

# AGENDA

## AUDIT COMMITTEE MEETING



Date: Monday 21 March 2011  
Time: 6.30 pm  
Venue: Town Hall, High Street,  
Maidstone

Membership:

Councillors Butler, Horne (Chairman), Nelson-Gracie, Mrs Smith and Warner

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1. Apologies for Absence
2. Notification of Substitute Members
3. Notification of Visiting Members
4. Disclosures by Members and Officers
5. Disclosures of Lobbying
6. To consider whether any items should be taken in private because of the possible disclosure of exempt information
7. Minutes of the meeting held on 17 January 2011

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**Continued Over/:**

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**Issued on 11 March 2011**

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*Alison Broom*

**Alison Broom, Chief Executive, Maidstone Borough Council,  
Maidstone House, King Street, Maidstone, Kent ME15 6JQ**

8.	Review of the Business Transformation Partnership - Update on the Response to the Committee's Findings and Recommendations	
9.	Report of the Assistant Director of Environment and Regulatory Services - Electronic Tendering - Amendment to Contract Procedure Rules	7 - 9
10.	Report of the Assistant Director of Regeneration and Cultural Services - Maidstone Museum East Wing Redevelopment	10 - 13
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## **MAIDSTONE BOROUGH COUNCIL**

### **AUDIT COMMITTEE**

#### **MINUTES OF THE MEETING HELD ON MONDAY 17 JANUARY 2011**

**Present:** Councillor Horne (Chairman), and  
Councillors Butler, Nelson-Gracie, Mrs Smith and  
Warner

**Also Present:** Mr Eamon Lally - Local Government  
Improvement and Development

60. APOLOGIES FOR ABSENCE

There were no Apologies for Absence.

61. NOTIFICATION OF SUBSTITUTE MEMBERS

There were no Substitute Members.

62. NOTIFICATION OF VISITING MEMBERS

There were no Visiting Members.

63. DISCLOSURES BY MEMBERS AND OFFICERS

There were no disclosures by Members or Officers.

64. DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

65. EXEMPT ITEMS

RESOLVED:

1. That the items on the Agenda be taken in public as proposed.
2. That questions to be raised regarding Agenda Item 9 - Maidstone Museum East Wing Redevelopment – in connection with the contract be taken in private.

66. MINUTES

RESOLVED: That the Minutes of the meeting held on 29 November 2010 be approved as a correct record and signed.

67. MATTERS ARISING FROM THE MINUTES OF THE MEETING HELD ON 29 NOVEMBER 2010

Minute 53 – Minute 37 of the Meeting held on 20 September 2010 – the Audit Commission (Future Arrangements)

The Head of Internal Audit Partnership advised the Committee that the comments made by the Chairman were passed to the Communities and Local Government Select Committee regarding the inquiry into the audit and inspection of local authorities following the abolition of the Audit Commission.

Minute 56 – Implementation of IFRS in Local Authority Accounts

The Head of Finance and Customer Services advised the Committee that the implementation of IFRS had been questioned and a review was being conducted by the House of Lords.

68. MAIDSTONE MUSEUM EAST WING REDEVELOPMENT

The Committee considered the report of the Assistant Director of Regeneration and Cultural Services setting out the current position relating to the East Wing redevelopment.

The report included a summary of the new facilities that will be on offer which achieves the outcomes the Council was seeking, together with an update on the current fundraising efforts and the issue of an Extension of Time notice by the Contractor.

The Committee asked a number of questions of the Officers relating to, inter alia, the fundraising shortfall; the project income; the Extension of Time notice and the possibility of increased funds from the Heritage Lottery Fund.

RESOLVED:

1. That the current position relating to the Maidstone Museum East Wing redevelopment be noted.
2. That, due to concerns with some elements of the risk register for the Maidstone Museum East Wing redevelopment, up-date reports be included on the Agenda at all meetings of the Audit Committee for the foreseeable future.

69. REVIEW OF THE BUSINESS TRANSFORMATION PARTNERSHIP

The Committee considered the report of the Audit Committee Sub-Group regarding the findings of the review of the Business Transformation Partnership.

It was noted that a review of the Mid Kent Improvement Partnership is being undertaken by the Audit Commission.

The Committee asked a number of questions of the Officer relating to the actual and expected savings over previous years.

RESOLVED:

1. That the apportioned costs of the BTP team since 2007/08, the actual savings delivered to 2010/11 and expected savings until 2012/13, as set out in Appendix B of the report of the Audit Committee Sub Group, be noted.
2. That it be concluded that the BTP team provides value for money for the Council, particularly now the team have become more established, engage better with services and are involved in the implementation stage of projects.
3. That the findings of the report be referred to the Leader of the Council and the Cabinet.
4. That the findings of the report be referred to the other MKIP partner authorities for information and would welcome reciprocity.
5. That the MKIP Programme Board be recommended, following the introduction of new ways of working identified in reviews, to receive regular benefit monitoring reports so positive outcomes, savings and lessons learnt can be tracked and recorded more easily.
6. That the MKIP Programme Board be recommended to consider the points listed below in the current review of the Legal Service Partnership delivery model:
  - i. Up to date models of delivering legal services in the private and public sector;
  - ii. How the work ensuring that libraries and publications are bought when required and at the best possible price should be managed; and
  - iii. Possible models, including basket of rates, for procuring all external legal services at the best price.
7. That the MKIP Programme Board be recommended to consider the points listed below as part of the current review of future ICT delivery across MKIP:
  - i. Progression towards standard platforms and operating systems to facilitate integrated working amongst current and potential partners;
  - ii. How to ensure that procurement of new software is necessary to fulfil a business need;
  - iii. How to ensure ICT demonstrates value for money and continues to help make partner authorities increasingly efficient and effective.

## 70. REVIEW OF AUDIT COMMITTEE

The Committee considered the report of the Head of Internal Audit Partnership regarding the report from Local Government Improvement and Development ("LGID") following the peer review of the Audit Committee.

Mr Lally of LGID gave a brief introduction to the LGID Review of Audit Committees at Ashford, Maidstone, Swale and Tunbridge Wells Borough Councils. It was noted that:-

- Across all 4 Authorities it was found they were undertaking the duties as required.
- There was enthusiasm by Members on the work of the committee
- The Audit Partnership was well regarded
- There were opportunities for closer collaboration and partnership across the committees, including a greater degree of training for committee members
- Maidstone's Audit Committee was seen as well-regarded, well chaired, supported well by officers and seen as a good example of best practice

The Committee asked a number of questions of Mr Lally relating to, inter alia, the importance of keeping track of public service delivery and the national framework; the need to ensure there is a distinction between the role of the Executive/Cabinet and the Audit Committee; the proposal to prepare an Annual Report; independent non-voting members and tracking recommendations made by the Committee.

One Member pointed out that the review showed a strength as being the support the committee received from officers at pre-meetings, but that an area for development was a greater challenge of reports was required. The Member felt the Committee was a victim of its own strength; in that due to the pre-meetings and support from officers a large number of queries are sorted out prior to the meeting and, therefore, the Committee can be seen as not challenging reports at the main meeting due to the fact that the "challenging" had occurred at the pre-meeting. This was endorsed by the Committee.

RESOLVED: That an Action Plan, in relation to the review's findings, be prepared and brought to the next meeting for approval.

## 71. TREASURY MANAGEMENT STRATEGY 2011/12 - 2013/14

The Committee considered the report of the Head of Finance and Customer Services setting out the draft Treasury Management Strategy for 2011/12 – 2013/14, including a series of Treasury and Prudential Indicators, in accordance with CIPFA's Code of Practice on Treasury Management issued in November 2009.

In response to a question raised by a Member, the Head of Finance and Customer Services advised that training on the Treasury Management Strategy would be organised for both Cabinet and this Committee.

The Head of Finance and Customer Services explained the current revenue and capital balances and the main uses of those balances following a request from a Member.

RESOLVED:

1. That the Cabinet be recommended to agree the Treasury Management Strategy 2011/12 – 2013/14.
2. That training be given to the Cabinet and the Audit Committee on the Treasury Management Strategy.

72. BUDGET STRATEGY 2011/12 ONWARDS

The Committee considered the report of the Head of Finance and Customer Services setting out the risk assessment of the budget strategy 2011/12 onwards.

The Committee asked a number of questions of the Officers relating to linking of the risks, identifying those risks within the Council's control and horizon scoping.

RESOLVED:

1. That the Cabinet be recommended to agree the risk assessment of the budget strategy 2011/12, subject to the following amendments:-
  - a) The value of the risks be included
  - b) Identification of responsibility for each risk
  - c) A risk regarding our investment strategy be included
2. That a synopsis of the Action Plan for the management of the risks be brought to a future meeting of the Audit Committee.

73. AUDIT COMMITTEE - WORK PROGRAMME

RESOLVED: That the Work Programme for January 2011 to April 2012 be noted.

74. EXCLUSION OF THE PUBLIC FROM THE MEETING

RESOLVED: That the public be excluded from the meeting for the following items of business because of the likely disclosure of exempt information for the reason specified, having applied the public interest test:-

**Head of Schedule 12 A and  
Brief Description**

Report of the Assistant Director  
of Regeneration and Cultural  
Services – Maidstone Museum  
East Wing Redevelopment

3 = Financial/Business Affairs

75. MAIDSTONE MUSEUM EAST WING REDEVELOPMENT

The Committee asked questions of the Officers relating to the terms of the contract for the Maidstone Museum East Wing redevelopment.

76. DURATION OF MEETING

6.30 pm to 9.00 pm.



## **MAIDSTONE BOROUGH COUNCIL**

### **AUDIT COMMITTEE**

**21<sup>st</sup> March 2011**

## **REPORT OF ASSISTANT DIRECTOR OF ENVIRONMENT AND REGULATORY SERVICES**

**Report prepared by Steve Trigg**

1. **ELECTRONIC TENDERING – AMENDMENT TO CONTRACT PROCEDURE RULES**
- 1.1 **Issue for Decision**
- 1.1.1 To consider amendments to the Contract Procedure Rules arising out of the introduction of Electronic Tendering.
- 1.2 **Recommendation of The Assistant Director of Environment and Regulatory Services**
- 1.2.1 That the Audit Committee recommend to Council to amend the Contract Procedure Rules within the Constitution by deleting Rule 11.3 and inserting the revised wording set out below:-
  - 11.3** Where the Council has indicated in the Invitation to Tender that a tender can or must be submitted electronically, then those tenders shall be:
    - 11.3.1** in the format specified in the Invitation to Tender
    - 11.3.2** stored securely with a secure method of opening
    - 11.3.3** retained unopened until the date and time specified for their opening
- 1.2.2 That the Audit Committee request that Standards Committee evaluate this proposed change to the Contract Procedure Rules prior to consideration by Council.
- 1.3 **Reasons for Recommendation**
- 1.3.1 Following the purchase of an electronic tendering system, the procedure for the submission of tenders requires minor changes to the Contract Procedure Rules within the Constitution to ensure full compliance. The proposed change relates to the deletion of the specific reference to an e-mail address as the new system is a web-based system.

1.3.2 Currently the existing Contract Procedure Rules state:

“11.3 Where the Council has indicated in the Invitation to Tender that a tender can or must be submitted electronically, then those tenders shall be:

- 11.3.1 Addressed to the e-mail address as notified in the Invitation to Tender
- 11.3.2 in the format specified in the Invitation to Tender
- 11.3.3 stored in a secure mailbox, which requires a code or other appropriate security measure, to open it
- 11.3.4 retained unopened until the date and time specified for its opening”

It is proposed that the rules are amended by deleting Rule 11.3.1 and amending Rule 11.3.3 (11.3.2) as follows:

- “11.3.1 in the format specified in the Invitation to Tender
- 11.3.2 stored securely with a secure method of opening”

“11.3.3 retained unopened until the date and time specified for its opening”

1.4 **Alternative Action and why not Recommended**

1.4.1 The Council could choose not to amend the Contract Procedure Rules, however, this would mean that tenders submitted using the new system would not be fully compliant.

