

# Public Document Pack



**Service Director – Legal, Governance and  
Commissioning**

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Thursday 12 April 2018

## Notice of Meeting

Dear Member

### **Corporate Governance and Audit Committee**

The **Corporate Governance and Audit Committee** will meet in the **Meeting Room 1 - Town Hall, Huddersfield** at **11.00 am** on **Friday 20 April 2018**.

The items which will be discussed are described in the agenda and there are reports attached which give more details.

A handwritten signature in black ink, appearing to read "Julie Muscroft".

**Julie Muscroft**

**Service Director – Legal, Governance and Commissioning**

Kirklees Council advocates openness and transparency as part of its democratic processes. Anyone wishing to record (film or audio) the public parts of the meeting should inform the Chair/Clerk of their intentions prior to the meeting.

## **The Corporate Governance and Audit Committee members are:-**

### **Member**

Councillor Hilary Richards (Chair)  
Councillor Julie Stewart-Turner  
Councillor Carole Pattison  
Councillor Kath Pinnock  
Councillor Linda Wilkinson  
Councillor Ken Sims  
Councillor Nigel Patrick

When a Corporate Governance and Audit Committee member cannot be at the meeting another member can attend in their place from the list below:-

### **Substitutes Panel**

#### **Conservative**

B Armer  
D Bellamy  
G Wilson  
D Firth  
J Taylor

#### **Green**

K Allison  
A Cooper

#### **Independent**

C Greaves  
T Lyons

#### **Labour**

E Firth  
C Scott  
M Sokhal  
S Ullah  
S Hall  
S Pandor

#### **Liberal Democrat**

J Lawson  
A Pinnock

### **Ex Officio Members**

Councillor Andrew Marchington  
Councillor Graham Turner  
Councillor Musarrat Khan – Cabinet Member (Resources)

# Agenda

## Reports or Explanatory Notes Attached

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**Pages**

**1: Membership of the Committee**

This is where Councillors who are attending as substitutes will say for whom they are attending.

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**2: Minutes of Previous Meeting**

1 - 4

To receive and approve the Minutes of the previous meeting held on 9 March 2018.

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**3: Interests**

5 - 6

The Councillors will be asked to say if there are any items on the Agenda in which they have disclosable pecuniary interests, which would prevent them from participating in any discussion of the items or participating in any vote upon the items, or any other interests.

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**4: Admission of the Public**

Most debates take place in public. This only changes when there is a need to consider certain issues, for instance, commercially sensitive information or details concerning an individual. You will be told at this point whether there are any items on the Agenda which are to be discussed in private.

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**5: Deputations/Petitions**

The Committee will receive any petitions and hear any deputations from members of the public. A deputation is where up to five people can attend the meeting and make a presentation on some particular issue of concern. A member of the public can also hand in a petition at the meeting but that petition should relate to something on which the body has powers and responsibilities.

In accordance with Council Procedure Rule 10 (2), Members of the Public should provide at least 24 hours' notice of presenting a deputation.

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**6: External Audit Plan 2017/2018** 7 - 38

To receive the report.

Contact: Emma Kirkby, KPMG Audit

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**7: Annual Report of Internal Audit 2017/18 and Issues for 2018/19** 39 - 54

To consider the report.

Contact: Martin Dearnley, Head of Audit and Risk

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**8: Annual Governance Statement 2017/18** 55 - 72

To receive the report.

Contact: Simon Straker, Audit Manager

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**9: Proposed Revisions to the Terms of Reference - Health and Wellbeing Board** 73 - 78

To consider the report.

Contact: Phil Longworth, Health Policy Officer

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**10: Proposed Dates of Council - Municipal Year 2018/19** 79 - 82

To consider the report.

Contact: Andrea Woodside, Governance Officer

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**11: Quarterly Report of Internal Audit 2017/18 (Quarter 4)** 83 - 86

To receive the report.

Contact: Martin Dearnley, Head of Audit and Risk

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**12: Fresh Horizons Update** 87 - 88

To receive the report.

Contact: Martin Dearnley, Head of Audit and Risk

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**13: Exclusion of the Public**

To resolve that under Section 100(A)(4) of the Local Government Act 1972, the public be excluded from the meeting during consideration of the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in Part 1 of Schedule 12A of the Act.

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**14: Quarterly Report of Internal Audit 2017/18 (Quarter 4)** 89 - 104

Exempt information within Part 1 of Schedule 12A of the Local Government Act 1972 namely that the report contains information relating to the financial or business affairs of any particular person (including the authority holding that information). The public interest in maintaining the exemption outweighs the public interest in disclosing the information and providing greater openness in the Council's decision making.

Exempt appendix in relation to Agenda Item 11.

Contact: Martin Dearnley, Head of Audit and Risk

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**15: Fresh Horizons Update** 105 - 108

Exempt information within Part 1 of Schedule 12A of the Local Government Act 1972 namely that the report contains information relating to the financial or business affairs of any particular person (including the authority holding that information). The public interest in maintaining the exemption outweighs the public interest in disclosing the information and providing greater openness in the Council's decision making.

Exempt appendix in relation to Agenda Item 12.

Contact: Martin Dearnley, Head of Audit and Risk

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Contact Officer: Penny Bunker

## KIRKLEES COUNCIL

### CORPORATE GOVERNANCE AND AUDIT COMMITTEE

**Friday 9th March 2018**

Present: Councillor Hilary Richards (Chair)  
Councillor Julie Stewart-Turner  
Councillor Carole Pattison  
Councillor Kath Pinnock  
Councillor Ken Sims  
Councillor John Lawson

Apologies: Councillor Linda Wilkinson  
Councillor Nigel Patrick

#### **1 Membership of the Committee**

(1) Apologies for absence were received from Cllr Nigel Patrick and Cllr Linda Wilkinson

(2) Cllr John Lawson substituted for Cllr Linda Wilkinson

#### **2 Minutes of Previous Meeting**

Cllr Kath Pinnock made reference to a previous discussion of the Committee regarding Fresh Horizons. It was agreed that an item be included on a future agenda as soon as possible.

#### **RESOLVED -**

(1) The minutes of the meeting held on 30 January 2018 were agreed as a correct record

(2) That a report on the issue previously raised by Cllr Wilkinson concerning Fresh Horizons be included on the agenda for the Committee as soon as possible.

#### **3 Interests**

No interests were declared.

#### **4 Admission of the Public**

It was agreed that all agenda items would be considered in public session.

#### **5 Deputations/Petitions**

No deputations or petitions were received.

#### **6 Public Question Time**

No public questions were received.

**7 Report of Members Allowances Independent Review Panel**

The Committee received a report which set out the recommendations of the Members Allowances Independent Review Panel regarding the Members Allowances Scheme for 2018/19.

