



GOVERNMENT

Report to those
charged with
governance

Leeds City Council
September 2008

AUDIT

Content

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This report is addressed to Leeds City Council and has been prepared for the sole use of Leeds City 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 Adrian Lythgo who is the engagement lead to Leeds City Council on 0113 231 3054, email adrian.lythgo@kpmg.co.uk who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4063, email 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 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 Team, Nicholson House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SU or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.



Executive summary

Purpose 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. We report to those charged with governance (in this case the Corporate Governance and Audit Committee of Leeds City Council) at the time you are considering the financial statements. We are also required to comply with an International Standard on Auditing (ISA260) 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 the financial statements for the year ended 31 March 2008. It has been prepared for presentation to the Corporate Governance and Audit Committee on 29 September 2008.

This report does not repeat matters we have previously communicated to you. A summary of the reports we have issued in the year is set out in Appendix 7. Once we have finalised our opinions and conclusions we will prepare our Annual Audit and Inspection Letter jointly with your Audit Commission CAA lead to close our audit. We will also issue an Annual External Audit Report in January 2009 and this summarises all of our work during 2007/08

Our opinions and conclusions

Use of resources

Leeds City 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.

Our responsibility is to satisfy ourselves that you have in place proper arrangements by reviewing and, where appropriate, examining evidence that is relevant to your corporate performance and financial management arrangements and reporting on them.

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

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

Accounts and Annual Statement of Governance

Leeds City Council is responsible for putting in place 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 your accounts audit and **propose to provide an unqualified opinion on your 2007/08 accounts.**

Our findings are detailed in section three and our proposed opinion on the accounts is presented in Appendix 2.

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 2007/08.

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.

There are no issues that would cause us to delay the issue of our certificate of completion of the audit.

Executive summary (continued)

Status of the audit

At the date of this report our audit work is substantially complete.

We now require a signed management representation letter, and have provided a draft of this in Appendix 9.

Declaration of independence and objectivity

In relation to the audit of the financial statements of Leeds City Council for the financial year ending 31 March 2008, 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 8 in accordance with ISA 260.

Fees

Our fee for the audit is £489k. This has been contained within the totals agreed with you in our audit plan.

Section two

Use of resources

We are required to satisfy ourselves that you have proper arrangements in place to secure economy, efficiency and effectiveness in your use of resources. We reach this conclusion by considering the various assessment we make during the year, including the use of resources assessment.

Based upon this we have concluded that Leeds City Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Introduction

In our audit plan we outlined the work streams we consider to assess whether the arrangements you have in place to ensure that your resources are deployed effectively are appropriate. Our conclusion is based on these work streams, including your use of resources (UoR) self assessment, our cumulative audit knowledge and specific work to address the arrangements in place.

UoR assessments

This assessment analyses your performance against the five themes published by the Audit Commission. The scoring of the themes ranges from one (inadequate) to four (performing strongly). A score of level 2 or above is sufficient to support an unqualified opinion value for money conclusion. Your results for last year are summarised below:

Theme	Score	How findings have been reported
Financial Reporting	3	This work was undertaken in September 2007 and the score finalised in November 2007. This was reported to officers and those charged with governance in November 2007.
Financial Management	3	
Financial Standing	3	
Internal Control	3	
Value for Money	3	

The overall score from your 2007 assessment indicates that you are “performing well” across all areas. Our work for the 2008 assessment is under way and our theme assessments will be communicated to you in November 2008. The results of the VFM assessment so far do not indicate that there are any significant issues arising that would prevent us from issuing an opinion by the 30 September stating that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Other work

If we identify a need for it we are expected to perform other work as necessary to meet our responsibilities under the Code of Audit Practice. During 2007/08, we carried out reviews of the following:

- Children and Young People’s Agenda;
- Business Continuity;
- Project Management; and
- Corporate Social Responsibility.

The recommendations arising from our work have been separately reported to the Council or are to be in coming months. The work we have undertaken did not suggest that there are or there will be any issues which have an adverse implication for our VFM conclusion. Recommendations are to help the Council’s arrangement and performance.

Accounts and Annual Statement of Governance

We have now completed the audit in line with the deadline. We have identified no issues in the course of the audit that are considered to be material. On receiving your management representations letter we will issue an unqualified audit opinion on 29 September 2008. We have also provided you with a review of the accounts production process and how this can be improved in the future. We will also report that the wording of your Annual Statement of Governance accords with our understanding

Introduction

The tasks we perform in our review of your financial statements are summarised below. They are split between those which are undertaken before, during and after production of the accounts.

