



Report of the Director of Corporate Services

Corporate Governance and Audit Committee

Date: 29th November 2006

Subject: Audit Commission Report – Stewardship and Governance 2005

Electoral Wards Affected:

None

Specific Implications For:

Equality and Diversity

Community Cohesion

Narrowing the Gap

Executive Summary

1. This report summarises the key findings of the Audit Commission's work in 2005 on the 2004/05 accounts relating to stewardship and governance issues. It identifies a number of important policy issues that need to be addressed nationally in order to improve financial performance, financial reporting and corporate governance arrangements. A copy of the full report is attached.

1.0 Purpose Of This Report

1.1 The purpose of this report is to raise awareness of national governance and audit issues so that members can consider such issues at Leeds in the national context.

1.2 For the purposes of this summary, NHS issues have been ignored.

2.0 Main Issues

2.1 The key local government findings raised in the Audit Commission report are:

2.2 Financial reporting

2.3 Local government has responded well to the earlier statutory deadline for the approval of accounts with 97 per cent doing so by 31 July 2005. However, this has been at the expense of quality, with a third of authorities having to submit their accounts for re-approval by members because of errors identified at audit, with the result that 13 per cent failed to meet the statutory deadline for publication. This level of performance reflects badly on local government and the accounting profession, and must be addressed as a matter of urgency

2.4 In their report, "Audit Memorandum - Report to those charged with governance" KPMG, the Council's external auditors noted, in relation to Leeds City Council accounts, that:

Completeness of draft accounts	We received a set of draft accounts on 29 June 2006, prior to commencement of our final accounts audit on 17 July 2006. The draft accounts only required minor adjustments following our audit which have been agreed with management. The only bottom line impact has been to reduce HRA reserves by £252k. In the main, disclosure notes were complete and the draft accounts were not subject to any material adjustment allowing us to issue an unqualified audit opinion.
Quality of supporting working papers	As part of our interim audit, we issued a "Prepared by Client" (PBC) request that set out a list of analysis and supporting documentation required for our final accounts audit. The documentation you provided us has significantly improved from the previous year both in quality and timeliness, with pre-prepared and partially referenced working papers provided in advance of our accounts audit. We will debrief this process with you in October 2006 on completion of the accounts process and through our findings from the Financial Reporting element of the 2006/07 use of resources assessment later in the year.
Response to audit queries	You dealt with most audit queries quickly and efficiently. We hope that for 2006/07 audit this process can be more streamlined (in other words, make a formal record of any audit queries and rank them in order of priority), so that you can deal promptly with those queries that need more detail. We will discuss this process as part of the debrief session mentioned above.

Corporate Governance Arrangements

Nationally

- 2.5 Good progress was made in the implementation of SIC in 2004/05. Authorities now need to ensure that they have appropriate arrangements in place to enable risks to continue to be properly identified and appropriately disclosed in the future.

Leeds

- 2.6 KPMG have confirmed that:
- The Council has complied with CIPFA's guidance "The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003" in preparation of the Statement on Internal Control and that they are not aware of any inconsistencies with the information recorded within the statement and their other work.

Risk Management

Nationally

- 2.7 The majority of health and local government bodies have now identified their significant business risks, but some bodies, including a third of police authorities, have yet to do so.

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- 2.8 Corporate Governance and Audit Committee receive regular reports on the implementation of the Corporate Risk Management Policy.

Audit

- 2.9 Auditors are generally satisfied with the scope, coverage and quality of internal audit work at many audited bodies. However, audited bodies could make better use of overall audit resources by improving co-ordination. We continue to work closely with KPMG to ensure the co-ordination of audit resources.

Partnerships

Nationally

- 2.10 Local government bodies continue to increase their use of partnerships in working to deliver modern, integrated services. However, one in four audited bodies still have no formal governance agreements in place for partnerships.

Leeds

- 2.11 The Council continues to improve its arrangements in respect of partnerships. In deed there is a specific improvement activity identified in the corporate governance

statement action plan to “review governance arrangements for partnerships and develop a governance checklist for use for all partnerships.

3.0 Implications For Council Policy And Governance

3.1 No specific implications but as this committee is authorised to review the adequacy of the Council’s corporate governance arrangements an appreciation of the national context will assist in the discharge of this responsibility.

4.0 Legal And Resource Implications

4.1 There are no specific resource implications arising from this report.

5.0 Conclusions

5.1 Leeds would seem to be well placed compared to the findings of the Audit Commission work nationally. However, we must guard against complacency and ensure continuous improvement against all those activities identified in the corporate governance statement action plan.

6.0 Recommendations

6.1 Members are asked to note the attached report and the report on the Audit Commission’s work in 2005.