The report put forward recommendations concerning:

- The level of basic allowance
- Special responsibility allowances, in particular the recommendation to establish a pool of members to serve on the Foster Panel at a daily rate. The Group Business Managers to determine the size of the pool.

The Committee supported the proposal to move to a pool arrangement for Fostering Panel duties given the high volume of work involved. The importance of providing appropriate training for the role was also highlighted.

**RESOLVED -**

- (1) That the recommendations of the Members Allowances Independent Review Panel, as set out at Appendix A to the report, be noted
- (2) That the Committee recommends that the Council approves and adopts the Members Allowances Scheme for 2108/19, as set out in Appendix B to the report, with effect from 1 April 2018.

**8 Amendment Options for the Scrutiny Call in Process**

The Committee considered a report on amendment options for the Council's call in process. It was noted that following previous discussions at the Corporate Governance & Audit Committee, officers had undertaken benchmarking work to look at practice elsewhere and develop potential options as to how the call in process might be amended in Kirklees.

In developing the options officers had considered the principles underpinning scrutiny in Kirklees and reviewed the decision making principles to bring them in line with current best practice. The Committee was also provided with the views of political groups concerning the options within the report.

The proposed options were:

- A requirement for Councillors calling in a decision to set out how they had tried to resolve the concerns prior to calling in the decision.
- Amending the constitution to clarify that supporting evidence and reasons to illustrate which decision making principles had been breached should be included in the call in request.
- Amendment to the call in proforma in line with the approval of any options.
- Updating of the decision making principles to simplify in line with good practice and to ensure clarity of interpretation.



## **Corporate Governance and Audit Committee - 9 March 2018**

- That the decision on the validity of a call in request be determined by the Service Director, Legal, Governance & Commissioning in consultation with the Chair of Overview & Scrutiny.

In considering the options presented, the Committee did not support the introduction of a requirement to demonstrate steps taken to resolve concerns but it was suggested that a section could be included within the proforma to allow for information to be included where appropriate. It was noted that not all political groups supported change to the call in procedure. The Committee supported the clarification of the decision making principles and the submission of supporting evidence to illustrate the breach of decision making principles.

### **RESOLVED -**

- (1) That the call in proforma be amended to include a section where a signatory may set out, where appropriate, any steps they have taken to try to resolve their concerns prior to calling in the cabinet decision.
- (2) That the Scrutiny Procedure Rules in the Constitution be amended to clarify that supporting evidence and reasons to illustrate how the decision making principle(s) has been breached should be included in the call in request. Officers to amend the call in proforma to allow for evidence to be included.
- (3) That the decision making principles in Article 13 of the constitution, as set out in appendix 2 of the report, be simplified in line with good practice and to ensure clarity of interpretation.
- (4) That the decision about the validity of a call in request will be determined by the Service Director, Legal, Governance and Commissioning in consultation with the Chair of Overview and Scrutiny.
- (5) That any required amendments to the constitution will be considered at the Annual Council Meeting.

## **9 Procurement Update**

The Committee received a report on procurement compliance activity in 2017/18. The Committee noted an overview of headline activities which had been undertaken to strengthen procurement rule compliance during the financial year. These have included guidance and reminders about the Contract Procedure Rules to all managers; bespoke training sessions on procurement compliance and an initial review and refresh of the content of the procurement internet page.

The report continued to provide information on the procurement transformation project which focusses on three strands of work, namely improving data visibility, developing future ways of working and delivering procurement savings in specific spend categories.

In noting that the operating model for procurement was to move to a category led procurement model, the Committee explored how officers were going to ensure compliance with the revised model. The Committee also discussed the use of local

## **Corporate Governance and Audit Committee - 9 March 2018**

contractors and the additional benefits to the economy of Kirklees of such an approach.

### **RESOLVED -**

- (1) That the current position regarding procurement compliance activity in 2017/18 be noted.
- (2) That a further update report be provided for the Corporate Governance and Audit Committee during the next municipal year.

### **10 Amendment to Officer Scheme of Delegation**

The Committee received a report which updated on the position regarding the Section 151 Officer and the consequential constitutional change to the officer non-executive delegated decision making. The Committee noted that the Service Director, Finance, IT and Transactional Services had left the Council and the Section 151 responsibilities had been filled on an acting basis for up to 6 months or until the recruitment of a permanent replacement. The report set out interim proposals for the responsibility of other non-executive functions which would be carried out by the Service Director Legal, Governance and Commissioning and the Service Director Policy, Intelligence and Public Health. In considering the report the Committee requested that a time period for the temporary arrangements be specified within the report to Council.

### **RESOLVED -**

- (1) That the appointment of the Acting Service Director - Finance, IT and Transactional Services as the Section 151 statutory officer, be noted.
- (2) That the proposed changes to the responsibility for non –executive functions, as set out in the report, be agreed in principle and recommended to Council for agreement.
- (3) That the report be referred to Council to note the change in personnel.

<b>KIRKLEES COUNCIL</b>				
<b>COUNCIL/CABINET/COMMITTEE MEETINGS ETC</b>				
<b>DECLARATION OF INTERESTS</b>				
Corporate Governance and Audit Committee				
Name of Councillor				
Item in which you have an interest	Type of interest (eg a disclosable pecuniary interest or an "Other Interest")	Does the nature of the interest require you to withdraw from the meeting while the item in which you have an interest is under consideration? [Y/N]	Brief description of your interest	

Signed: ..... Dated: .....

## NOTES

### Disclosable Pecuniary Interests

If you have any of the following pecuniary interests, they are your disclosable pecuniary interests under the new national rules. Any reference to spouse or civil partner includes any person with whom you are living as husband or wife, or as if they were your civil partner.

Any employment, office, trade, profession or vocation carried on for profit or gain, which you, or your spouse or civil partner, undertakes.

Any payment or provision of any other financial benefit (other than from your council or authority) made or provided within the relevant period in respect of any expenses incurred by you in carrying out duties as a member, or towards your election expenses.

Any contract which is made between you, or your spouse or your civil partner (or a body in which you, or your spouse or your civil partner, has a beneficial interest) and your council or authority -

- under which goods or services are to be provided or works are to be executed; and
- which has not been fully discharged.

Any beneficial interest in land which you, or your spouse or your civil partner, have and which is within the area of your council or authority.

Any licence (alone or jointly with others) which you, or your spouse or your civil partner, holds to occupy land in the area of your council or authority for a month or longer.

Any tenancy where (to your knowledge) - the landlord is your council or authority; and the tenant is a body in which you, or your spouse or your civil partner, has a beneficial interest.