Work Performed	Accounts production stage		
	Before	During	After
1. Business Understanding: review your operations.	✓	✓	-
2. Controls: assess the control framework.	✓	-	-
3. Prepared by client list: issue our prepared by client request.	✓	-	-
4. Accounting standards: agree the impact of any new accounting standards.	✓	✓	-
5. Accounts Production: review the accounts production process.	✓	✓	✓
6. Testing: test and confirm material or significant balances and disclosures.	-	✓	-
7. Representations & opinions : seek and provide representations before issuing our opinions.	✓	✓	✓

We reported on the work carried out relating to the pre-accounts production stage as part of our interim audit findings report. Below we focus on stages five and six:

Accounts Production

Your accounts production process is assessed as part of our UoR assessment. As part of this process we have considered the production process against three criteria:

Element	Commentary
Completeness of draft accounts	We received a set of accounts well before our final accounts audit visit on 7 July 2008. The draft accounts required minimal adjustment following our audit. In the main, disclosure notes were complete and the draft accounts were subject to only one material adjustment in a technical area relation to the write off of premia and discounts – see Appendix 3 for further detail.
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 an improvement on the prior 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	Officers dealt with our queries promptly and efficiently. This helped to ensure that the audit was completed on time.

From our work we have identified two recommendations during the year. These are detailed at Appendix 5. We have followed up on one recommendation from 2006/07 which is detailed at Appendix 6.

Accounts and Annual Statement of Governance (continued)

Testing

We have not identified any uncorrected audit differences. In accordance with ISA 260 we are required to report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

We have provided a summary of the one corrected audit difference in Appendix 3.

Opinions and Representations

As part of the finalisation process we are required to provide you with representations concerning our independence and ability to act as your auditors. We have provided this at Appendix 8.

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 provided a draft of this representation letter to the Chief Officer – Financial Management on 4 September 2008. We have also included a copy of this as Appendix 9. Once we have received this we will issue our audit opinion.

In the representation letter you will notice that, as last year, we are requesting specific information commenting on the following issue:

- Group financial statements – in the preparation of the group financial statements, the council consolidates a number of group entities whose financial statements have yet to be approved by their own board or receive an auditors opinion. We are therefore seeking management representations that there are no material audit differences, no material weaknesses in the control environment and that an unqualified audit opinion has been or is likely to be received from the respective auditors of those entities consolidated in the group accounts.

Other matters

ISA260 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.

Added value in the year

We have worked with the Council throughout the year to identify and resolve potential issues. This year we have worked with the Council on the following areas:

- Depreciation - During our interim accounts visit it was identified that depreciation had been charged on the land element of certain assets. This issue was raised with staff at the Council and an adjustment was made to remove any depreciation on land. The effect of this was approximately a reduction in the depreciation charged to the HRA assets of £16.4m and £1.7m on general fund assets, however this had no bottom line impact; and
- Emerging accounting issues – During the year we have worked with the Council to identify emerging accounting issues, for example we have given guidance to the Council on whether comparative figures were required and clarified unclear guidance on the classification of financial instruments.

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

Appendix 1: Proposed use of resources conclusion

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 satisfy ourselves 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.

In 2007 we were required by section 7 of the Local Government Act 1999 to carry out an audit of the authority's best value performance plan and issue a report:

- certifying that we had done so;
- stating whether we believed that the plan had been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and where relevant, making any recommendations under section 7 of the Local Government Act 1999.

Proposed Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, 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 2008.

Best Value Performance Plan

We issued our statutory report on the audit of the authority's best value performance plan for the financial year 2007/08 in December 2007. We did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

Certificate

We certify that we 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.

KPMG LLP
Chartered Accountants
Leeds

29 September 2008

Appendix 2: Proposed audit report

Independent auditor's report to the Members of Leeds City Council

Opinion on the statement of accounts

We have audited the Authority and Group statement of accounts and related notes of Leeds City Council, for the year ended 31 March 2008 under the Audit Commission Act 1998. The Authority and Group statement of accounts comprises the Explanatory Foreword, Authority and Group Income and Expenditure Account, the Authority Statement of the 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, the Collection Fund and the related notes. The statement of accounts has 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 Chief Financial Officer and auditor

The Chief Financial Officer's responsibilities for preparing the statement of accounts in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities for the statement of accounts.

Our responsibility is to audit the statement of accounts 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 Authority and Group statement of accounts of Leeds City Council presents fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007:

- the financial position of the Authority and its income and expenditure for the year; and
- 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 statement of accounts. 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.

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 Authority and Group statement of accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority and Group statement of accounts 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 Authority and Group statement of accounts 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 Authority and Group statement of accounts and related notes.

Appendix 2: Proposed audit report

Opinion

In our opinion:

The Authority statement of accounts presents fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year then ended; and

The Group statement of accounts presents fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority and the Group as at 31 March 2008 and its income and expenditure for the year then ended.

