

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

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Deadline for submissions to consultation questions is 4 March 2011

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Main Changes	Comments for the CLG
<p><b>1. Approval and publication of annual accounts</b></p>	
<p>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.</p> <p>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:</p> <ul style="list-style-type: none"> <li>• 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)</li> <li>• 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</li> <li>• the responsible financial officer must re-certify the presentation of the annual accounts before member approval is given (<b><i>New regulation 8</i></b>)</li> </ul> <p>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.</p>	<p>Regulation 8 - We see the removal of the requirement to obtain Member approval of the accounts prior to audit as positive. This will enable Members to be in a much more informed position when they do approve the accounts as they will be doing this with the knowledge of any findings of the audit, enabling them to seek and obtain assurances that any issues identified have been either rectified or resolved before approval.</p> <p>Approval of the unaudited accounts by Members is recognised as adding value, however removing the requirement will allow authorities more flexibility in Member involvement.</p> <p>It will also reduce demands on council resources if there is a need in the future to reproduce the accounts for approval should any amendments to the accounts post audit be required, and provide officers with additional time to work on preparing an accurate and timely statement of accounts, particularly in light of the move to accounts based on International Financial Reporting Standards from 2010-11. The additional time of about two weeks will assist in planning and carrying through the preparation process.</p>

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<b>1. Approval and publication of annual accounts</b>	
<p>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.</p>	

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<b>2. Offences</b>	
<p>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.</p> <p>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.</p>	<p>This is welcomed.</p>

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<b>3. Remuneration reporting</b>	
<p>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.</p> <p>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). <b>(New regulation 7)</b></p>	<p>There is a potential overlap and inconsistencies in the requirements of this Regulation with the proposed Code of Practice on Data Transparency (Currently open for consultation, closing on 14 March 2011), particularly around remuneration of senior employees.</p> <p>It would make sense for the requirements to publish data publicly to be consistent, if only to reduce the reporting burden on local authorities and avoid confusion by those receiving and attempting to use the information.</p>

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<b>4. Other changes</b>	
<p>A number of other more minor changes are proposed in the new regulations:</p> <p>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. <b>(New regulation 4(4))</b></p> <p>Current regulation 6 refers to a "system of internal audit". The words "system of" have been removed because it has been</p>	<p>It makes sense to publish the Statement on Internal Control (Annual Governance Statement) as a separate entity to the Statement of Accounts. The Annual Governance Statement considers the control environment of the council as a whole, not purely focusing on financial control.</p> <p>We welcome the clarification of the annual review of effectiveness relating to 'internal</p>

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<p>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. <b>(New regulation 6)</b></p> <p>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. <b>(New regulation 6)</b></p> <p>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. <b>(New regulation 7)</b></p> <p>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. <b>(New regulation 18)</b></p> <p>Current regulations 10(5), 12(5) and 17(2), which contain transitional provisions, have been removed because they are</p>	<p>audit' rather than the 'system of internal audit'. The current regulations allow for a range of interpretations as to what 'the system of internal audit' could include. By focusing on Internal Audit, the scope of any review becomes much clearer. We would welcome further guidance on whether, for us, the review of effectiveness should purely focus on the CIPFA Code of Practice for Internal Audit in Local Government or whether it is intended for such a review to look at the wider performance of the Internal Audit function and the contribution it makes to the authority.</p>

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<p>spent.</p> <p>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. <b><i>(New regulation 27)</i></b></p>	

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<b>5. General Comments</b>	
	<p>We see the consolidation of the Accounts and Audit Regulations 2003 and subsequent amendments as a positive step which provides clarity on the updates to the Regulations since 2006 and the requirements of the Regulations going forward.</p>