Any beneficial interest which you, or your spouse or your civil partner has in securities of a body where -

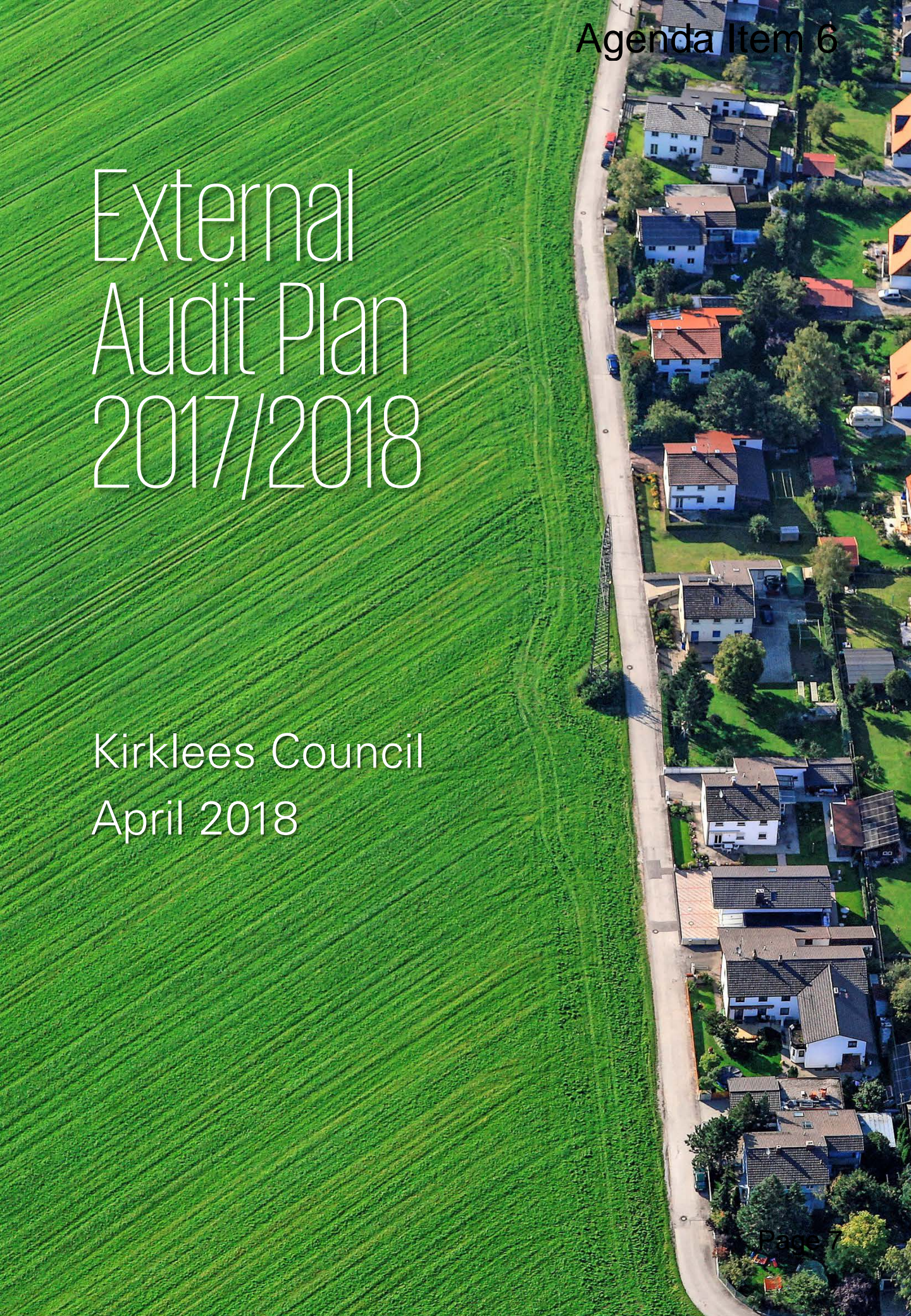
- (a) that body (to your knowledge) has a place of business or land in the area of your council or authority; and
- (b) either -

the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or

if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which you, or your spouse or your civil partner, has a beneficial interest exceeds one hundredth of the total issued share capital of that class.

# External Audit Plan 2017/2018

Kirklees Council  
April 2018



# Summary for Corporate Governance and Audit Committee

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## Financial statements

There are no significant changes to the Code of Practice on Local Authority Accounting ("the Code") in 2017/18, which provides stability in terms of the accounting standards the Authority need to comply with. Despite this, the deadline for the production and signing of the financial statements has been significantly advanced in comparison to year ended 31 March 2017. We recognise that the Authority has successfully advanced its own accounts production timetable in prior years so as to align with the new deadlines. Due to staff changes within the accounts production team, however, we do feel that this represents a significant risk.

In order to meet the revised deadlines it will be essential that the draft financial statements and all prepared by client documentation is available in line with agreed timetables. Where this is not achieved there is a significant likelihood that the audit report will not be issued by 31 July 2018.

## Materiality

Materiality for planning purposes has been set at **£11.5 million**.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at **£0.575 million**.

## Significant risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified as:

- **Valuation of PPE (Key audit matter)**– Whilst the Council operates a cyclical revaluation approach, the Code requires that all land and buildings be held at fair value. We will consider the way in which the Council ensures that assets not subject to in-year revaluation are not materially misstated;
- **Valuation of Pension Liability (Key audit matter)** – The valuation of the Council's pension liability, as calculated by the Actuary, is dependent upon both the accuracy and completeness of the data provided and the assumptions adopted. We will review the processes in place to ensure accuracy of data provided to the Actuary and consider the assumptions used in determining the valuation.
- **Faster Close** – As set out above, the timetable for the production of the financial statements has been significantly advanced with draft accounts having to be prepared by 31 May (2017: 30 June) and the final accounts signed by 31 July (2017: 30 September). We will work with the Council in advance of our audit to understand the steps being taken to meet these deadlines and the impact on our work; and

# Summary for Corporate Governance and Audit Committee (cont.)

## Value for Money Arrangements work

Our risk assessment regarding your arrangements to secure value for money has identified the following VFM significant risks to date:

- **Delivery of Budgets** – As a result of reductions in central government funding, and other pressures, the Council is having to make additional savings beyond those from prior years. We will consider the way in which the Council identifies, approves, and monitors both savings plans and how budgets are monitored throughout the year; and
- **Children’s Services Arrangements** – On 25 November 2016 Ofsted published its report from its Inspection of services for children in need of help and protection children looked after and care leavers, and its review of the effectiveness of the Local Safeguarding Children Board. The report rated Children’s Services overall in Kirklees as Inadequate. Following this the Council has made fundamental changes in this area including a partnership arrangement with Leeds City Council (LCC) to improve Children’s Services. The Commissioner report published in September 2017 noted the Council did not have the leadership and management capacity and capability to drive forward the necessary changes, and their recommendation was to progress the partnership arrangements with LCC to deliver the improvements. We will consider the extent to which the Council has demonstrated tangible improvements in 2017/18.