1.5 **Impact on Corporate Objectives**

1.5.1 The recommendation supports the priority of Corporate and Customer Excellence.

1.6 **Risk Management**

1.6.1 There are no risks associated with this recommendation

1.7 **Other Implications**

1.7.1

- 1. Financial
- 2. Staffing
- 3. Legal
- 4. Equality Impact Needs Assessment
- 5. Environmental/Sustainable Development

X

- 6. Community Safety
- 7. Human Rights Act
- 8. Procurement
- 9. Asset Management


1.7.2 Legal implications have been covered within the report

1.8 **Relevant Documents**

1.8.1 **Appendices**

None

1.8.2 **Background Documents**

The Constitution

**IS THIS A KEY DECISION REPORT?**

Yes  No

If yes, when did it first appear in the Forward Plan?

.....

This is a Key Decision because: .....

.....

Wards/Parishes affected: .....

.....

# Agenda Item 10

## **MAIDSTONE BOROUGH COUNCIL**

### **AUDIT COMMITTEE**

**21 MARCH 2011**

### **REPORT OF THE ASSISTANT DIRECTOR OF REGENERATION & CULTURAL SERVICES**

**Report prepared by Simon Lace**

#### **1. MAIDSTONE MUSEUM EAST WING REDEVELOPMENT**

##### **1.1 Issue for Consideration**

To note the current position regarding the redevelopment of the East Wing of Maidstone Museum.

##### **1.2 Recommendation of the Assistant Director of Regeneration & Cultural Services**

1.2.1 That the current position relating to the East Wing redevelopment is noted.

##### **1.3 Reasons for Recommendation**

1.3.1 The Museum's East Wing redevelopment is on target to deliver all of the stated outcomes. It provides excellent value for money and demonstrates the economic regeneration potential of the built heritage.

1.3.2 The redevelopment offers vastly increased access to the region's biggest and most important museum collections which will increase visitor traffic and income. The range of new facilities on offer in the new wing demonstrates both that the project still represents value for money and that the visitor experience will be hugely improved.

1.3.3 The sustainability of the museum will also be improved by a better retail and catering offer, the provision of spaces that can be hired by external users and by the use of green technologies.

1.3.4 Although the contractor has issued a thirteen week Extension of Time notice, the East Wing is on target to be opened to the public in the summer/autumn of 2011. The contractor's anticipated target

completion date remains at 8<sup>th</sup> July 2011. A phased opening will allow the ground floor to be open by the end of July.

- 1.3.5 The programme delay will have an impact on costs though the Council will be seeking to recover all of the additional money once the full cost implications are clear. The Council has appointed solicitors to advise on this matter
- 1.3.6 To date £2,575,300 has been secured either in cash donations or in pledges of financial support. This includes £400,000 from the Council's capital programme. A list of the major donations is given in the table below.

	<b>Pledged</b>	<b>Received</b>
Heritage Lottery Fund	£1,999,000	
Kent County Council	£50,000	£50,000
Kent Police		£500
Astor of Hever Trust		£500
Betteshanger Trust		£500
D'Oly Carte Trust		£4,200
Godington Trust		£2,500
Rothermere Foundation		£1,000
Thriplow Trust		£5,000
HR Pratt Boorman Foundation		£5,000
Cobtree Trust		£10,000
EDF	£30,000	
Rochester Bridge Trust	£7,000	
SGR Charitable Trust		£1,000
Kent Executive Club		£1,000
Coutts Trust		£700
Others		£7,400
Sub-total	<b>£2,086,000</b>	<b>£89,300</b>
		<b>£2,175,300</b>

- 1.3.7 An application to the Heritage Lottery Fund for an increase of £500,000 to their original grant of £2 million was submitted in January and will be considered by HLF's South East Regional Board on 15<sup>th</sup> March.
- 1.3.8 The first event of the public funding campaign (abseiling at Fremlin Walk) will take place on 26<sup>th</sup> March.
- 1.4 Impact on Corporate Objectives
- 1.4.1 The work to redevelop the Museum's East Wing supports the corporate objective that Maidstone is a decent place to live.

1.5 Risk Management

Risk	Likelihood	Impact	Mitigation Measures
Failure to secure full match-funding from external sources	A	2	Ensure fundraising programme continues and is adequately resourced.
Programme delays increase cost	C	2	Ensure proper scrutiny of programme and ensure deadlines are realistic.

Likelihood: A=very high; B=high; C=significant; D=Low; E=very low.  
 Impact: 1 = catastrophic; 2 = critical; 3 = marginal; 4 = negligible.

1.6 Other Implications

1. Financial	x
2. Staffing	
3. Legal	x
4. Equality Impact Needs Assessment	
5. Environmental/Sustainable Development	
6. Community Safety	
7. Human Rights Act	
8. Procurement	
9. Asset Management	

1.6.1 Financial

Failure to achieve the match-funding target has implications for the Council in terms of funding the remaining cost of the project and for funding of the rest of the current capital programme.

1.6.2 Legal

The legal implications are covered in the report.

1.7 Relevant Documents

None.

# Agenda Item 11

## **MAIDSTONE BOROUGH COUNCIL**

### **AUDIT COMMITTEE**

**21 MARCH 2011**

#### **REPORT OF THE HEAD OF DEMOCRATIC SERVICES**

**Report prepared by Neil Harris**

#### **1. TRAINING FOR AUDIT COMMITTEE**

##### 1.1 Issue for Decision

1.1.1 To consider the appropriate level and type of training required to effectively undertake the role of Audit Committee member.

##### 1.2 Recommendation of Head of Democratic Services

1.2.1 That the Committee determines the level and nature of training required to be a member, substitute member or independent member of the Audit Committee.

##### 1.3 Reasons for Recommendation

1.3.1 The Committee consists of 5 council members and one non-voting independent member (this appointment process is currently underway). There is already in existence an element of qualification for this role that a council member must have served at least one term of office or be able to demonstrate relevant experience. Additionally the Council has agreed that the following rule regarding training must apply to the Audit Committee:-

"The Council has agreed that no member will be able to serve on the Committee without having agreed to undertake a minimum period of training on the policies and procedures of the Committee as specified by the Committee. This training should be completed to an agreed level according to an agreed programme within an agreed time period set by the Committees for newly appointed members and substitute members of the Committee. If the specified training has not been completed by the due date, the member will cease to be a member/substitute member of the Committee in question until the training has been completed. The Head of Democratic Services will keep a record of the training requirements of each Committee and of members' compliance with the requirements. Existing members of the



Committee should be updated regularly on changes of legislation and procedures and receive refresher training on an annual basis.”

1.3.2 This above rule agreed by Council applies to this Committee as well as Licensing and Planning. Firstly the Committee needs to determine the level of training required to be a member of this Committee. If any member does not complete the agreed level of training set by the Committee the member will cease to be part of this Committee.

1.3.3 The Committee must determine the minimum level of training required and how it would be applied in terms of being a full member, substitute member or independent member.

1.4 Alternative Action and why not Recommended

1.4.1 The Committee has to set the levels of training required to meet its requirements under the Constitution but it is for the Committee to determine this level.

1.5 Impact on Corporate Objectives

1.5.1 None

1.6 Risk Management

1.6.1 The Committee must set the level of training required, ensuring it sets a level which is sufficient to ensure the Committee members have the necessary knowledge and understanding to meets its obligations as an Audit Committee.

1.7 Other Implications

1.7.1

1.	Financial	x
2.	Staffing	X
3.	Legal	x
4.	Equality Impact Needs Assessment	
5.	Environmental/Sustainable Development	
6.	Community Safety	
7.	Human Rights Act	
8.	Procurement	

## 9. Asset Management



### Financial Implications

- 1.7.2 The cost of training will be met from within existing resources.

### Staffing Implications

- 1.7.3 The staffing to assess and deliver the training and development requirements will be identified from within existing resources.

### Legal Implications

- 1.7.4 The Constitution requires the Audit Committee to set a minimum level of training.

## 1.8 Relevant Documents

### 1.8.1 Appendices

1.8.2 None

### 1.8.3 Background Documents

1.8.4 Maidstone Constitution.

**IS THIS A KEY DECISION REPORT?**

Yes

No

If yes, when did it first appear in the Forward Plan?

.....

This is a Key Decision because: .....

.....

Wards/Parishes affected: .....

.....

# Agenda Item 12

## **MAIDSTONE BOROUGH COUNCIL**

### **AUDIT COMMITTEE**

**21 MARCH 2011**

#### **REPORT OF HEAD OF FINANCE & CUSTOMER SERVICES**

**Report prepared by Paul Riley,  
Head of Finance & Customer Services**

#### **1. EXTERNAL AUDITOR'S GRANT CLAIM WORK 2009/10**

##### 1.1 Issue for Decision

1.1.1 To consider the report of the External Auditor into the grant claim work completed during 2010/11 on the grant claims produced by the Council for the year 2009/10 that require audit certification.

##### 1.2 Recommendation of the Head of Finance & Customer Services

1.2.1 That Audit Committee note the report of the External Auditor attached as **Appendix A**.

##### 1.3 Reasons for Recommendation

1.3.1 Following the completion of all work on the certification of grant claims the External Auditor is now reporting on the completion of the certification work and any significant findings from the audit.

1.3.2 The External Auditor has provided her report and this is attached at **Appendix A**. The report provides detail of the work completed during the year and raises no significant issues for consideration by the Committee.

1.3.3 The report of the External Auditor does, however, make two recommendations in its Appendix 2. The Committee should note that the Benefits Manager has already actioned both recommendations.

1.4 Alternative Action and why not Recommended

1.4.1 The External Auditor is required to make this report and as the Committee charged with governance at this authority it is necessary for this Committee to consider this report.

1.5 Impact on Corporate Objectives

1.5.1 Grant claims provide a significant amount of income to the Council and can be regular annual payments for services or specific to a scheme. In the current financial climate the leverage of funding for priority services through grant aid is becoming more essential to the achievement of those priorities.

1.6 Risk Management

1.6.1 The loss of income from an inaccurate grant claim or one that was not certified could be significant to this authority. The constitution requires all grant claims to be completed and/or certified by the Chief Finance Officer and control of quality and timeliness is maintained by that requirement.

1.7 Other Implications

1.7.1

1. Financial	X
2. Staffing	
3. Legal	
4. Equality Impact Needs Assessment	
5. Environmental/Sustainable Development	
6. Community Safety	
7. Human Rights Act	
8. Procurement	
9. Asset Management	

1.7.2 The value of all certified grant claims in 2009/10 was £97.1m.

1.8 Relevant Documents

1.8.1 Appendices

Appendix A – External Auditors Report on Grant Claims 2009/10

1.8.2 Background Documents

Copies of all relevant grant claims held in Finance.

<b><u>IS THIS A KEY DECISION REPORT?</u></b>			
Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
If yes, when did it first appear in the Forward Plan? .....			
This is a Key Decision because: ..... .....			
Wards/Parishes affected: ..... .....			

# **Certification of claims and returns - annual report**

**Maidstone Borough Council**

**Audit 2009/10**

**The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.**

**Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.**

**As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.**



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# Summary

**Funding from government grant-paying departments is an important income stream for the Council. The Council needs to manage claiming this income carefully. It needs to demonstrate to the auditors that it has met the conditions which attach to these grants.**

**This report summarises the findings from the certification of 2009/010 claims. It includes the messages arising from my assessment of your arrangements for preparing claims and returns and information on claims that we amended or qualified.**

## Certification of claims

**1** Maidstone Borough Council receives funding from various grant paying departments. In the case of National Non-Domestic Rates ('NNDR') the Council is responsible for paying over monies collected from ratepayers on behalf of a central government department. The relevant departments attach conditions to these grants. The Council must show that it has met these conditions. If the Council cannot evidence this, the funding can be at risk. It is therefore important that the Council manages certification work properly and can demonstrate to us, as auditors, that the relevant conditions have been met.