KPMG LLP
Chartered Accountants
Leeds
29 September 2008

Appendix 3: Audit differences

We are required by ISA (UK and Ireland) 260 *Communication of Audit Matters to Those Charged with Governance* to communicate all uncorrected misstatements, other than those that we believe are clearly trivial, to the Corporate Governance and Audit Committee. We are also required to report all material misstatements that management has corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

This appendix sets out the audit differences identified by our audit of Leeds City Council for the year ended 31 March 2008.

Uncorrected audit differences

There were no uncorrected material audit differences.

Corrected audit differences

Detailed below is the audit difference that has been corrected.

Impact (£'000)		Basis of audit difference	Reason for adjustment
Income and expenditure	Statement of Movement on General Fund Balance		
(70,951)	70,951	<p>The Council had written off premia and discounts relating to 2006/07 through the Income and Expenditure Account.</p> <p>Based on the guidance that was provided in the Statement of Recommended Practice (SORP) there was uncertainty as to how premia and discounts should be accounted for. KPMG obtained clarification during the course of the audit, on this, and the Council agreed they would write off the premia and discounts through the Statement of Movement on General Fund Balance (SMGFB).</p> <p>The effect of writing off premia and discounts to the SMGFB is that it also results in a balance being recognised in the Statement of Total Recognised Gains and Losses (STRGL) in a different category.</p> <p>This adjustment does not have an impact on the General Fund reserve.</p>	<p>There was an area within the SORP that required national clarification during the audit. A number of authorities had treated this issue in a different manner. Following consultation with the Audit Commission which in turn involved consultation with CIPFA on the intention of the SORP an agreed treatment was identified. This resulted in the treatment of premia and discounts being written off to the Statement of Movement on General Fund Balance (SMGFB) rather than through the Income and Expenditure Account.</p>

Issue raised by an elector

During the course of 2007/08 we have considered a question raised by a local government elector in respect of a donation made by the Council to an overseas disaster appeal. This is a matter on which the Council has taken its own legal advice and it appears that the factors that the Council have considered in making this payment are relevant to the discharge of its functions. Nevertheless, the payment by the Council to an appeal overseas whose beneficiaries are in a foreign country is an untested interpretation of the Local Government 2000 Act. On this basis we have recommended to the Council that it should take independent legal advice should it consider making any similar payments.

Appendix 4: Judgements and estimates

In the preparation of the accounts, there are a number of areas where it is necessary and standard practice to apply an element of judgement in calculating balances to recognise. Below we have outlined the audit discussions that were held in relation to some of these key judgements in 2007/08.

Equal Pay

During the course of the year specialist officers of the Council have been reviewing information available to them in relation to equal pay claims. Based on these estimates the provision for equal pay within the accounts totalled £9.5m. The Council has also included a contingent liability within the accounts in respect of these claims.

We understand that the Council have robust procedures in place to ensure that they review the estimates used to calculate the equal pay provision on a regular basis to ensure that the estimates and hence level of provision remains appropriate.

Actuarial assumptions

Information on the performance of the Council's pension fund is supplied by an actuary who undertakes a tri-annual valuation. To calculate the performance of the pension fund at the year end the actuary uses actual asset performance for the first ten months of the year and makes a projection for the last two months. This is undertaken to ensure that the statutory deadlines for the accounts preparation process are met.

This year the actual asset performance at the year end was approximately three percent better than the actuaries estimate at month ten. The effect of this is that if the actual asset performance was known when the estimates were made then the net pension liability would be reduced by £48m. The increase in the asset performance is a result of various factors within the wider economic climate.

Fair value of loans

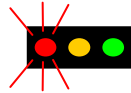
The SORP 2008 requires authorities to provide disclosures within the notes to the accounts about the fair values of their financial instruments, which include Public Works Loan Board (PWLB) loans. The Council determined a basis for calculating the fair value of loans. It has been identified by the Audit Commission however that there are currently two different methods being used to calculate the fair value of loans. The Audit Commission, whilst highlighting these two methodologies, have not clarified which basis should be used. If the alternative basis had been used this would have resulted in a decrease of the fair value in the PWLB loans of £87m.

Appendix 5: Accounts recommendations

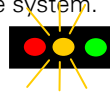
This appendix summarises the performance improvements that we have identified relating to the accounts production process while preparing this report. We have given each of our observations a risk rating (as explained below) and agreed with management what action you will need to take.

Priority rating for performance improvement observations raised

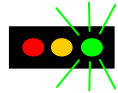
Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.



Priority two: 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.



Priority three: 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.