This issue impacted on our VFM conclusion and we issued a qualified ‘except for’ VFM conclusion in 2016/17. We will consider the degree to which changes that have been made in the Council’s arrangements impact on our VFM conclusion for 2017/18.

**See pages 11 to 16 for more details**

## Logistics

Our team is:

- Rashpal Khangura - Director
- Emma Kirkby - Manager
- Thomas Brough – Assistant manager

More details are in **Appendix 2**.

Our work will be completed in four phases from December to July and our key deliverables are this Audit Plan and a Report to Those Charged With Governance as outlined on **page 19**.

Our fee for the 2017/18 audit is £158,729 (£164,549 2016/2017) see **page 18**. These fees are in line with the scale fees published by PSAA.

## Acknowledgements

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

# Introduction

## Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2017/18 presented to you in March 2017, which also sets out details of our appointment by Public Sector Audit Appointments Ltd (PSAA).

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014, the National Audit Office's Code of Audit Practice and the PSAA Statement of Responsibilities.

## Our audit has two key objectives, requiring us to audit/review and report on your:

**01 | Financial statements :**  
Providing an opinion on your accounts. We also review the Annual Governance Statement and Narrative Report and report by exception on these; and

**02 | Use of resources:**  
Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary. Any change to our identified risks will be reporting to the Corporate Governance and Audit Committee.

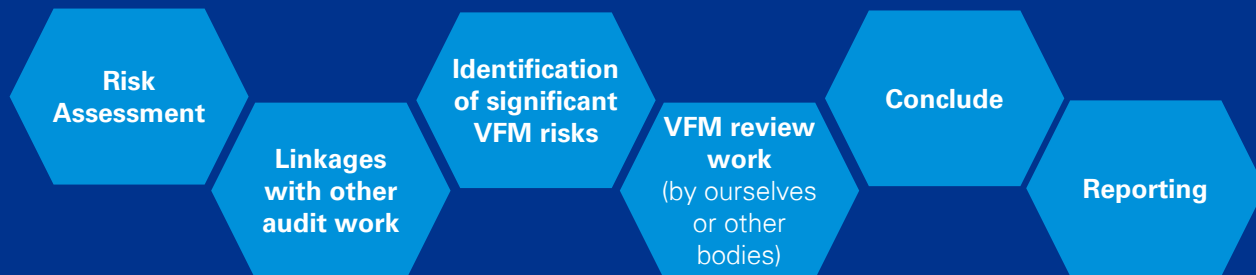
## Financial Statements Audit

Our financial statements audit work follows a four stage audit process which is identified below. Appendix 1 provides more detail on the activities that this includes. This report concentrates on the Financial Statements Audit Planning stage of the Financial Statements Audit.



## Value for Money Arrangements Work

Our Value for Money (VFM) Arrangements Work follows a six stage process which is identified below. Page 11 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for 2017/18.





# Financial statements audit planning

## Financial Statements Audit Planning

Our planning work takes place during December 2017 to January 2018. This involves the following key aspects:

- Determining our materiality level;
- Risk assessment;
- Identification of significant risks;
- Consideration of potential fraud risks;
- Identification of key account balances in the financial statements and related assertions, estimates and disclosures;
- Consideration of management's use of experts; and
- Issuing this audit plan to communicate our audit strategy.

## Risk assessment

Auditing standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our ISA 260 Report.