**2** In 2009/10, my audit team certified 3 claims with a total value of £97.1 million. Of these, we carried out a limited review of the disabled facilities grant and a full review of the both the housing and council tax benefit claim and the NNDR return. (Paragraph 10 explains the difference.) The adjustments required as a result of identification of errors in the housing and council tax benefit claim have all been made by the council. These will be recorded in the 2010/11 claim so I have been able to certify the 2009/10 claim without amendments being made. I have certified the disabled facilities grant and NNDR return without any amendments being necessary.

## Certification fees

3 The fees I charged for grant certification work in 2009/10 were £31,285.50 (before VAT) compared to £33,102 in 2008/09.

Table 1: **Certification fees by claim**

Claim	Fee - 2009/10	Fee - 2008/09
Housing and council tax benefit	£23,384	£25,682
NNDR	£7,647.50	£4,270
Disabled facilities grant	£254	£3,150

*Source: Audit Commission, correct at 31 October 2010*

4 There were difficulties in obtaining the required data for auditing the new NNDR deferral scheme, which is the main reason why the NNDR fee is higher this year.

5 The disabled facilities grant only required limited testing this year, whereas full testing was required in 08/09, which is why the fee is substantially lower.

## Actions

6 Appendix 2 summarises my recommendations. The relevant officers of the Council have already agreed these recommendations.

# Background

**7** The Council claims funding for specific activities from grant paying departments. As this is significant to the Council's income it is important that this process is properly managed. In particular this means:

- an adequate control environment over each claim and return; and
- ensuring that the Council can evidence that it has met the conditions attached to each claim.

**8** I am required by section 28 of the Audit Commission Act 1998 to certify some claims and returns for grants or subsidies paid by the government departments and public bodies to the Council. I charge a fee to cover the full cost of certifying claims. The fee depends on the amount of work required to certify each claim or return.

**9** The Council is responsible for compiling grant claims and returns in accordance with the requirements and timescale set by the grant paying departments.

**10** The key features of the current arrangements are as follows.

- For claims and returns below £100,000 the Commission does not make certification arrangements.
- For claims and returns between £100,000 and £500,000, auditors undertake limited tests to agree form entries to underlying records, but do not undertake any testing of eligibility of expenditure.
- For claims and returns over £500,000 auditors assess the control environment for the preparation of the claim or return to decide whether or not they can place reliance on it. Where reliance is placed on the control environment, auditors undertake limited tests to agree from entries to underlying records but do not undertake any testing of the eligibility of expenditure or data. Where reliance cannot be placed on the control environment, auditors undertake all of the tests in the certification instruction and use their assessment of the control environment to inform decisions on the level of testing required. This means that the audit fees for certification work are reduced if the control environment is strong.
- For claims spanning over more than one year, the financial limits above relate to the amount claimed over the entire life of the claim and testing is applied accordingly. The approach impacts on the amount of grants work we carry out, placing more emphasis on the high value claims.

# Findings

## Housing and council tax benefit subsidy claim

### Control environment

**11** We are no longer instructed by the grant-paying body (the DWP) to assess the control environment as detailed case testing is required at all authorities which administer housing and council tax schemes.

### Key Findings

**12** This claim is by far the Council's largest grant claim, with total housing and council tax benefit expenditure representing around 45 per cent of the Council's gross service expenditure. A key element of our certification approach involves taking a sample of benefit cases from the entries on an authority's subsidy claim form and undertaking detailed testing on these cases using workbooks provided by the Commission. The focus of testing is to consider whether benefit has been awarded in accordance with regulations, and that benefit has been recorded correctly for subsidy purposes.

**13** Our initial testing of 60 benefits cases identified 5 cases that contained an error and a general issue in relation to a change in regulations. This change in regulations required additional checks to have been undertaken to ensure that claims were still calculated correctly when it was applied to the benefits system.

**14** The five errors identified were:

- an incorrect start date was used in the calculation of a claim;
- the amount of subsidy claimed on a non-HRA claim was too low;
- a claimant had been underpaid for a four-week period due to having been taken to have moved to a new permanent residence when this was not the case;
- a claimant had been awarded rent protection, but was found not to be eligible;
- a claim had not been updated for the claimant's most recent payslips.

**15** For the first four, additional testing was carried out, which found no further errors. This led me to conclude that these errors were isolated.

**16** Where it was found that the claimant's income had not been updated to reflect their most recent income, it was identified that this case was included on a list from the DWP of all cases at the Council where the income had not changed for a year. An error meant that this case was not picked up. The Council reviewed all of its cases where the income had not changed for a year and a number of claims were subsequently cancelled.

## Recommendation

**R1** All claims where the income has not changed for a year should be reviewed on at least an annual basis.

---

**17** There was a change in government regulations in November 2009 that increased the threshold before a deemed income is applied for the claimant's capital. A check should have been undertaken at the time to ensure that the affected cases were still calculated correctly following the update to the benefits system.

**18** When this check was subsequently undertaken there were 12 cases that required amendment.

## Recommendation

**R2** Checks should be undertaken following any mass changes to benefits system parameters to ensure that the affected cases are still calculated correctly.

---

## NNDR return

### Control environment

**19** While the control environment is generally sound, we concluded that we could not rely on it for the preparation of the return because we are required to undertake detailed testing at least once every three years, and it was necessary this year.

### Key findings

**20** No errors were identified from our testing. The return was consequently certified without amendment.

## Disabled facilities grant claim

### Control environment

**21** The value of the claim, £405,000, is below our minimum level of £500,000 for which an assessment of the control environment and full testing is necessary.

### Key findings

**22** No errors were identified from our testing. The claim was consequently certified without amendment.

## Appendix 1 Summary of 2008/09 certified claims

### Claims and returns above £500,000

Claim	Value £	Adequate control environment	Amended	Qualification letter
Housing and council tax benefit	45,548,781	N/A	Yes	No
National Non-Domestic Rates	51,193,154 <sup>i</sup>	Yes	No	No

### Claims between £100,000 and £500,000

Claim	Value £	Amended
Disabled Facilities Grant	405,000	No

<sup>i</sup> This is the pooled amount payable to central government and does not represent the amount available to the council.

## Appendix 2 Action plan

### Recommendations

#### Annual Claims and Returns Report 2009/10 - Recommendations

##### Recommendation 1

All claims where the income has not changed for a year should be reviewed on at least an annual basis.

<b>Responsibility</b>	Benefits Manager
<b>Priority</b>	Medium
<b>Date</b>	July 2011
<b>Comments</b>	Has been completed for June/July 2010 so should be carried out again by the same time in 2011 at the latest

##### Recommendation 2

Checks should be undertaken following any mass changes to benefits system parameters to ensure that the affected cases are still calculated correctly.

<b>Responsibility</b>	Benefits Manager
<b>Priority</b>	Medium
<b>Date</b>	Ongoing
<b>Comments</b>	



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- any director/member or officer in their individual capacity; or
- any third party.



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February 2011

# Agenda Item 13

## **MAIDSTONE BOROUGH COUNCIL**

### **AUDIT COMMITTEE**

**21 MARCH 2011**

#### **REPORT OF HEAD OF FINANCE & CUSTOMER SERVICES**

**Report prepared by Paul Riley**  
**Head of Finance & Customer Services**

#### **1. EXTERNAL AUDITOR'S AUDIT PLAN 2010/11**

##### 1.1 Issue for Decision

1.1.1 To consider the External Auditor's Audit Plan for 2010/11 as attached at **Appendix A** to this report.

##### 1.2 Recommendation of Head of Finance & Customer Services

1.2.1 That Audit Committee note the revised audit fee proposed.

1.2.2 That Audit Committee note the content of the Audit Plan as attached as **Appendix A**.

##### 1.3 Reasons for Recommendation

1.3.1 The External Auditor produces an annual audit plan for the audit of the financial statements and the work on reaching a value for money conclusion on this Authority.

1.3.2 The plan is risk based and developed following consideration of both local and national risks and the audit work completed to date.

1.3.3 The External Auditor also reports within the plan on the fee level for 2010/11, which has been further discounted by the Audit Commission. In the advice regarding ways to reduce the fee to the Council, the External Auditor notes "There are no areas where I recommend you take action or can improve that would result in a reduced fee at the moment".

1.3.4 The specific risks identified in the plan are both national risks, being the implementation of IFRS and related party transactions.

1.3.5 The plan also identifies a key milestones timetable for consideration.

1.4 Alternative Action and why not Recommended

1.4.1 The report covers the information provided by the External Auditor on her plans for the completion of part of her audit work for 2010/11. It is appropriate that this committee receive this information at this time.

1.5 Impact on Corporate Objectives

1.5.1 The completion of the audit of the Statement of Accounts by the due date aids the Council's consideration of its achievement of corporate and customer excellence.

1.6 Risk Management

1.6.1 This plan helps mitigate the risk of failure to meet the statutory deadlines for the annual statement of accounts and value for money opinion.

1.7 Other Implications

1.7.1

- 1. Financial
- 2. Staffing
- 3. Legal
- 4. Equality Impact Needs Assessment
- 5. Environmental/Sustainable Development
- 6. Community Safety
- 7. Human Rights Act
- 8. Procurement
- 9. Asset Management

X

1.7.2 The Audit Fee is detailed, along with amendments since its first notification, in the attached appendix.

1.8 Relevant Documents

1.8.1 Appendices

Appendix A – External Auditor’s Audit Plan 2010/11.

1.8.2 Background Documents

<b><u>IS THIS A KEY DECISION REPORT?</u></b>			
Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
If yes, when did it first appear in the Forward Plan? .....			
This is a Key Decision because: ..... .....			
Wards/Parishes affected: ..... .....			

# Audit plan

**Maidstone BC**

**Audit 2010/11**

**The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.**

**Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.**

**As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.**

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# Introduction

**This plan sets out the audit work that I propose to undertake for the audit of financial statements and the value for money conclusion 2010/11.**

**1** The plan is based on the Audit Commission's risk-based approach to audit planning. It reflects:

- audit work specified by the Audit Commission for 2010/11;
- current national risks relevant to your local circumstances; and
- your local risks.



# Responsibilities

**The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to every audited body.**

2 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

3 I comply with the statutory requirements governing our audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice.

## Fee for the audit

4 The fee for the audit is £116,490, as indicated in my letter of 28 April 2010. The Audit Commission scale fee for the Council is £122,622. The fee proposed for 2010/11 is 5 percent below the scale fee and is within the normal level of variation specified by the Commission. Further analysis is set out below.

### 5 Audit and VFM fees 2009/10 and 2010/11

Area of work	2009/10 Actual fee	2010/11 Initial estimate Apr 2010	2010/11 Revised estimate Jan 2011
	£	£	£
Audit	82,490	90,306	90,306
VFM	26,530	26,184	26,184
Inspection	9,152	9,152	0
Total	118,172	125,642	116,490

6 The Audit Commission will also be issuing you with rebates in respect of two elements of the audit:

- Firstly, as reported in my initial fee letter of April 2010, the Audit Commission has issued councils with a rebate for the cost of the one off first year audit of IFRS. At Maidstone, this represents a rebate of £7,357 against the figures above.
- In addition, I am pleased to confirm that the Commission has concluded its consultation on changes to 2010/11 fees. Maidstone Borough Council will receive a further rebate of £1,839 reflecting the new approach to local VFM audit work.