Number	Risk	Issue and recommendation	Management response	Officer and due date
1	● (two)	<p>Schools in deficit</p> <p>In certain circumstances the Council allows schools to plan for a deficit budget. There are however detailed procedures in place that need to be followed for such schools. Where the deficit is greater than £100k it is expected that an action plan is in place which identifies how the deficit will be addressed within a three year period.</p> <p>During our review of schools with a deficit position as at the year end we identified the following:</p> <ul style="list-style-type: none"> • One school with a deficit of £1.3m (£1.7m 2006/07) could potentially become an Academy at which point the deficit will transfer to the Council; • One school with a deficit of £0.3m is also subject to special measures; and • One school with a deficit of £0.4m has not submitted an action plan. This has been raised with the school governors. <p>The Council should ensure that they review the action plans for any school where the Council could potentially become liable for the deficit, for example where a school may become an Academy.</p> <p>In addition the Council should ensure that they continue to follow the detailed procedures where schools are in deficit and that the schools have action plans in place.</p>	<p>Agreed. The Council will continue to monitor action plans and follow the appropriate procedures when schools are in deficit.</p>	<p>Chief Officer Financial Management; Ongoing</p>

Appendix 5: Accounts recommendations - continued

Number	Risk	Issue and recommendation	Management response	Officer and due date
2	● (three)	<p>Bad Debt Provision</p> <p>The Statement of Recommended Practice (SORP) states that the proper accounting treatment for calculating the percentages to apply for bad debt provisions is to judge and use the probability of collection for each type of debtor.</p> <p>During our audit we found whilst historical collection rates on Council Tax debtors have been used in the past to inform the bad debt provision, these collection rates have not been reviewed for a number of years.</p> <p>We also found that the provision for bad debts for NNDR and HRA rent debtors were not based on historical collection rates.</p> <p>We have not found any indication that the provision for these debtors are incorrect as the collection rates for these debtors have not changed significantly during the year.</p> <p>We recommend that the Council undertake an exercise in year to review the collection rates within these areas to demonstrate that the provision applied is appropriate. This will become even more relevant over the coming year where economic conditions could potentially result in changing collection rates.</p>	<p>The Council will review its methodology for calculating each of these provisions to ensure that any changes to collection rates are reflected promptly in the level of the provisions.</p>	<p>Principal Financial Manager (Financial Development) & Assistant Head of Finance (HRA). January 2009</p>

Appendix 6: Prior year recommendations

This appendix summarises the progress made to implement the recommendations we identified in our previous reports. We have given each one a risk rating as explained in Appendix 4.

Year	Number of recommendations that were:		
	Included in original report	Implemented in year or superseded	Partially implemented (re-iterated below)
2006/07 Final	1	0	1

No.	Risk	Issue and recommendation	Management response	Officer and due date	Status at 29 September 2008
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2006/07 ISA 260 report

1	● (three)	<p>School bank accounts</p> <p>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%.</p> <p>We agreed with the council that we would expect as a minimum that year end reconciliations would be monitored and reviewed.</p>	<p>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.</p> <p>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.</p>	<p>Patrick Fletcher Immediate</p>	<p>Partly implemented</p> <p>We identified that during 2007/08 there was 1 of school which had not completed any returns in year.</p> <p>In addition we found that at year end 17 out of 128 schools (13%) had not returned the year end reconciliation.</p> <p>Management response:- 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> <p>Officer and due date:-</p> <p>Team Leader, Financial Services to Schools Ongoing</p>
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Appendix 7: Audit reports

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

Report	Date issued
Audit and Inspection Plan	June 2007
Children and Young People's Agenda	November 2007
Corporate Social Responsibility	September 2007
Project Management	Still to be issued
EASEL regeneration project risk review	November 2007
Waste management	February 2008
Business Continuity	Still to be issued
BVPP	December 2007

Appendix 8: Declaration of independence and objectivity

Declaration of Independence and Objectivity 2007/08

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 8: Declaration of independence and objectivity (continued)

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 2008, 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.

Appendix 9: Draft management representations letter

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 Leeds City 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 2008.

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 Leeds City 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 Leeds City 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 2008.

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 Leeds City 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 Leeds City 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 Leeds City 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 9: Draft management representation letter (continued)

- With reference to the specific issues on which you have requested assurances from Members, we confirm that we are not aware of:
 - any material audit differences, material weaknesses in the internal control environment and that an unqualified audit opinion has been or is likely to be received from the respective auditors of those entities consolidated within the group accounts.

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 29 September 2008.

Yours faithfully

[Name of Executive Director signing letter on behalf of Leeds City Council]

On behalf of Leeds City Council

Appendix 10: 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 2007/08 agreed external audit fee:

External audit fee for 2007/08



At the moment the actual cost of auditing the grant claims is uncertain as the majority of the work is due to be completed by December 2008. However we estimate at this stage that the costs will be broadly in line with budget.