01

### Management override of controls

Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

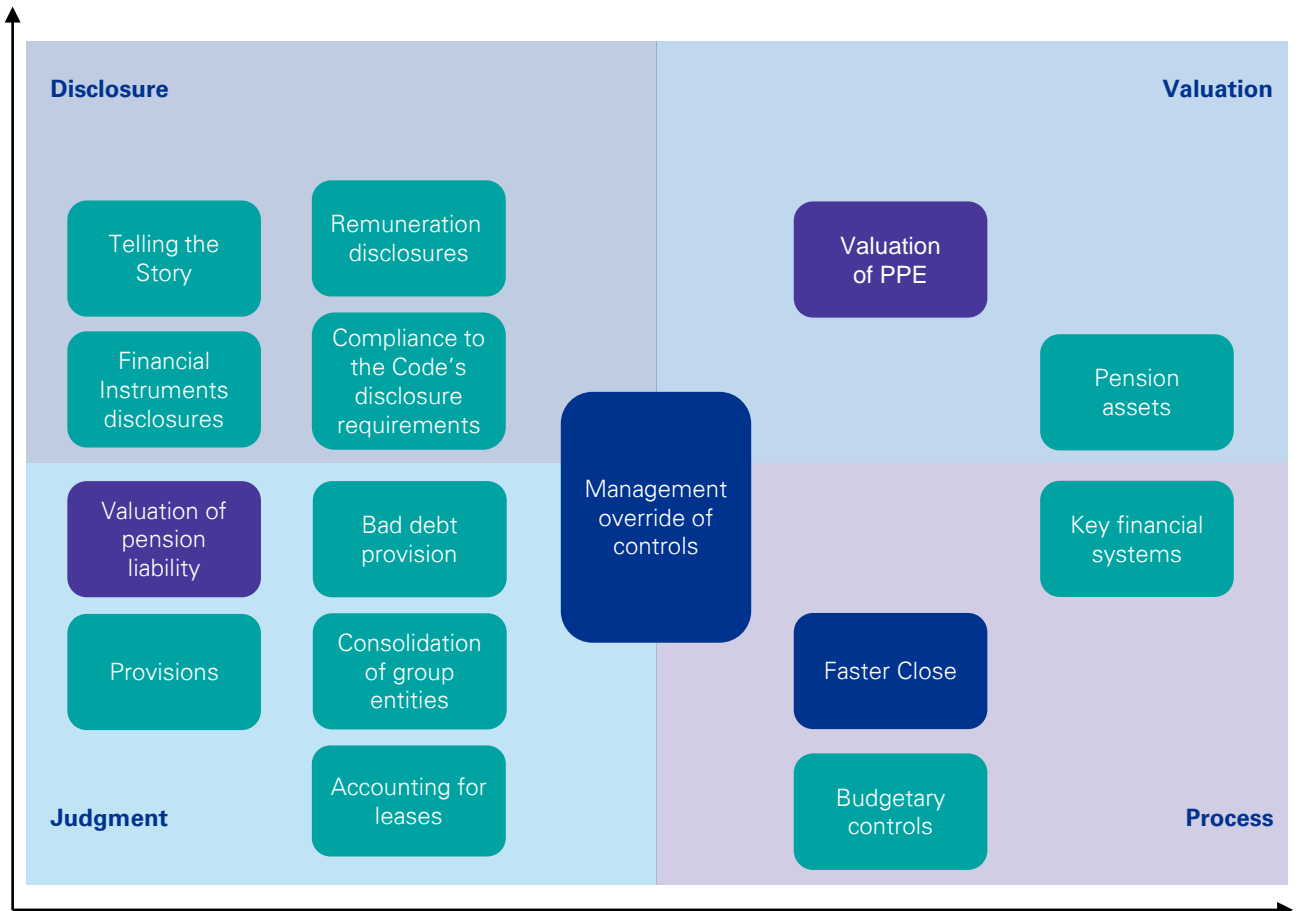
02

### Fraudulent revenue recognition

We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

# Financial statements audit planning (cont.)

The diagram below identifies significant risks and other areas of audit focus, which we expand on overleaf. The diagram also identifies a range of other areas considered by our audit approach.



**Keys:** ■ Significant risk ■ Other area of audit focus ■ Example other areas considered by our approach  
 ■ Significant risk and Key Audit Matter

# Financial statements audit planning (cont.)

## Significant Audit Risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Council.

<b>Risk:</b>	<p><b>Valuation of PPE (Key Audit Matter)</b></p> <p>The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years.</p> <p>This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value. In addition, as the valuation is undertaken as at 1 April, there is a risk that the fair value is different at the year end.</p> <p>Council Dwelling valuations are based on Existing Use Value, discounted by a factor to reflect that the assets are used for Social Housing. The Social Housing adjustment factor is prescribed in DCLG guidance, but this guidance indicates that where a valuer has evidence that this factor is different in the Council's area they can use their more accurate local factor. There is a risk that the Council's application of the valuer's assumptions is not in line with the statutory requirements and that the valuation is not supported by detailed evidence indicating that the standard social housing factor is not appropriate to use.</p>
<b>Approach:</b>	<p>We will review the approach that the Council has adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach. We will also assess the risk of the valuation changing materially during the year.</p> <p>In addition, we will consider movement in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values have moved materially over that time.</p> <p>In relation to those assets which have been revalued during the year we will assess the valuer's qualifications, objectivity and independence to carry out such valuations and review the methodology used (including testing the underlying data and assumptions).</p>

# Financial statements audit planning (cont.)

## Significant Audit Risks (cont.)

<b>Risk:</b>	<p><b>Valuation of Pension Liability (Key Audit Matter)</b></p> <p>The pension liability represents a material element of the Council's balance sheet. The Council is an admitted body of West Yorkshire Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018.</p> <p>The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Council's valuation.</p> <p>There are financial assumptions and demographic assumptions used in the calculation of the Council's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Council's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.</p> <p>There is a risk that the assumptions and methodology used in the valuation of the Council's pension obligation are not reasonable. This could have a material impact to pension liability accounted for in the financial statements.</p>
<b>Approach:</b>	<p>As part of our work we will review the controls that the Council has in place over the information sent directly to the Scheme Actuary. We will also liaise with the auditors of the Pension Fund in order to gain an understanding of the effectiveness of those controls operated by the Pension Fund. This will include consideration of the process and controls with respect to the assumptions used in the valuation. We will also evaluate the competency, objectivity and independence of the Actuary.</p> <p>We will review the appropriateness of the key assumptions included within the valuation, compare them to expected ranges, and consider the need to make use of a KPMG Actuary. We will review the methodology applied in the valuation by the Actuary.</p> <p>In addition, we will review the overall Actuarial valuation and consider the disclosure implications in the financial statements.</p>

# Financial statements audit planning (cont.)

## Significant Audit Risks (cont.)

<b>Risk:</b>	<b>Faster Close</b> <p>In prior years, the Council has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 however, revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July.</p> <p>During 2016/17, the Council started to prepare for these revised deadlines and advanced its own accounts production timetable so that draft accounts were ready by 31 May. Whilst this was an advancement on the timetable applied in preceding years, further work is still required in order to ensure that the statutory deadlines for 2017/18 are met given the recent staffing changes in the accounts production team.</p> <p>In order to meet the revised deadlines, the Council may need to make greater use of accounting estimates. In doing so, consideration will need to be given to ensuring that these estimates remain valid at the point of finalising the financial statements. In addition, there are a number of logistical challenges that will need to be managed. These include:</p> <ul style="list-style-type: none"><li>— Ensuring that any third parties involved in the production of the accounts (including valuers, actuaries) are aware of the revised deadlines and have made arrangements to provide the output of their work in accordance with this;</li><li>— Revising the closedown and accounts production timetable in order to ensure that all working papers and other supporting documentation are available at the start of the audit process;</li><li>— Ensuring that the Corporate Governance and Audit Committee meeting schedules have been updated to permit signing in July; and</li><li>— Applying a shorter paper deadline to the July meeting of the Corporate Governance and Audit Committee meeting in order to accommodate the production of the final version of the accounts and our ISA 260 report.</li></ul> <p>In the event that the above areas are not effectively managed there is a significant risk that the audit will not be completed by the 31 July deadline.</p> <p>There is also an increased likelihood that the Audit Certificate (which confirms that all audit work for the year has been completed) may be issued separately at a later date if work is still ongoing in relation to the Council's Whole of Government Accounts return. This is not a matter of concern and is not seen as a breach of deadlines.</p>
<b>Approach:</b>	<p>We will continue to liaise with officers in preparation for our audit in order to understand the steps that the Council is taking in order to ensure it meets the revised deadlines. We will also look to advance audit work into the interim visit in order to streamline the year end audit work.</p> <p>Where there is greater reliance upon accounting estimates we will consider the assumptions used and challenge the robustness of those estimates.</p>

# Financial statements audit planning (cont.)

## Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

For the Council, materiality for planning purposes has been set at £11.5 million, which equates to 1.0% percent of gross expenditure.

We design our procedures to detect errors in specific accounts at a lower level of precision.

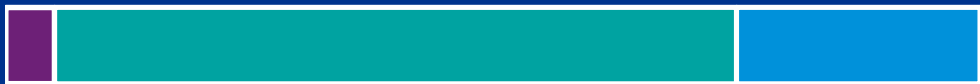
**Prior Year Gross Expenditure: £1,167m** (2016/17: £1,028m)

**Materiality**

**£11.5m**

**1.0% of Expenditure**

(2016/17: £15m, 1.5%)



**£0.575m**

Misstatements reported to the corporate governance and audit committee (2016/17: £0.75m)

**£7.475m**

Procedures designed to detect individual errors (2016/17: £11.25m)

**£11.5m**

Materiality for the financial statements as a whole (2016/17: £15m)

# Financial statements audit planning (cont.)

## Reporting to the Corporate Governance and Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Corporate Governance and Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260(UK&I) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK&I) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.575m million.