7 In setting the fee, I have assumed that:

- the level of risk in relation to the audit of accounts is consistent with that for 2009/10;
- good quality, accurate working papers are available at the start of the financial statements audit;
- the Council will supply good quality working papers to support the restatement of 2009/10 balances to comply with International Financial Reporting Standards (IFRS); and

8 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee. Where this is the case, I will discuss this first with the Director of Regeneration and

Communities and I will issue supplements to the plan to record any revisions to the risk and the impact on the fee.

9 Further information on the basis for the fee is set out in Appendix 1.

### **Specific actions Maidstone Borough Council could take to reduce its audit fees**

10 The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to reduce its audit fees. As in previous years, I will work with staff to identify any specific actions that the Council could take and to provide ongoing audit support. There are no areas where I recommend you take action or can improve that would result in a reduced fee at the moment.

# Auditors report on the financial statements

## **I will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).**

**11** I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view of the financial position of the Council as at 31 March 2011.

### **Materiality**

**12** I will apply the concept of materiality in both planning and performing the audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

### **Identifying opinion audit risks**

**13** I need to gain a full understanding of the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. I do this by:

- identifying the business risks facing the Council, including assessing your own risk management arrangements;
- considering the financial performance of the Council;
- assessing internal control - including reviewing the control environment, the IT control environment and Internal Audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Council's information systems.

# Identification of specific risks

**I have considered the additional risks that are appropriate to the current opinion audit and have set these out below.**

Table 1: **Specific risks**

Specific opinion risks identified

Risk area	Audit response
<p><b>Implementation of IFRS</b></p> <p>The 2010/11 financial statements will be produced in accordance with International Financial Reporting Standards (IFRS). This requires restatement of both opening and closing balances from the previous year as well as additional disclosures. There is a risk that councils that are not well prepared for the new requirements will not succeed in preparing the necessary information in time.</p>	<p>We will monitor the Council's progress in introducing IFRS as set out in its implementation plan. We will undertake specific work to review the restated balances from 2009/10 and to review the treatment of complex transactions such as leases. We will assess progress during the year and report back on the findings to your Audit Committee.</p>
<p><b>Related Party Transactions</b></p> <p>'Clarity' International Standards of Auditing have increased the audit work required on related parties and in particular the investigation of management controls.</p>	<p>I will review management controls and test the completeness and accuracy of disclosed related party transactions.</p>

# Testing strategy

**On the basis of risks identified above I will produce a testing strategy which will consist of testing key controls and/or substantive tests of transaction streams and material account balances at year end.**

**14** I can carry out the testing both before and after the draft financial statements have been produced (pre- and post-statement testing).

**15** Wherever possible, I will complete some substantive testing earlier in the year before the financial statements are available for audit. I have identified the following areas where substantive testing could be carried out early.

- Review of restatement of 2009/10 accounts from UK GAAP to IFRS.
- Review of IFRS accounting policies.
- Bank reconciliation.
- In-year journals.
- Year-end feeder system reconciliations.

Where I identify other possible early testing, I will discuss it with officers.

**16** Wherever possible, I will seek to rely on the work of Internal Audit to help meet my responsibilities. For 2010/11, I expect to be able to use the results of the following pieces of work.

- Accounts payable
- Car park income

**17** I will also seek to rely on the work of other auditors and experts, as appropriate, to meet my responsibilities. For For 2010/11, I plan to rely on the work of the KCC auditor for the pension fund.

**18** I also plan to rely on the work of experts in the following areas:

- Gerard Eves - valuers
- Barnett Waddingham - pension fund actuary

## Changes to International Standards on Auditing (ISAs)

**19** My audit of your financial statements is governed by a framework established by International Standards on Auditing (ISAs). These set out the basic principles and essential procedures which govern my work.

**20** As with all guidance and frameworks, auditing standards are frequently revised and updated, often in a piecemeal fashion. However, in 2009 the auditing profession completed a comprehensive project to enhance the clarity of all of the ISAs. This is known as the Clarity Project.

**21** One of the main objectives of the Clarity Project was to promote greater consistency of application between auditors. This has been done by reducing the ambiguity within the existing ISAs and improving their overall readability and understandability.

**22** The new clarified framework will apply to my audit of your 2010/11 financial statements. Because of the new standards, you can expect to see some changes in the way my audit team delivers your audit and the information they request from you. Appendix 4 sets out the main changes you will see.

# Value for money conclusion

## **I am required to give a statutory VFM conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.**

**23** In 2010/11 the Audit Commission has introduced a new approach to its value for money assessment. In summary, the new approach is intended to be proportionate and risk based. This is based on two criteria, specified by the Commission, related to your arrangements for:

- securing financial resilience – focusing on whether the Council is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the Council secures economy, efficiency and effectiveness – focusing on whether the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.

## **Value for money risks**

**24** I will plan a programme of VFM audit work based on my risk assessment. At your Council, I envisage that we will focus on:

- your medium term financial strategy and savings plans;
- financial standing, including resilience of future cost efficiency plans; and
- development of shared service arrangements

**25** The work will not be scored, but we will report back on our findings, including examples of good practice and any areas for improvement. We will minimise the burden for you from this work, by making use as far as possible of existing Council information. We will aim to provide helpful and constructive feedback during and at the end of the audit.



## Key milestones and deadlines

**The Council is required to prepare the financial statements by 30 June 2011. I am required to complete the audit and issue the opinion and value for money conclusion by 30 September 2011.**

**26** The key stages in producing and auditing the financial statements are in Table 2.

**27** I will agree with you a schedule of working papers required to support the entries in the financial statements. The agreed fee is dependent on the timely receipt of accurate working papers.

**28** Every week, during the audit, the audit team will meet with the key contact and review the status of all queries. I can arrange meetings at a different frequency depending on the need and the number of issues arising.

---

Table 2: **Proposed timetable**

<b>Activity</b>	<b>Date</b>
Controls testing	15 - 18 February 2011
Receipt of accounts	10 June 2011
Sending audit working papers to the auditor	25 July 2011
Start of detailed testing	25 July 2011
Progress meetings	Weekly
Present report to those charged with governance at the audit committee	September 2011
Issue opinion and value for money conclusion	30 September 2011

## The audit team

**Table 3 shows the key members of the audit team for the 2010/11 audit.**

Table 3: **Audit team**

Name	Contact details	Responsibilities
Emily Hill Appointed Auditor	e-hill@audit-commission.gov.uk 0844 798 2638	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Steve Golding Audit Manager	s-golding@audit-commission.gov.uk 0844 798 1363	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Regeneration & Communities.

### Independence and objectivity

**29** I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which I am required by auditing and ethical standards to communicate to you.

**30** I comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised in Appendix 2.

### Meetings

**31** The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Our proposals are set out in Appendix 3.

### Quality of service

**32** I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and to do what he can to resolve the position.

**33** If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

## Planned outputs

**34** My team will discuss and agree reports with the right officers before issuing them to the Audit Committee.

Table 4: **Planned outputs**

Planned output	Indicative date
Annual governance report	September 2011
Auditor's report giving an opinion on the financial statements	September 2011
Final accounts memorandum [optional]	November 2011
Annual audit letter	November 2011

## Appendix 1 Basis for fee

The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.

The risk assessment process starts with the identification of the significant financial and operational risks applying to the Council with reference to:

- my cumulative knowledge of the Council;
  - planning guidance issued by the Audit Commission;
  - the specific results of previous and ongoing audit work;
- interviews with Council officers; and
- liaison with Internal Audit.

### Assumptions

In setting the fee, I have assumed that:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2009/10;
- the fee for the value for money conclusion is the same as for 2009/10
- you will inform me of significant developments impacting on the audit;
- Internal Audit meets the appropriate professional standards;
- you provide:
  - good quality working papers and records to support the financial statements;
  - information asked for within agreed timescales;
  - prompt responses to draft reports; and
- there is no allowance for extra work needed to address questions or objections raised by local government electors.

Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee.

## Appendix 2 Independence and objectivity

Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).

The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.

International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:

- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
- confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Audit Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.

The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.

- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be

justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as being 'additional work' and charged for separately from the normal audit fee.

- Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
- The Appointed Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional safeguards in the last 2 years.
- The Appointed Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.

The Appointed Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

# Appendix 3 Working together

## Meetings

The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers.

My proposal for the meetings is as follows.

Table 5: **Proposed meetings with officers**

Council officers	Audit Commission staff	Timing	Purpose
Chief Executive & Directors	AA and AM	Quarterly	Update on strategic issues for the Council, and audit progress
Head of Finance	AM and Team Leader (TL)	March, July, September	General update plus: March - audit plan July - accounts progress September - annual governance report
Chief Accountant	AM and TL	Quarterly	Update on audit issues
Audit Committee	AA and AM, with TL as appropriate	As determined by the Committee	Formal reporting of: Audit Plan Annual governance report Other issues as appropriate via Audit Progress report

## Sustainability

The Audit Commission is committed to promoting sustainability in our working practices and I will actively consider opportunities to reduce our impact on the environment. This will include:

- reducing paper flow by encouraging you to submit documentation and working papers electronically;
- use of video and telephone conferencing for meetings as appropriate; and
- reducing travel.





## Appendix 4 Changes to International Standards on Auditing (ISAs)

The main changes you will see as a result of changes to International Standards on Auditing (ISAs) are as follows:

### **Journals**

I will be required to review all material year-end adjustment journals. I can do this by using IT interrogation tools, depending on the compatibility of your general ledger software. Steve Golding, your Audit Manager, will discuss a suitable approach to this work soon.

### **Related Party Transactions**

I am required to review your procedures for identifying related party transactions and to obtain an understanding of the controls that you have established to identify such transactions. I will also review minutes and correspondence for evidence of related party transactions and carry out testing to ensure the related party transaction disclosures you make in your financial statements are complete and accurate.

### **Accounting Estimates**

I will be required to look at your accounting estimates in detail. As part of my audit I will request a list of these from you. I will need to know in particular:

- the process you use to make your accounting estimates and the controls you have put in place;
- whether you use an expert to assist you in making the accounting estimates;
- whether any alternative estimates have been discussed and why they have been rejected;
- how you assess the degree of estimation uncertainty (this is the level of uncertainty arising because the estimate cannot be precise or exact) ;  
and
- the prior year's accounting estimates outcomes, and whether there has been a change in the method of calculation for the current year.

### **Deficiencies in internal control**

A new standard (ISA 265) has been introduced relating to how I must communicate deficiencies in Internal Control to 'those charged with governance' and the Trust's management.

If I identify a deficiency in any of your internal controls during my audit, I will undertake further audit testing to decide whether the deficiency is

significant. If I decide the deficiency is significant, I will report it in writing to your Audit Committee as 'those charged with governance'.

### **Impact on Audit Fees**

It is likely that these changes to the auditing standards will increase the audit procedures that I will need to carry out. However, as previously advised, the Audit Commission will use its own efficiency savings to absorb the cost of any additional requirements.

## Appendix 5 Glossary

### **Annual audit letter**

Report issued by the auditor to an audited body that summarises the audit work carried out in the period, auditors' opinions or conclusions (where appropriate) and significant issues arising from auditors' work.

### **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out by auditors in accordance with the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

### **Audited body**

A body to which the Audit Commission is responsible for appointing the external auditor, comprising both the members of the body and its management (the senior officers of the body). Those charged with governance are the members of the audited body. (See also 'Members' and 'Those charged with governance'.)

### **Auditing Practices Board (APB)**

The body responsible in the UK for issuing auditing standards, ethical standards and other guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

### **Auditing standards**

Pronouncements of the APB, which contain basic principles and essential procedures with which auditors are required to comply, except where otherwise stated in the auditing standard concerned.

### **Auditor(s)**

Auditors appointed by the Audit Commission.

