of 128 schools (13%) had not returned the year end reconciliation.

Patrick Fletcher  
Immediate

We identified that during 2008/09 there were three out of 130 schools (2%) that had not returned the year end reconciliation.

1

 (three)

## Appendix 8: Follow up of previous recommendations (continued)

No.	Risk	Issue and recommendation	Management response	Officer and due date	Status at September 2009
1 (cont)			<p><b>Management response:-</b>                      Significant improvement has been made with the percentage of nil returns for 2007/08 now down to 21% (57% in 2006/07). Schools have been informed of the need to produce regular reconciliations, particularly at year end. Of the 17 schools who did not provide a year end reconciliation, 10 have now completed a reconciliation in the new year. Education Leeds Financial Services continue to monitor and chase schools who do not completed regular reconciliations.</p>		

## Appendix 9: Audit reports issued

A summary of the reports issued in the year to date is set out below.

Report	Date issued
Audit and Inspection Plan 2008/09	June 2008
Annual Audit Fee Letter	April 2009
Support Services Review	February 2009
Interim Audit Report 2008/09	June 2009
Scrutiny Review	June 2009
Health Inequalities Review	July 2009
Report to those charged with governance (ISA 260 report) 2008/09	September 2009

# Appendix 10: Declaration of independence and objectivity

### Declaration of Independence and Objectivity 2008/09

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* (the Code) which states that:

*“Auditors and their staff should exercise their professional judgement and act independently of both the Audit Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body, which does not relate directly to the discharge of auditors’ functions, if it would impair the auditors’ independence or might give rise to a reasonable perception that their independence could be impaired”*

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission’s *Annual Letter of Guidance and Standing Guidance* (Audit Commission Guidance) and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* (‘Ethical Standards’).

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK &I) 260 *Communication of Audit Matters with Those Charged with Governance* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor’s objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor’s network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor’s professional judgement, the auditor is independent and the auditor’s objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor’s objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Corporate Governance and Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Audit Partner and the audit team.

### General procedures to safeguard independence and objectivity

KPMG’s reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm’s required independence. KPMG’s policies and procedures regarding independence matters are detailed in the Ethics and Independence Manual (‘the Manual’). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

## **Appendix 10: Declaration of independence and objectivity (cont'd)**

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KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual Ethics and Independence Confirmation. Failure to follow these policies can result in disciplinary action.

### **Auditor Declaration**

In relation to the audit of the financial statements of Leeds City Council for the financial year ending 31 March 2009, we confirm that there were no relationships between KPMG LLP and the Leeds City Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

## Appendix 11: Draft management representation letter

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Dear KPMG LLP,

We understand that auditing standards require you to obtain representations from management on certain matters material to your opinion. Accordingly we confirm to the best of our knowledge and belief, having made appropriate enquiries of other members of the Council, the following representations given to you in connection with your audit of the financial statements for Leeds City Council for the year ended 31 March 2009.

All the accounting records have been made available to you for the purpose of your audit and the full effect of all the transactions undertaken by Leeds City Council has been properly reflected and recorded in the accounting records in accordance with agreements, including side agreements, amendments and oral agreements. All other records and related information, including minutes of all management and Board meetings, have been made available to you.

We confirm that we have disclosed all material related party transactions relevant to the Council and that we are not aware of any other such matters required to be disclosed in the financial statements, whether under FRS 8 or other requirements.

We confirm that we are not aware of any actual or potential non-compliance with laws and regulations that would have had a material effect on the ability of the Council to conduct its business and therefore on the results and financial position to be disclosed in the financial statements for the year ended 31 March 2009.

We acknowledge that we are responsible for the fair presentation of the financial statements in accordance with the Local Government Statement of Recommended Practice ("SORP") and wider UK accounting standards. We have considered and approved the financial statements.

We confirm that we:

- understand that the term "fraud" includes misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Misstatements resulting from fraudulent financial reporting involve intentional misstatements or omissions of amount or disclosures in financial statements to deceive financial statement users. Misstatements resulting from misappropriation of assets involve the theft of an entity's assets, often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation;
- are responsible for the design and implementation of internal control to prevent and detect fraud and error;
- have disclosed to you our knowledge of fraud or suspected fraud affecting the Council involving:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the financial statements.
- have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others; and
- have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

We confirm that the presentation and disclosure of the fair value measurements of material assets, liabilities and components of equity are in accordance with applicable reporting standards. The amounts disclosed represent our best estimate of fair value of assets and liabilities required to be disclosed by these standards. The measurement methods and significant assumptions used in determining fair value have been applied on a consistent basis, are reasonable and they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Council where relevant to the fair value measurements or disclosures.

We confirm that there are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than that already disclosed in the financial statements; and
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements.

## Appendix 11: Draft management representation letter (continued)

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With reference to the specific issues on which you have requested assurances, we confirm that:

- For 2008/09 we consider that sufficient and appropriate consideration has been given to potential impairments of the assets included in the accounts in light of the current macro economic climate and that, where any such impairment has been identified, it is reflected accordingly in the accounts. This includes compliance with the accounting policy for periodic revaluation of assets (under FRS 15), as well as the need for management to undertake a review of assets to determine whether there is any impairment to their value in accordance with FRS 11.

Finally, no additional significant post balance sheet events have occurred that would require additional adjustment or disclosure in the financial statements, over and above those events already disclosed.

This letter was tabled at the meeting of the Corporate Governance and Audit Committee on 30 September 2009.

Yours faithfully

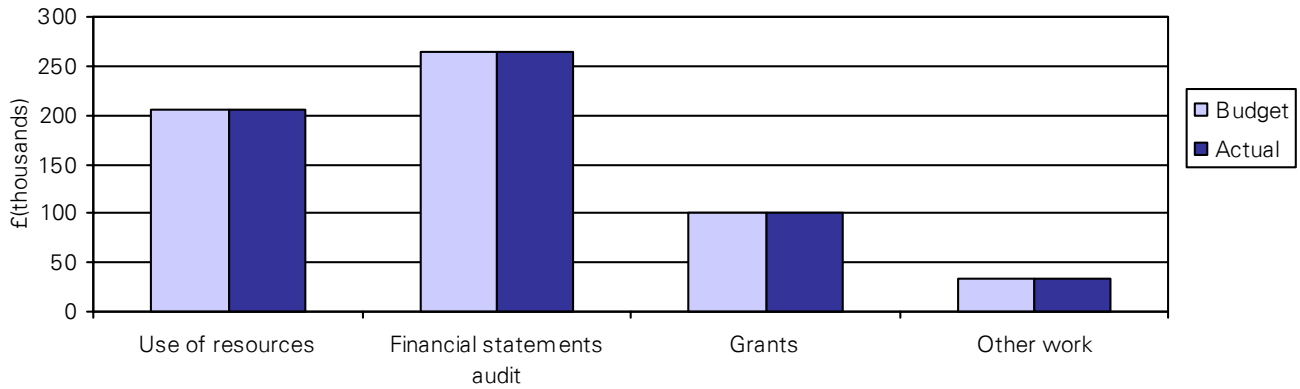
On behalf of Leeds City Council



## Appendix 12: Audit Fee

To make sure that there is openness between us and your Audit Committee about the extent of our fee relationship with you, we have summarised below the out-turn against the 2008/09 agreed external audit fee:

**External audit fee for 2008/09**



At this stage the actual cost of auditing the grant claims is uncertain as the majority of the work is due to be completed by December 2009. However we estimate at this stage that the costs will be broadly in line with budget.