If management has corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Corporate Governance and Audit Committee to assist it in fulfilling its governance responsibilities.

### We will report:



Non-Trivial corrected audit misstatements



Non-trivial uncorrected audit misstatements



Errors and omissions in disclosure  
(Corrected and uncorrected)

## Group audit

In addition to the Council the group accounts include the Kirklees Neighbourhood Housing Limited, which is not deemed to be significant in the context of the group audit.

We will reassess the significance of this subsidiary throughout our audit and will report any changes in our assessment to the Corporate Governance and Audit Committee.

# Value for money arrangements work

## VFM audit approach

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the Council 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

## Overall criterion

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

The VFM approach is fundamentally unchanged from that adopted in 2016/17 and the process is shown in the diagram below. The diagram overleaf shows the details of the sub-criteria for our VFM work.





# Value for money arrangements work (cont.)

## Value for Money sub-criterion

### Informed decision making

Proper arrangements:

- Acting in the public interest, through demonstrating and applying the principles and values of sound governance.
- Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.
- Reliable and timely financial reporting that supports the delivery of strategic priorities.
- Managing risks effectively and maintaining a sound system of internal control.

### Sustainable resource deployment

Proper arrangements:

- Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.
- Managing and utilising assets to support the delivery of strategic priorities.
- Planning, organising and developing the workforce effectively to deliver strategic priorities.

### Working with partners and third parties

Proper arrangements:

- Working with third parties effectively to deliver strategic priorities.
- Commissioning services effectively to support the delivery of strategic priorities.
- Procuring supplies and services effectively to support the delivery of strategic priorities.

# Value for money arrangements work (cont.)

## VFM audit stage



### VFM audit risk assessment

#### Audit approach

We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Council. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the *Code of Audit Practice*.

In doing so we consider:

- The Council's own assessment of the risks it faces, and its arrangements to manage and address its risks;
- Information from the Public Sector Auditor Appointments Limited VFM profile tool;
- Evidence gained from previous audit work, including the response to that work; and
- The work of other inspectorates and review agencies.



### Linkages with financial statements and other audit work

#### Audit approach

There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Council's organisational control environment, including the Council's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.

We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.



### Identification of significant risks

#### Audit approach

The Code identifies a matter as significant '*if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.*'

If we identify significant VFM risks, then we will highlight the risk to the Council and consider the most appropriate audit response in each case, including:

- Considering the results of work by the Council, inspectorates and other review agencies; and
- Carrying out local risk-based work to form a view on the adequacy of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

# Value for money arrangements work (cont.)

## VFM audit stage



### Assessment of work by other review agencies, and Delivery of local risk based work

#### Audit approach

Depending on the nature of the significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk.

We will also consider the evidence obtained by way of our financial statements audit work and other work already undertaken.

If evidence from other inspectorates, agencies and bodies is not available and our other audit work is not sufficient, we will need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include:

- Additional meetings with senior managers across the Council;
- Review of specific related minutes and internal reports;
- Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector.



### Concluding on VFM arrangements

#### Audit approach

At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources.

If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.



### Reporting

#### Audit approach

On the following page, we report the results of our initial risk assessment.

We will report on the results of the VFM audit through our ISA 260 Report. This will summarise any specific matters arising, and the basis for our overall conclusion.

The key output from the work will be the VFM conclusion (i.e. our opinion on the Council's arrangements for securing VFM), which forms part of our audit report.

# Value for money arrangements work (cont.)

## Significant VFM Risks

Those risks requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

<b>Risk:</b>	<b>Delivery of budgets</b> <p>For 2017/18 the Council set a net expenditure budget of £294.7 million, £20 million lower than the actual net expenditure delivered in 2016/17, although this was increased to £302.7 million during the year to reflect one-off in year commitments. The budget includes significant increases in resources for Children’s Services and Adults’ Services, and assumes a further use of reserves of £19 million. To deliver the budget the savings required are £54 million. As part of the budget reporting the Council outlined the indicative budgets for the next 3 years which shows budget surpluses being planned, albeit with increasing savings targets supporting those years, £82 million in 2018/19, £99 million in 2019/20 and £104 million in 2020/21.</p> <p>It should be noted that this is at a specific point in time (January 2018) and the budget will be considered by Cabinet on the 30 January 2018 and Council on the 14 February 2018.</p> <p>Early in-year monitoring indicates that the budget is forecast to be overspent but the Council is implementing a range of mitigations to reduce the impact of any overspend at the end of 2017/18.</p>
<b>Approach:</b>	As part of our additional risk based work, we will review the controls the Council has in place to ensure financial resilience, specifically that the Medium Term Financial Plan has duly taken into consideration factors such as funding reductions, salary and general inflation, demand pressures, restructuring costs and sensitivity analysis given the degree of variability in the above factors.
<b>VFM Sub-criterion:</b>	This risk is related to the following Value For Money sub-criterion <ul style="list-style-type: none"><li>— Informed decision making;</li><li>— Sustainable resource deployment; and</li><li>— Working with partners and third parties</li></ul>

# Value for money arrangements work (cont.)

<b>Risk:</b>	<p><b>Children’s Services Arrangements</b></p> <p>On 25 November 2016 Ofsted published its report from its Inspection of services for children in need of help and protection children looked after and care leavers, and its review of the effectiveness of the Local Safeguarding Children Board. The report rated Children’s Services overall in Kirklees as Inadequate. Following this the Council has made fundamental changes in this area including a partnership arrangement with Leeds City Council (LCC) to improve Children’s Services. The Commissioner report published in September 2017 noted the Council did not have the leadership and management capacity and capability to drive forward the necessary changes, and their recommendation was to progress the partnership arrangements with LCC to deliver the improvements.</p> <p>This issue impacted on our VFM conclusion and we issued a qualified ‘except for’ VFM conclusion in 2016/17.</p>
<b>Approach:</b>	<p>We will consider the range of reports and information published and available from third parties including the Commissioner and Ofsted.</p> <p>We will consider the degree to which changes that have been made in the Council’s arrangements impact on our VFM conclusion.</p> <p>We will also review how progress is being monitored and reported on at the Council.</p>
<b>VFM Sub-criterion:</b>	<p>This risk is related to the following Value For Money sub-criterion</p> <ul style="list-style-type: none"><li>— Informed decision making;</li><li>— Sustainable resource deployment; and</li><li>— Working with partners and third parties</li></ul>

# Other matters

## Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified approach for 2017/18 have not yet been confirmed.