### **Code (the)**

The Code of Audit Practice.

### **Commission (the)**

The Audit Commission for Local Authorities and the National Health Service in England.

## **Directors**

Members of the board who are collectively and individually responsible for the overall direction and control of the audited body. In NHS bodies there is a unitary board, consisting of executive members and part-time non-executive members, chaired by a non-executive member. The chief executive is responsible to the board for the day-to-day management of the organisation but, as accountable officer, is also responsible to the Department of Health for the proper stewardship of public money and assets. (See also 'Those charged with governance' and 'Audited body').

## **Ethical Standards**

Pronouncements of the APB that contain basic principles that apply to the conduct of audits and with which auditors are required to comply, except where otherwise stated in the standard concerned.

## **Financial statements**

The annual statement of accounts or accounting statements that audited bodies are required to prepare, which summarise the accounts of the audited body, in accordance with regulations and proper practices in relation to accounts.

## **Internal control**

The whole system of controls, financial and otherwise, that is established in order to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

## **Materiality (and significance)**

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects'.

The term 'materiality' applies only in relation to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, in addition to their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

The concept of 'significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

## **Members**

The elected, or appointed, members of local government bodies who are responsible for the overall direction and control of the audited body. (See also 'Those charged with governance' and 'Audited body'.)

## **Regularity (of expenditure and income)**

Whether, subject to the concept of materiality, the expenditure and income of the audited body have been applied for the purposes intended by parliament, and whether they conform with the authorities that govern them.

## **Remuneration report**

Audited bodies are required to produce, and publish with the financial statements, a remuneration report that discloses the salary and pension entitlements of senior managers.

## **Statement on internal control/Annual Governance Statement**

Local government bodies are required to publish a statement on internal control (SIC) with their financial statements (or with their accounting statements in the case of small bodies). The disclosures in the SIC are supported and evidenced by the body's assurance framework. At local authorities the SIC is known as the Annual Governance Statement and is prepared in accordance with guidance issued by CIPFA. Police authorities also produce a SIC in accordance with relevant CIPFA guidance. Local probation trusts are required to prepare a SIC in accordance with the requirements specified by HM Treasury in Managing Public Money.

NHS bodies are required to publish a statement on internal control (SIC) with their financial statements. Specific guidance on the preparation of the SIC is issued by the Department of Health. The chief executive, as accountable officer, is required to sign the SIC on behalf of the board. The disclosures in the SIC are supported and evidenced by the body's assurance framework.

## **Those charged with governance**

Those charged with governance are defined in auditing standards as 'those persons entrusted with the supervision, control and direction of an entity'.

In local government bodies, those charged with governance, for the purpose of complying with auditing standards, are:

- for local authorities – the full council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements;
  - for police or fire authorities – the full authority, audit committee (where established) or other committee with delegated responsibility for approval of the financial statements;
  - for local probation boards and trusts – the board or audit committee;
- and

- for other local government bodies – the full authority or board or council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements

Audit committees are not mandatory for local government bodies, other than police authorities and local probation trusts. Other bodies are expected to put in place proper arrangements to allow those charged with governance to discuss audit matters with both internal and external auditors. Auditors should satisfy themselves that these matters, and auditors' reports, are considered at the level within the audited body that they consider to be most appropriate.

In NHS bodies, those charged with governance, for the purpose of complying with auditing standards, are the board of directors and, in respect of certain responsibilities, the audit committee on behalf of the board. Audit committees are mandatory in NHS bodies and are non-executive committees of the board. The main objective of the audit committee is to contribute independently to the board's overall process for ensuring that an effective internal control and risk management system is maintained.

### **Whole of Government Accounts**

The Whole of Government Accounts initiative is to produce a set of consolidated financial accounts for the entire UK public sector on commercial accounting principles. Local government bodies, other than probation boards and trusts, are required to submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, their statutory accounts.

## **MAIDSTONE BOROUGH COUNCIL**

### **AUDIT COMMITTEE**

**21 MARCH 2011**

#### **REPORT OF HEAD OF FINANCE & CUSTOMER SERVICES**

**Report prepared by Paul Riley,  
Head of Finance & Customer Services**

#### **1. AUDIT COMMISSION PROGRESS REPORT – MARCH 2011**

##### 1.1 Issue for Decision

1.1.1 To consider the report of the External Auditor on the progress to date against the 2010/11 audit plan.

##### 1.2 Recommendation of Head of Finance & Customer Services

1.2.1 That Audit Committee notes the External Auditors progress report attached as **Appendix A**.

##### 1.3 Reasons for Recommendation

1.3.1 The Audit Commission produces an annual audit plan and monitors its work for each local authority against that plan. Details of key dates in the plan are given in the attached progress report in its appendix 1.

1.3.2 The External Auditor has raised no concerns with the Council in their report on progress to date. In general the progress of the External Auditor is in line with the original Audit Plan.

1.3.3 The Committee may wish to note the section of the report at Appendix A on recent publications from the Audit Commission.

##### 1.4 Alternative Action and why not Recommended

1.4.1 Due to the responsibilities of both the External Auditor and this Committee a progress report of this sort is appropriate for consideration. To not consider the report would weaken the control over the process that is available to the Committee.

##### 1.5 Impact on Corporate Objectives

1.5.1 The External Auditor’s Audit Plan is focusing on the Auditor’s opinion being issued by the statutory deadline of 30<sup>th</sup> September.

1.6 Risk Management

1.6.1 This report helps this Committee’s governance responsibilities and aids the mitigation of the risk of failure to produce the statutory accounts by the due date through the provision of timely warnings regarding possible issues.

1.7 Other Implications

1.7.1

- 1. Financial
- 2. Staffing
- 3. Legal
- 4. Equality Impact Needs Assessment
- 5. Environmental/Sustainable Development
- 6. Community Safety
- 7. Human Rights Act
- 8. Procurement
- 9. Asset Management


1.8 Relevant Documents

1.8.1 Appendices

**Appendix A** – Audit Committee Progress Report



**IS THIS A KEY DECISION REPORT?**

Yes

No

If yes, when did it first appear in the Forward Plan?

.....

This is a Key Decision because: .....

.....

Wards/Parishes affected: .....

.....

# Audit Commission Progress Report

**Maidstone Borough Council**

**March 2011**

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# Introduction

- 1 Our audit is designed to meet the requirements of the Audit Commission's Code of Audit Practice. Under the Code we are required to:
  - give our opinion on whether the financial statements present fairly the financial position and the income and expenditure for the year; and
  - issue a conclusion on whether the Council has proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 2 We design a programme of work to address the significant operational and financial risks facing you, which impact on our responsibilities. Our 2010/11 audit plan was agreed at the June 2010 Audit Committee. This report outlines progress to date against the work agreed in our audit plan
- 3 We will issue update reports throughout the audit year to keep the Audit Committee informed of progress.

---

# Progress against the audit plan

- 4 The table at Appendix 1 sets out progress against my 2010/11 audit plan. A summary of the audit work planned and undertaken since the last Audit Committee is set out below.

---

## Pre-statements audit 2010/11

- 5 The onsite audit visit for stage 1 of the audit was carried out in January 2011. This stage requires the auditor to undertake a review of the key financial systems that are used to produce the financial statements and to identify business risks the Authority faces in 2010/11. The systems review includes documenting the system, walking through a transaction to confirm the system is operating as documented, and identifying key controls within the system. There were no matters arising from this stage of the audit that need to be reported to the Committee.
- 6 I will complete our stage 2 audit visit in March 2011. This stage requires the auditor to carry out controls testing of the key financial systems on a cyclical basis. For the 2010/11 audit year I will test the General Ledger, Purchase Ledger and Car Park Income systems. If my testing identifies any areas of concern I will bring them to the attention of the Committee.

---

## Value for money audit 2010/11

- 7 The Audit Commission has published its guidance on the 2010/11 value for money programme. I attach a link to the website below:

*[http://www.audit-commission.gov.uk/health/audit/methodology/Pages/valueformoneyconclusion\\_copy.aspx](http://www.audit-commission.gov.uk/health/audit/methodology/Pages/valueformoneyconclusion_copy.aspx)*

- 8 In summary, the new approach is intended to be more proportionate and risk based than the old Use of Resources assessment. The work will focus on the key areas of financial resilience and economy, efficiency and effectiveness. At Maidstone I envisage that we will focus on:
  - your medium term financial strategy and savings plans
  - financial standing, including balances, reserves and resilience of future cost efficiency plans.
  - the development of shared service and partnership arrangements
- 9 The work will not be scored, but I will report back on my findings, including examples of good practice and any areas for improvement. I will minimise the burden for you from this work, by making use as far as possible of existing Authority information. I will aim to provide helpful and constructive feedback during and at the end of the audit.

---

## Post-statements audit 2010/11

- 10 I anticipate that you will be producing your 2010/11 financial statements to the same timetable as for 2009/10. On this basis I will plan to undertake our audit in July/August 2011, with the aim of producing my Annual Governance Report and audit opinion for presentation to the Audit Committee in September.
- 11 Our detailed programme for the audit of your 2010/11 financial statements is set out in our opinion Audit Plan. This is included as a separate item on this agenda.

---

## Implementation of International Financial Reporting Standards (IFRS)

- 12 A key area on which we will focus for this year's audit is the Authority's restatement of its accounts under International Financial Reporting Accounts (IFRS).
- 13 During February 2011, the Audit Commission undertook a survey of local government, police and fire authorities to assess their progress in implementing IFRS. At the time of completing the second survey (December 2010) we had assessed the Authority as "amber risk", because whilst a clear implementation plan had been prepared by officers progress was behind schedule at that stage. Our risk rating has remained as "amber" (in common with most other authorities), as, whilst increased resources have now been allocated to this area of work, there is still much to be done. There are no significant matters in terms of IFRS restatement which we need to raise at this stage.
- 14 In terms of progress to date, we have now reviewed the restated opening balances and are in the process of auditing your revised 2009/10 accounts. This exercise will assist officers in preparing 2010/11 accounts that are IFRS compliant.
- 15 As the Authority progresses towards the closure of the 2010/11 accounts the following are the key areas of IFRS which it will need to focus on:
  - Componentisation of non current assets: The Authority will need to separately identify and value material expenditure on component or separate parts of assets incurred from 1 April 2010.
  - Segmental Reporting: The Authority will need to provide a note of the breakdown of the main operating activities that are reported to senior management
  - Arrangements that contain a lease: The Authority has made good progress on the identification of potential leases. It now needs to complete the estimation of asset values and confirm its decision as to whether they are on or off balance sheet.
- 16 We will provide a further update on our work at the June meeting of the Audit Committee, and our opinion on the completed IFRS accounts by 30 September 2011.

## Other matters of interest to the accounts: Proposed changes to the Accounts and Audit Regulations

- 17 In On 24 January 2011 the Department for Communities and Local Government (DCLG) published a consultation on its website: Revision and consolidation of the Accounts and Audit Regulations 2003 (SI 2003 No 533) as amended - consultation. It is proposed the revised regulations are implemented with effect from 31 March 2011 i.e. for 2010/11 accounts.

- 18 The proposed changes include a revised procedure for the approval and publication of statements of accounts and other accounting statements, so that members give their approval in the knowledge of the audit findings. The closing date for the consultation is 4 March 2011
- 19 There are a number of proposed revisions but the approval and publication of statements probably has the biggest potential impact for the Council.
- 20 We are in discussion with officers about the impact on their closedown process, as well as on reporting requirements for this Committee. We have agreed that we will keep to existing timetables for the handover of draft accounts and working papers to the audit team and for the timetable for the audit.

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# Recent Publications

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- 21** This section of the update report provides reference to our national reports that may be of particular interest to members of the Audit and Compliance Committee. For more information on these publications, please visit the audit commission website [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

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## **International Financial Reporting Standards: reporting on operating segments (October 2010)**

- 22** The latest technical briefing paper in our series on implementing International Financial Reporting Standards (IFRS) in local government is 'Reporting on operating segments: Countdown to IFRS in local government'. The paper covers principles and practical issues that authorities should consider when reporting on operating segments.

---

## **Protecting the Public Purse (October 2010)**

- 23** In our report Protecting the public purse: fighting fraud against local government and local taxpayers, we describe what has happened in the field of fraud detection and prevention since 2009 and set out the findings from our recent fraud survey. We identify more fraud risks and urge local councils and related bodies to focus on them
- 24** Last year England's councils detected around £99 million worth of benefit fraud, over £15 million worth of council tax fraud, and £21 million worth of other types of fraud including false insurance claims, and abuse of the disabled parking 'blue badge' scheme. In addition nearly 1,600 homes have been recovered by councils with a replacement cost of approximately £240 million.
- 25** We also describe the action taken by some councils to tackle fraud and provide links to tools to help councils improve their counter-fraud defences. Our updated checklist gives organisations providing public services another opportunity to consider how effective they are at responding to the risk of fraud.

---

## **Auditing the accounts 2009/10: Quality and timeliness of local public bodies' financial reporting**

- 26** A summary of the quality and timeliness of financial reporting by councils, police authorities, fire and rescue authorities and local government bodies.
- 27** The report covers:
- auditors' work on the 2009/10 financial statements;
  - the results of auditors' 2009/10 local value for money work;



- the public interest reports and statutory recommendations issued by auditors since December 2009; and
  - the key financial management and financial reporting challenges for 2010/11.
- 28 The report congratulates seven councils, one police authority, three local government bodies and one fire and rescue authority for early publication. There is great interest in financial transparency by public bodies at the moment and we believe that early publication of audited accounts is an important contribution to openness and accountability.
- 29 The Commission reports that auditors were unable to give opinions on the accounts by 31 October 2010 at seven councils (2 per cent of the total) and 11 local government bodies (12 per cent). The report also names two councils where the auditor gave a qualified opinion.
- 30 <http://www.audit-commission.gov.uk/SiteCollectionDocuments/Downloads/20101216auditingtheaccounts.pdf>

# Appendix 1 – Delivery of specific work against audit plan

**Table 1 Audit Progress**

The table below sets out the agreed work programme included in the 2009/10 and 2010/11 audit plans, with progress to date

Area of work identified in Audit Plan	Planned Output	Actual Output
<b>2009/10 plan</b>		
2009/10 Audit Fee Letters	March 2009	March 2009
2009/10 East Kent Partnership Review	Jan-Mar 2010	February 2010
2010/11 Audit Fee Letters	March 2010	April 2010
2009/10 Opinion Audit Plan	April 2010	April 2010
2009/10 Annual Governance Report	September 2010	September 2010
2009/10 Opinion and VFM Conclusion	September 2010	September 2010
2009/10 Whole of Government A/c's return	October 2010	October 2010
2009/10 Organisational Assessment	October 2010	No longer applicable
2009/10 Annual Audit Letter	November 2010	November 2010
2009/10 Annual Grant Claims Report	December 2010	February 2011
<b>2010/11 plan</b>		
2010/11 Audit Plan	March 2011	March 2011
2011/12 Audit Fee Letters	June 2011	
2010/11 Annual Governance Report	September 2011	
2010/11 Opinion and VFM Conclusion	September 2011	
2010/11 Whole of Government A/c's return	September 2011	
2010/11 Annual Audit Letter	November 2011	
2010/11 Annual Grant Claims Report	January 2012	

## **MAIDSTONE BOROUGH COUNCIL**

### **AUDIT COMMITTEE**

**21 MARCH 2011**

#### **REPORT OF HEAD OF FINANCE & CUSTOMER SERVICES**

**Report prepared by Paul Holland**  
**Senior Accountant (Client)**

#### **1. ACCOUNTS & AUDIT REGULATIONS 2011**

##### 1.1 Issue for Decision

- 1.1.1 That the Audit Committee considers the proposed amendments to the Accounts & Audit Regulations 2003 and the timetable for reviewing and approving the draft Statement of Accounts.

##### 1.2 Recommendation of Head of Finance & Customer Services

- 1.2.1 That the Audit Committee notes the proposed amendments to the Accounts & Audit Regulations 2003, and considers whether or not it still wishes to see a copy of the draft Statement of Accounts prior to it being approved by the Director of Regeneration and Communities.

##### 1.3 Reasons for Recommendation

- 1.3.1 The Government has recently issued draft proposals to amend the Accounts & Audit Regulations 2003. The proposals will consolidate the subsequent changes to the Regulations in 2006 and 2009, and also introduce some amended requirements. This report summarises those changes and outlines their impact for Maidstone Borough Council. A copy of the consultation document and the draft regulations are attached at **Appendix A**.

- 1.3.2 The amended regulations will come into force on 31<sup>st</sup> March 2011 and will therefore be applicable to the 2010/11 financial year. There are three areas of change that will impact upon the Council's Statement of Accounts:

- The Statement of Accounts no longer require Member approval prior to being submitted for external audit. The Statement will need to be signed by the Director of Regeneration and Communities by 30<sup>th</sup> June of each year, and will then need to be

approved by Members by 30<sup>th</sup> September following the external audit.

- There is some clarification on the requirement to disclose the remuneration of senior employees. In practice this will not require any significant changes to the current disclosures, but it brings the requirements for local government financial reporting into line with the rest of the public sector.
- There are some further minor changes – making it clear that the Statement of Internal Control accompanies the Statement of Accounts rather than being a part of it, and also making it clear that the notes are part of the Statement of Accounts, rather than accompanying them as was the case under the previous regulations.

1.3.3 Members will note that there is no longer a requirement for them to formally approve the Statement of Accounts by 30<sup>th</sup> June. However the Audit Committee in considering its governance responsibilities may wish to review the draft Statement before it is signed by the Director of Regeneration and Communities.

1.4 Alternative Action and why not Recommended

1.4.1 Compliance with the Accounts & Audit Regulations is a statutory obligation.

1.5 Impact on Corporate Objectives

1.5.1 Production of the annual Statement of Accounts is a statutory requirement, and is consistent with best financial practice.

1.6 Risk Management

1.6.1 Non-compliance with the Accounts & Audit Regulations would almost certainly lead to qualification of the Accounts by the external auditors; therefore it is of great importance that the requirements are met in full.

1.7 Other Implications

1.7.1

1. Financial
2. Staffing
3. Legal

X
X

- 4. Equality Impact Needs Assessment
- 5. Environmental/Sustainable Development
- 6. Community Safety
- 7. Human Rights Act
- 8. Procurement
- 9. Asset Management


1.7.2 The financial and legal implications are contained in the body of the report.

Background Documents

Draft Accounts & Audit Regulations 2011  
DCLG Consultation Document

**IS THIS A KEY DECISION REPORT?**

Yes

No

If yes, when did it first appear in the Forward Plan?

.....

This is a Key Decision because: .....

.....

Wards/Parishes affected: .....

.....



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



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

**Consultation**

January 2011  
Department for Communities and Local Government

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January 2011

ISBN: 978 1 4098 2781 8



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

## Scope of the consultation

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

## Basic Information

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

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

## Background

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

## Introduction

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

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

## Why consolidate the regulations now?

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

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

## The form of the consolidation

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

Part 1 Introductory

Part 2 Financial management and internal control

Part 3 Published accounts and audit – larger relevant bodies

Part 4 Published accounts and audit – smaller relevant bodies

Part 5 Particular authorities  
Part 6 Audit procedure

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Passenger Transport Executives**

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

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

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

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

## **Offences**

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

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

## **Remuneration reporting**

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

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

## **Other changes**

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

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

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

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

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

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

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

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

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

### **Consultation procedure**

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

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



Accountancy and the Institute of Chartered Accountants in England and Wales

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

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

Responses may also be returned to:

Graham Fletcher  
Department for Communities and Local Government  
Zone 5/J4, Eland House  
Bressenden Place  
London SW1E 5DU

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

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

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

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

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

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

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

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

2011 No.

**LOCAL GOVERNMENT, ENGLAND**

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

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

*Laid before Parliament* \*\*\*

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

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

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

The Secretary of State makes the following Regulations:

**PART 1**

**Introductory**

**Citation, commencement and application**

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

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

**Interpretation and application**

2.—(1) In these Regulations—

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

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

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

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

(b) 1999 c. 29.

(c) 1972 c. 70.

(d) 1989 c. 42.

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

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

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

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

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

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

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

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

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

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

(a) the person who, by virtue of—

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

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

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

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

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

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

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

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

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

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

(c) 1971 c. 80.

(d) 1988 c. 4.

(e) 1988 c. 41.

(f) 1995 c. 25.

(g) 1999 c. 29.

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

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

(4) These Regulations apply as follows—

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

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

### **Revocations**

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

## **PART 2**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Internal audit**

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

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

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

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

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

## **PART 3**

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

#### **Statement of accounts**

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

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

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

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

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

“relevant police officer” means—

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Notice of public rights**

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

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

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

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

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

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

## **PART 4**

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

#### **Accounting statements**

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

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

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

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

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

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

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

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

(3) A smaller relevant body must—

- (a) consider the accounting statements by the members meeting as a whole;
  - (b) following that consideration, approve the accounting statements for submission to the auditor by a resolution of the body;
  - (c) following approval, ensure that the accounting statements are signed and dated by the person presiding at the meeting at which that approval was given;
- and must use its best endeavours to do these things no later than 30th June.

(4) A smaller relevant body must either—

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

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

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

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

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

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

### **Notice of public rights**

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

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

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

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

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

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

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

## **PART 5**

### **Particular authorities**

#### **Passenger Transport Executives**

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

#### **Internal drainage boards**

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

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

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

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

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

#### **Joint committees etc**

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

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

(2) In this regulation—

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

## **PART 6**

### **Audit procedure**

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

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

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

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

#### **Alteration of accounts**

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

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

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

### Written notice of objection

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

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

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

### Notice of conclusion of audit

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

### Publication of annual audit letter

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

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

### Extraordinary audit

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

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

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

## SCHEDULE

Regulation 3

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

(a) 2000 c. 22.

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

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

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

**EXPLANATORY NOTE**

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





## **MAIDSTONE BOROUGH COUNCIL**

### **AUDIT COMMITTEE**

**21 MARCH 2011**

#### **REPORT OF HEAD OF INTERNAL AUDIT PARTNERSHIP**

**Report prepared by Brian Parsons**

#### **1. REVIEW OF AUDIT COMMITTEE**

##### 1.1 Issue for Decision

1.1.1 To agree to implement the actions arising from the Local Government Improvement & Development review of the Audit Committee in accordance with the detailed action plan set out at Appendix A.

##### 1.2 Recommendation of the Head of Internal Audit Partnership

1.2.1 That the Audit Committee agrees the detailed action shown at Appendix A, which sets out improvements to the operation of the Committee.

##### 1.3 Reasons for Recommendation

1.3.1 Local Government Improvement and Development (LGID) was commissioned to undertake a peer review of the Audit Committee. A report was submitted to a meeting of the Committee on the 21 January 2011, where it was agreed that an informal session should take place in February 2011 involving Committee Members and Officers to identify actions to be taken in relation to the report's findings and conclusions.

1.3.2 Notes of the meeting on 17 February are shown at Appendix A, together with a detailed action plan.

1.3.3 Members are now asked to formally agree the actions arising from the informal meeting held on 17 February 2011.

1.4 Alternative Action and why not Recommended

1.4.1 The Committee could decide not to adopt the 'areas for development' and the actions that were agreed at the informal meeting on 17 February 2011; however, this would mean that the improved arrangements arising from the peer review exercise would not materialize.

1.5 Impact on Corporate Objectives

1.5.1 None directly

1.6 Risk Management

1.6.1 There is a risk that the agreed actions will not be implemented in practice.

1.6.2

1. Financial
2. Staffing
3. Legal
4. Equality Impact Needs Assessment
5. Environmental/Sustainable Development
6. Community Safety
7. Human Rights Act
8. Procurement
9. Asset Management


1.7 Relevant Documents

1.7.1 Appendices: Notes of informal Committee meeting held on 17 February 2011

1.7.2 Background Documents : Report from Local Government Improvement and Development 'Review of Audit Committee'.

**IS THIS A KEY DECISION REPORT?**

Yes

No

If yes, when did it first appear in the Forward Plan?

.....

This is a Key Decision because: .....

.....

Wards/Parishes affected: .....

.....

## APPENDIX A

### Maidstone Borough Council Audit Committee

#### Informal Meeting 17 February 2011

#### **ACTION POINTS FROM THE REVIEW OF THE AUDIT COMMITTEE BY LOCAL GOVERNMENT IMPROVEMENT AND DEVELOPMENT (LGID)**

##### **Background**

LGID was commissioned by the Council to undertake a peer review of the Audit Committee. The review was jointly commissioned by Ashford, Maidstone, Swale and Tunbridge Wells Borough Councils and included interviews and discussions with Councillors, Officers and partners.

The objective for the review was to allow each Audit Committee to be benchmarked against examples of best practice and thereby help the Committee to become more effective in undertaking its functions.

The final report included a summary of the review across the four Authorities and broke the findings down into more specific reviews of each Audit Committee.

There were six main areas of development for the Maidstone Audit Committee. These were:

- A more robust training programme for Committee Members
- Greater challenge of reports/issues needed
- Better tracking of audit recommendations
- The governance assurance role of the Audit Committee could be expanded, but needs to avoid any unnecessary duplication with overview and scrutiny
- Best practice indicates that Audit Committee should produce an annual report and seek to measure the effectiveness of the Committee
- There is scope for the Audit Committee to expand its role to support the council in its broader partnership working, particularly in terms of governance arrangements and risk, both financial and more generally in terms of delivering key outcomes.

The report was submitted to the 17 January 2011 Audit Committee meeting and a discussion ensued about the actions to be taken in relation to the report's findings and conclusions.

It was agreed that an informal session should be set up in February 2011 between Committee Members and Officers to identify actions to be taken in relation to the report's findings and conclusions with a review to reporting these back to the March 2011 Audit Committee meeting. The informal session was held on Thursday 17 February 2011 and was attended by the following Committee Members and Officers:

Councillor John Horne (Chairman)  
Councillor Fran Smith  
Councillor Rodd Nelson-Gracie  
Councillor Mervyn Warner

Director of Regeneration and Communities –	Zena Cooke
Head of Finance and Customer Services -	Paul Riley
Head of Internal Audit Partnership -	Brian Parsons
Internal Audit Manager -	Jennifer Daughtry

**Apologies for absence:**

Councillor Derek Butler

The main discussions and actions arising from the meeting are outlined in the following pages.

**1. Training needs assessment**

It was agreed that a skills and experience matrix needs to be developed for the Audit Committee. This matrix could then be used to analyse the skills and experience of the existing Committee Members to identify any gaps in skills and experience and to help produce a training programme for existing Committee Members and an induction training programme for new Audit Committee members.

The following subjects were given as examples of the skills required: financial reporting, governance, understanding of financial statements, regulatory framework, the role of the internal and external audit, risk management, the principles of project management and project risk, treasury management and performance monitoring.

The Committee Members were asked how they would like the training identified to be provided. It was agreed that training could be provided at any 'spare' Audit Committee meetings during the municipal year or through a number of half-day training sessions. It is intended that the majority of the training can be provided through internal resources and perhaps that the training can be provided across a number of authorities. For example the Audit Commission and the Head of Finance could provide training on financial reported and financial statements. Committee Members also considered whether there could be better use professional conferences ran by CIPFA and the Kent Audit Group.

It was agreed that some of the training courses should not solely be for the Audit Committee members. It is understood that the Head of Democratic Services is preparing a report on training for Committee Members at the moment.

It was agreed that it should be established whether the Head of Democratic Service's report will include the maintenance of Development records for all relevant Committee Members

<b>1. Training needs assessment</b>	<b>Action</b>	<b>Action by</b>
1.1	To prepare a skills matrix for Audit Committee Members setting out the skills and experience needed to fulfil the role	
1.2	To complete an assessment of the Audit Committee members against the skills matrix to identify any training needs	

1.3	To develop a training programme for existing Audit Committee members based on the training needs identified	
1.4	To develop an induction programme for newly appointed Audit Committee members	
1.5	To speak to the Learning and Development Manager to arrange training for Audit Committee Members on the principles of project management for all Council Members and project risk training for the Audit Committee members.	Brian Parsons
1.6	To speak to the Head of Democratic Services to confirm whether his Committee Members training report includes maintaining continuing professional development records for all relevant Committee Members	Brian Parsons

## 2. Governance pack

It was suggested that a governance pack be introduced for the Audit Committee Members. This could provide clarity to existing Committee Members on the roles and responsibility of the Audit Committee and it could be used as part of the induction training programme for newly appointed Committee Members.

The Committee Members were handed a few examples of governance packs currently in use by other Audit Committees.

The governance pack could include the following information: the role of other committees, the benefits of the Audit Committee, substitution arrangements, the frequency of meetings, the forward programme for the Audit Committee, the governance framework and the role of the Audit Committee.

Consideration was given to whether the governance pack should be a Maidstone document or written in conjunction with the other MKIP partners. It was suggested that the Head of Internal Audit Partnership discusses this with the respective Audit Committees at Ashford, Swale and Tunbridge Wells to consider whether a joint governance pack would be accepted.

<b>2. Governance pack</b>	<b>Action</b>	<b>Action by</b>
2.1	To circulate a few examples governance packs currently in	Jennie Daughtry

	use to the Audit Committee Members for consideration	
2.2	To agree the format / layout of the governance pack to be used at Maidstone	
2.3	To discuss the possibility of having one governance pack covering all four Audit Committees with each respective Audit Committee	Brian Parsons
2.4	To publish the agreed governance pack to all interested parties	Brian Parsons

### 3. Greater challenge of reports / issues needed

It was agreed during the meeting that the Audit Committee do provide adequate challenge to reports and issues as necessary.

The Director of Regeneration and Communities suggested that questions should be raised and answered in the formal setting of the Audit Committee meetings rather than prior to (or outside of) the formal meeting.

<b>3. Greater challenge of reports / issues needed</b>	<b>Action</b>	<b>Action by</b>
3.1	Questions to challenge reports presented to the Audit Committee should be raised during the formal Audit Committee meeting.	Audit Committee Members

### 4. Better tracking of Audit Committee recommendations

It was agreed that the recommendations made by the Audit Committee are picked up at the next Audit Committee meeting as part of the review of minutes. However, it was agreed that the minutes of each meeting need to record any outstanding actions.

<b>4. Better tracking of Audit Committee recommendations</b>	<b>Action</b>	<b>Action by</b>
4.1	Audit Committee minutes should include a table of any outstanding Audit Committee recommendations.	Committee Clerk

**5. The governance assurance role of the Audit Committee should be expanded**

It was discussed whether the Audit Committee should have a more active role in respect of partnership governance arrangements and whether the Audit Committee needed to undertake any of the duties previously completed by the Standards Committee (in the context of the demise of the Standards Board).

It was agreed that any governance assurance activities completed by the Audit Committee should not duplicate the work of Overview and Scrutiny. It was also agreed that there must be clarity over the roles and responsibilities of each Committee to avoid duplication. In terms of the Standards Committee, it was considered that the key responsibilities of the Standards Committee would not be a fit with the role of the Audit Committee.

<b>5. The governance assurance role of the Audit Committee should be expanded</b>	<b>Action</b>	<b>Action by</b>
5.1	To consider whether the Audit Committee needs to expand its role in relation to governance assurance, specifically in relation to partnerships.	
5.2	To ensure that the Audit Committee's role and responsibility in relation to governance is clearly set out in the Committee's terms of reference	
5.3	To ensure that the Audit Committee does not carry out or duplicate work which is properly the responsibility of Overview and Scrutiny	



## 6. Annual report to measure the effectiveness of the Audit Committee

Members were provided with examples of annual reports produced by other local authorities and were asked to consider whether a similar report should be prepared for Maidstone Audit Committee.

It was agreed that the introduction of an annual report to Full Council would be worthwhile and that it could raise the profile of the Audit Committee.

It was suggested that the annual report could include: a copy of the Audit Committee's annual work programme, an area to set out the Audit Committee's role and responsibilities and CIPFA's self assessment check list of the Audit Committee's effectiveness.

<b>6. Annual report to measure the effectiveness of the Audit Committee</b>	<b>Action</b>	<b>Action by</b>
6.1	To circulate the annual report examples to Audit Committee Members	Jennie Daughtry
6.2	To review the examples of the annual Audit Committee reports and feedback on what areas should be included in the annual Audit Committee report	Audit Committee Members
6.3	To agree an annual report template.	

## 7. Future peer reviews

The Audit Committee discussed whether they would support future peer reviews. It was agreed that the peer review is a useful and that there was scope for a peer reviews between the Audit Committees at Swale, Tunbridge Wells and Ashford Borough Council providing a structured approach was taken at each site. It was agreed that using the CIPFA template would be an appropriate structured approach to base the review around.

The frequency of future peer reviews was discussed and it was agreed that a frequency of 2 – 3 years, on a rolling programme basis, would be appropriate.

It was also agreed that it would be beneficial for Audit Committee Members to attend the Audit Committee meetings at the other sites as visiting Members. This will help identify areas of good practice that can be adopted at Maidstone.

<b>7. Future peer reviews</b>	<b>Action</b>	<b>Action by</b>
7.1	The Audit Committees at Ashford, Swale and Tunbridge Wells Borough Council should be approached to establish if they would consider introducing a rolling peer review programme between each Audit Committee	
7.2	A structured peer review programme should be developed using the methodology set out by CIPFA.	
7.3	Audit Committee Members should consider attending the Audit Committee meetings at the other partner sites as visiting Members to encourage sharing of good practice	

### 8. Audit Commission reports

The demise of the Audit Committee now means that some of the reports previously provided to the Audit Committee have stopped.

It was agreed that an assessment needs to be completed to identify what information has been reported to the Audit Committee in the past and what information the Audit Committee still want to receive.

<b>8. Audit Commission reports</b>	<b>Action</b>	<b>Action by</b>
8.1	An assessment of the Audit Commission reports previously presented to the Audit Committee should be carried out to identify whether any of these subjects need to be reported to the Committee in the future by officers.	

### 9. The Audit Committee meeting timetable

It was agreed that the number of Audit Committee meetings held each year may be excessive bearing in mind the dramatically reduced number of reports (CPA, CAA, Use of Resources) from the Audit Commission. It was suggested that some of the dates set for meetings could alternatively be used for Committee Member training.

<b>9. The Audit Committee meeting timetable</b>	<b>Action</b>	<b>Action by</b>
9.1	Reserve one meeting date within the next municipal year for Committee Member training	

### 10. Approval of action points

It was agreed that the actions discussed during this informal meeting should be formally reported to the Audit Committee on 21 March 2011 to allow the actions to be ratified.

<b>10.Approval of action points</b>	<b>Action</b>	<b>Action by</b>
10.1	To report the actions discussed during this LGID informal meeting (17 February 2011) to the 21 March 2011 Audit Committee meeting to enable the Audit Committee to formally ratify the agreed actions	Brian Parsons

**MAIDSTONE BOROUGH COUNCIL**

# **AUDIT COMMITTEE**

**Work Programme**

**01 January 2011 to  
30 April 2012**






**Chairman: Cllr John Horne**



## Statement of Purpose:

The purpose of the Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process, including approval of the annual statement of accounts.

## Audit Committee Members:

	<p><b>Councillor John Horne</b> (Chairman) <b>Detling &amp; Thurnham Ward</b> <a href="mailto:johnhorne@maidstone.gov.uk">johnhorne@maidstone.gov.uk</a> Tel: 01622 739377</p>		
	<p><b>Councillor Derek Butler</b> <b>Boxley Ward</b> <a href="mailto:derekbutler@maidstone.gov.uk">derekbutler@maidstone.gov.uk</a> Tel: 01634 684854</p>		<p><b>Councillor Rodd Nelson-Gracie</b> <b>Marden &amp; Yalding Ward</b> <a href="mailto:roddnelsongracie@maidstone.gov.uk">roddnelsongracie@maidstone.gov.uk</a> Tel: 01622 814263</p>
	<p><b>Councillor Fran Smith</b> <b>Fant Ward</b> <a href="mailto:fransmith@maidstone.gov.uk">fransmith@maidstone.gov.uk</a> Tel: 01622 720623</p>		<p><b>Councillor Mervyn Warner</b> (Vice-Chairman) <b>North Ward</b> <a href="mailto:Mervynwarner@maidstone.gov.uk">Mervynwarner@maidstone.gov.uk</a> Tel: 01622 753220</p>

Date of Meeting	Title of Report and Brief Summary of Decision to be made	Contact Officer
17 January 2011	<p><b>Maidstone Museum East Wing Redevelopment</b></p> <p>To note the current position relating to the Maidstone Museum East Wing redevelopment project.</p>	<p>Brian Morgan, Assistant Director of Regeneration and Cultural Services Simon Lace, Museums and Heritage Manager</p>
17 January 2011	<p><b>Review of the Business Transformation Partnership</b></p> <p>To consider and comment on the findings of the review undertaken of the Business Transformation Partnership.</p>	<p>Georgia Hawkes, Head of Business Improvement</p>
17 January 2011	<p><b>Review of Audit Committee</b></p> <p>To consider the outcome of the LGI and D review of the Audit Committee and the incorporation of any actions to be taken in relation to the report's findings and conclusions into the Committee's future work programme.</p>	<p>Brian Parsons, Head of Internal Audit Partnership</p>
17 January 2011	<p><b>Treasury Management Strategy 2011/12 – 2013/14</b></p> <p>To refer the Committee's initial thoughts on the draft Treasury Management Strategy 2011/12 to Cabinet.</p>	<p>Paul Riley, Head of Finance and Customer Services</p>

17 January 2011	<b>Budget Strategy 2011/12 Onwards</b> To consider the risk assessment of the budget strategy 2011/12 onwards and comment on or make recommendations to Cabinet.	Paul Riley, Head of Finance and Customer Services
21 March 2011	<b>Maidstone Museum East Wing Redevelopment – Risk Register Update</b> To receive an update on the remaining risks associated with the Maidstone Museum East Wing redevelopment project.	Brian Morgan, Assistant Director of Regeneration and Cultural Services Simon Lace, Museums and Heritage Manager
21 March 2011	<b>Review of the Business Transformation Partnership</b> To update the Committee on the response to its findings and recommendations.	Georgia Hawkes, Head of Business Improvement
21 March 2011	<b>Review of Audit Committee – Action Plan</b> To identify and approve the action to be taken on the report's findings and conclusions.	Brian Parsons, Head of Internal Audit Partnership
21 March 2011	<b>Training for Audit Committee</b> To specify the training to be undertaken within a prescribed timescale as a pre-requisite for membership of the Audit Committee.	Neil Harris, Head of Democratic Services
21 March 2011	<b>External Auditor's Grants Claim Work 2009/10</b>	Zena Cooke, Director of Regeneration and Communities

	To consider the External Auditor's work on the final grant claims for 2009/10.	Paul Riley, Head of Finance and Customer Services
21 March 2011	<b>External Auditor's Opinion, Audit Plan 2010/11</b> To consider an update on the External Auditor's Audit Plan for 2010/11.	Zena Cooke, Director of Regeneration and Communities Paul Riley, Head of Finance and Customer Services
21 March 2011	<b>External Auditor's Progress Report</b> To consider and comment on the External Auditor's progress, Work Plan 2011/12 and fee proposals.	Zena Cooke, Director of Regeneration and Communities Paul Riley, Head of Finance and Customer Services
21 March 2011	<b>Accounts and Audit Regulations 2011</b> To consider proposed amendments to the Accounts and Audit Regulations 2003 and the timetable for reviewing and approving the draft statement of accounts.	Paul Riley, Head of Finance and Customer Services
21 March 2011	<b>Electronic Tendering – Amendment to Contract Procedure Rules</b> To consider amendments to the Contract Procedure Rules arising out of the introduction of electronic tendering.	Steve Goulette, Assistant Director of Environment & Regulatory Services David Tibbit, Property & Procurement Manager
6 June 2011	<b>Annual Governance Statement 2010/11</b> To endorse the Annual Governance Statement for inclusion in the Statement of Accounts.	Paul Riley, Head of Finance and Customer Services



6 June 2011	<p><b>Local Code of Corporate Governance - Annual Update</b></p> <p>To approve the Local Code of Corporate Governance.</p>	Paul Riley, Head of Finance and Customer Services
6 June 2011	<p><b>Internal Audit Annual Report 2010/11</b></p> <p>To consider the work of the Internal Audit Section over the financial year 2010/11 and to decide whether the outcome of the Internal Audit work etc. provides evidence of a substantial level of control within the Council.</p>	Brian Parsons, Head of Internal Audit Partnership
6 June 2011	<p><b>Internal Audit Strategic Plan 2011/12</b></p> <p>To note the content of the Internal Audit Strategic Plan for 2011/12.</p>	Brian Parsons, Head of Internal Audit Partnership
6 June 2011	<p><b>Future Assurance Arrangements</b></p> <p>To comment on the adequacy of the Council's governance and performance arrangements in the absence of the Audit Commission.</p>	Zena Cooke, Director of Regeneration and Communities Brian Parsons, Head of Internal Audit Partnership
6 June 2011	<p><b>Strategic Risk Register</b></p> <p>To consider and comment on the process for identifying and managing the strategic and operational risks that might affect the ability of the Council to deliver its priorities.</p>	Brian Parsons, Head of Internal Audit Partnership
6 June 2011	<p><b>Internal Audit Partnership First Year Review</b></p> <p>To note progress on the implementation of</p>	Brian Parsons, Head of Internal Audit Partnership

	the Internal Audit Partnership.		
6 June 2011	<p><b>The Role of the Head of Internal Audit</b></p> <p>To note the CIPFA Statement on the Role of Head of Internal Audit in Local Government and to consider the effectiveness of the HIA arrangements in place.</p>	Brian Parsons, Head of Internal Audit Partnership	
6 June 2011	<p><b>Quarterly Work in Progress Report from the External Auditors</b></p> <p>To note the position with regard to work being undertaken by external audit.</p>	Brian Parsons, Head of Internal Audit Partnership	
20 June 2011	<p><b>Maidstone Museum East Wing Redevelopment – Risk Register Update</b></p> <p>To receive an update on the remaining risks associated with the Maidstone Museum East Wing redevelopment project.</p>	Brian Morgan, Assistant Director of Regeneration and Cultural Services Simon Lace, Museums and Heritage Manager	
20 June 2011	<p><b>Budget Strategy 2011/12 Onwards – Risk Assessment</b></p> <p>To consider a synopsis of the Action Plan for the management of the risks associated with the Budget Strategy 2011/12 onwards.</p>	Paul Riley, Head of Finance and Customer Services	
20 June 2011	<p><b>Treasury Management Performance 2010/11</b></p> <p>To note the activities of the treasury management function for the 2010/11 financial year and to recommend amendments to current procedures as</p>	Paul Riley, Head of Finance and Customer Services	

	appropriate.		
20 June 2011	<b>Statement of Accounts 2010/11</b> To approve the Statement of Accounts for the financial year ended 31 March 2011.	Paul Riley, Head of Finance and Customer Services	
20 June 2011	<b>Audit Committee Annual Report 2010/11</b> To approve the Audit Committee Annual Report 2010/11 for submission to the Council.	Zena Cooke, Director of Regeneration and Communities	
19 September 2011	<b>Maidstone Museum East Wing Redevelopment – Risk Register Update</b> To receive an update on the remaining risks associated with the Maidstone Museum East Wing redevelopment project.	Brian Morgan, Assistant Director of Regeneration and Cultural Services Simon Lace, Museums and Heritage Manager	
19 September 2011	<b>Audit Commission’s Annual Governance Report 2010/11</b> To approve the Audit Commission’s Annual Governance Report 2010/11 and any amendments to the Statement of Accounts.	Zena Cooke, Director of Regeneration and Communities Paul Riley, Head of Finance and Customer Services	
19 September 2011	<b>Quarterly Work in Progress Report from the External Auditors</b> To note the position with regard to work being undertaken by external audit.	Brian Parsons, Head of Internal Audit Partnership	
28 November 2011	<b>Maidstone Museum East Wing Redevelopment – Risk Register Update</b>	Brian Morgan, Assistant Director of Regeneration and Cultural Services Simon Lace, Museums and Heritage Manager	

	To receive an update on the remaining risks associated with the Maidstone Museum East Wing redevelopment project.	
28 November 2011	<p><b>Internal Audit - Six Monthly Interim Report</b></p> <p>To consider the work of the Internal Audit Section over the six month period April to September 2011 and to note the outcomes of the Internal Audit work.</p>	Brian Parsons, Head of Internal Audit Partnership
28 November 2011	<p><b>Treasury Management Strategy Mid Year Performance 2011/12</b></p> <p>To note the activities of the treasury management function for the 2011/12 financial year to date and to recommend amendments to current procedures as appropriate.</p>	Paul Riley, Head of Finance and Customer Services
28 November 2011	<p><b>Quarterly Work in Progress Report from the External Auditors</b></p> <p>To note the position with regard to work being undertaken by external audit.</p>	Brian Parsons, Head of Internal Audit Partnership
16 January 2012	<p><b>Maidstone Museum East Wing Redevelopment – Risk Register Update</b></p> <p>To receive an update on the remaining risks associated with the Maidstone Museum East Wing redevelopment project.</p>	Brian Morgan, Assistant Director of Regeneration and Cultural Services Simon Lace, Museums and Heritage Manager
16 January 2012	<b>Strategic Risk Register</b>	Brian Parsons, Head of Internal Audit Partnership

	To consider and comment to Cabinet on the adequacy of risk management within the Authority.	
16 January 2012	<p><b>Annual Audit Letter 2010/11</b></p> <p>To note and comment on the Audit Commission's Annual Audit Letter to Maidstone Borough Council and to make any recommendations to Cabinet and/or Council.</p>	<p>Zena Cooke, Director of Regeneration and Communities  Paul Riley, Head of Finance and Customer Services</p>
19 March 2012	<p><b>Maidstone Museum East Wing Redevelopment – Risk Register Update</b></p> <p>To receive an update on the remaining risks associated with the Maidstone Museum East Wing redevelopment project.</p>	<p>Brian Morgan, Assistant Director of Regeneration and Cultural Services  Simon Lace, Museums and Heritage Manager</p>
19 March 2012	<p><b>Quarterly Work in Progress Report from the External Auditors</b></p> <p>To note the position with regard to work being undertaken by external audit.</p>	<p>Brian Parsons, Head of Internal Audit Partnership</p>