## Elector challenge

The Local Audit and Accountability Act 2014 gives electors certain rights. These are:

- The right to inspect the accounts;
- The right to ask the auditor questions about the accounts; and
- The right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the PSAA's fee scales.



# Other matters

## Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Corporate Governance and Audit Committee. Our communication outputs are included in Appendix 1.

## Independence and Objectivity

Auditors are also required to be independent and objective. Appendix 3 provides more details of our confirmation of independence and objectivity.

## Audit fee

Our Audit Fee Letter 2017/2018 presented to you in March 2017 first set out our fees for the 2017/2018 audit. This letter also set out our assumptions. We have not considered it necessary to seek approval for any changes to the agreed fees at this stage.

Should there be a need to charge additional audit fees then this will be agreed with the s.151 Officer and PSAA. If such a variation is agreed, we will report that to you in due course.

The planned audit fee for 2017/18 is £158,729, compared to 2016/2017 of £164,549.

# Enhanced auditor reporting

## What's new?

The new international auditor reporting requirements provide **greater insight and transparency** for users of financial statements.

We are required to describe the "key audit matters" in our audit report. We are also required to provide a long-form report for all EU PIEs and all other listed entities, including AIM listed companies.

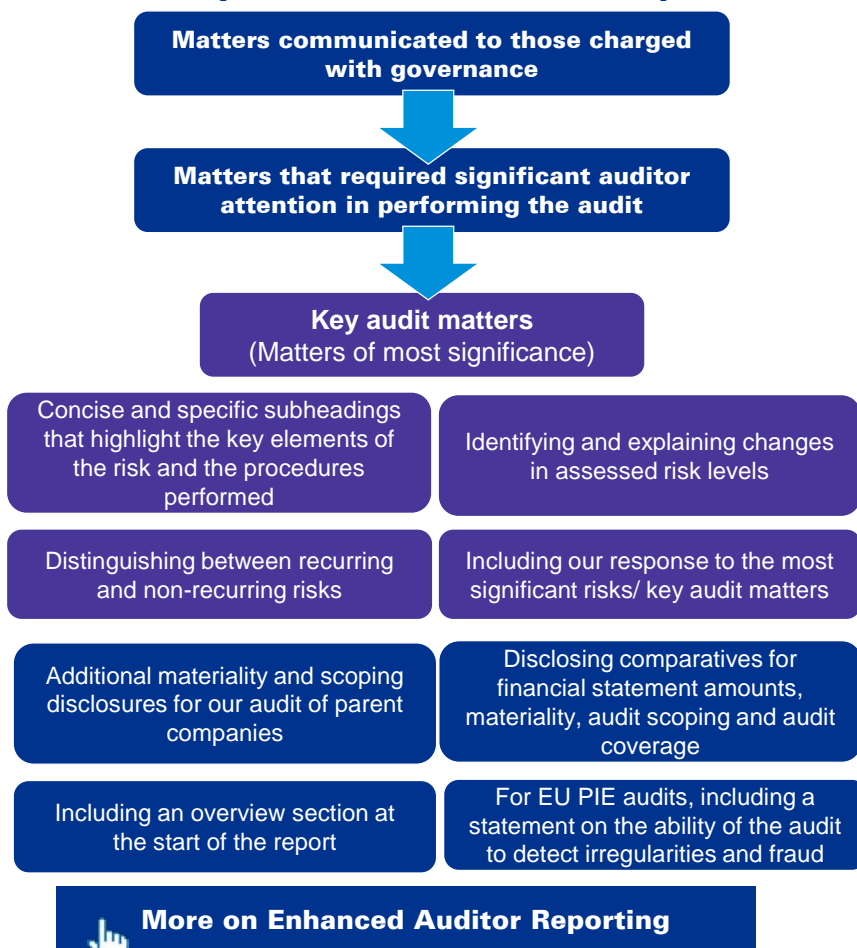
Based on the work undertaken in the course of the audit we include our opinion on whether the strategic report and directors' report have been prepared in accordance with the Companies Act and confirm whether they are materially misstated or inconsistent with the financial statements.

We will report by exception our conclusion on the directors' use of the going concern basis of accounting even if there are no material uncertainties.

## What does this mean for you?

The disclosures in your financial statements will need to interlink neatly with the key audit matters in our audit report, which may mean that you need to enhance certain disclosures.

## Our audit opinion will be enhanced by:



[More on Enhanced Auditor Reporting](#)



## Appendix 1:

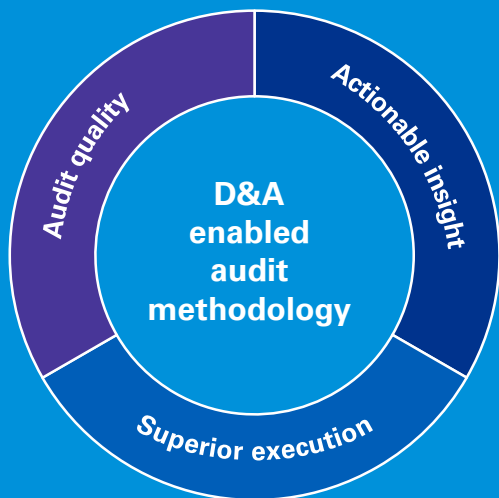
# Key elements of our financial statements audit approach

### Driving more value from the audit through data and analytics

Technology is embedded throughout our audit approach to deliver a high quality audit opinion. Use of Data and Analytics (D&A) to analyse large populations of transactions in order to identify key areas for our audit focus is just one element. Data and Analytics allows us to:

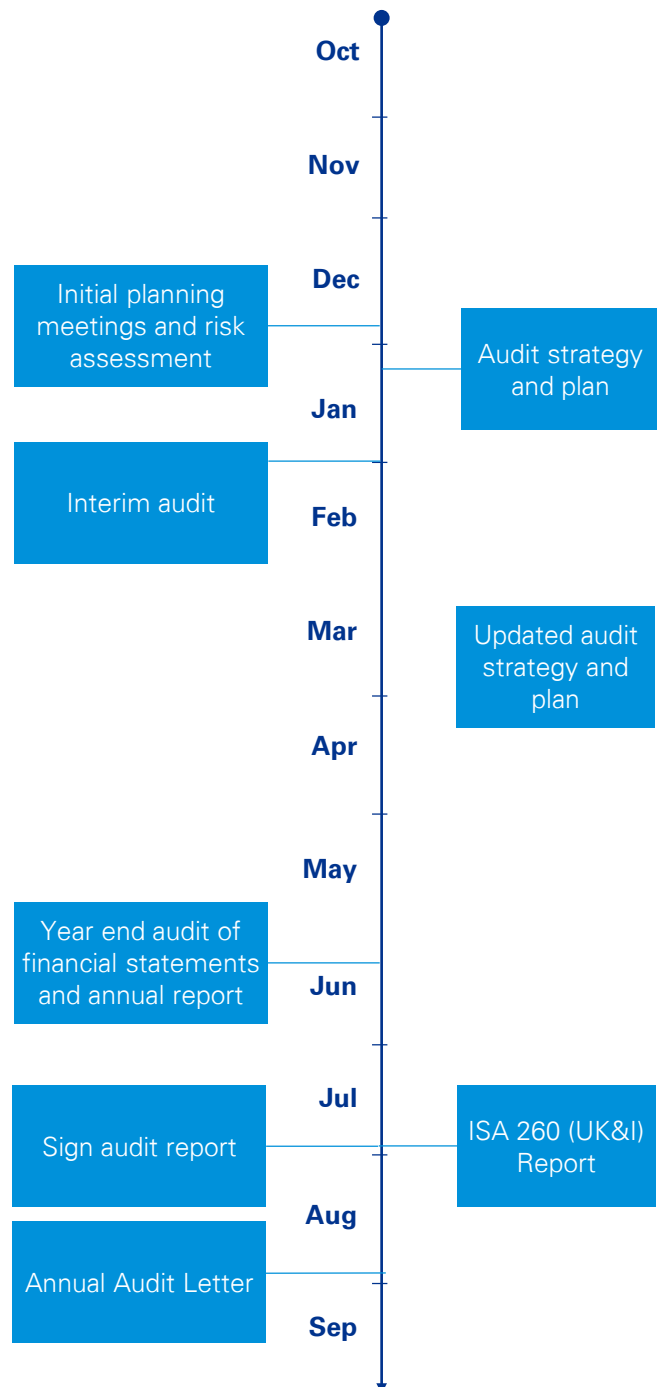
- Obtain greater understanding of your processes, to automatically extract control configurations and to obtain higher levels assurance.
- Focus manual procedures on key areas of risk and on transactional exceptions.
- Identify data patterns and the root cause of issues to increase forward-looking insight.

We anticipate using data and analytics in our work around key areas such journals.



### Communication

Continuous communication involving regular meetings between Corporate Governance and Audit Committee, Senior Management and audit team.



## Appendix 1:

# Key elements of our financial statements audit approach (cont.)

### Audit workflow

#### Planning

- Determining our materiality level;
- Risk assessment;
- Identification of significant risks;
- Consideration of potential fraud risks;
- Identification of key account balances in the financial statements and related assertions, estimates and disclosures;
- Consideration of managements use or experts; and
- Issuing this audit plan to communicate our audit strategy.

#### Control evaluation

- Understand accounting and reporting activities
- Evaluate design and implementation of selected controls
- Test operating effectiveness of selected controls
- Assess control risk and risk of the accounts being misstated

#### Substantive testing

- Plan substantive procedures
- Perform substantive procedures
- Consider if audit evidence is sufficient and appropriate

#### Completion

- Perform completion procedures
- Perform overall evaluation
- Form an audit opinion
- Corporate Governance and Audit Committee reporting

## Appendix 2:

# Audit team

Your audit team has been drawn from our specialist public sector assurance department. Rashpal Khangura replaces John Prentice as the Director on this engagement in 2017/18. Ben Haydon has also joined the audit team as assistant manager.



### Rashpal Khangura

Director

T: +44 (0) 7876 392195

E: Rashpal.Khangura@kpmg.co.uk

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'My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion. I will be the main point of contact for the Corporate Governance and Audit Committee and Chief Executive.'



### Emma Kirkby

Manager

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E: Emma.Kirkby@kpmg.co.uk

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'I provide quality assurance for the audit work and specifically any technical accounting and risk areas. I will work closely with director to ensure we add value. I will liaise with the Service Director for Finance, Assistant Directors and the Head of Internal Audit.'



### Thomas Brough

Assistant Manager

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E: Thomas.brough@kpmg.co.uk

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'I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.'

## Appendix 3:

# Independence and objectivity requirements

### ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF KIRKLEES COUNCIL

Professional ethical standards require us to provide to you at the planning stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Ltd's ('PSAA's') Terms of Appointment relating to independence and the requirements of the FRC Ethical Standard and General Guidance Supporting Local Audit (Auditor General Guidance 1 – AGN01) issued by the National Audit Office ('NAO').

This Appendix is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

#### General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

## Appendix 3:

# Independence and objectivity requirements (cont.)

### Independence and objectivity considerations relating to the provision of non-audit services

#### Summary of fees

We have considered the fees charged by us to the Council and its affiliates for professional services provided by us during the reporting period.

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out in the following table

#### Analysis of Non-audit services for the year ended 31 March 2018

Description of scope of services	Principal Threats to Independence and Associated Safeguards Applied	Basis of fee	Estimated Value of Services to be Delivered in the year ended 31 March 2018 £000
<p>Assurance reports provided for grant claims and returns no longer within the PSAA regime.</p> <ul style="list-style-type: none"> <li>Teachers Pensions return</li> <li>Pooling of Housing Capital Receipts</li> <li>NCTL teacher training return</li> <li>Skills Funding Agency subcontracting Arrangements</li> </ul>	<p><b>Self-interest:</b> These engagements are entirely separate from the audit through separate contracts. The fee rates are low in comparison to the audit fees and they are not contingent on any outcomes from the assurance work.</p> <p><b>Self-review:</b> The nature of this work is to provide an independent assurance report to the relevant external body. This does not impact on our other audit responsibilities and there is no threat of our work under these engagements being reviewed through our audit.</p> <p><b>Management threat:</b> This work provides a separate assurance report and does not impact on any management decisions.</p> <p><b>Familiarity:</b> This threat is limited given the scale, nature and timing of the work. This is the second year we have completed these assurance reports.</p> <p><b>Advocacy:</b> We will not act as advocates for the Council in any aspect of this work. The output is an independent assurance report to the relevant external body applying an approach issued by that body.</p> <p><b>Intimidation:</b> not applicable to these areas of work.</p>	Fixed fee	£15,000

Appropriate approvals have been obtained from PSAA for all non-audit services above the relevant thresholds provided by us during the reporting period. In addition, we monitor our fees to ensure that we comply with the 70% non-audit fee cap set by the NAO.

### Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Corporate Governance and Audit Committee.

## Appendix 3:

# Independence and objectivity requirements (cont.)

### Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the Council and should not be used for any other purposes.

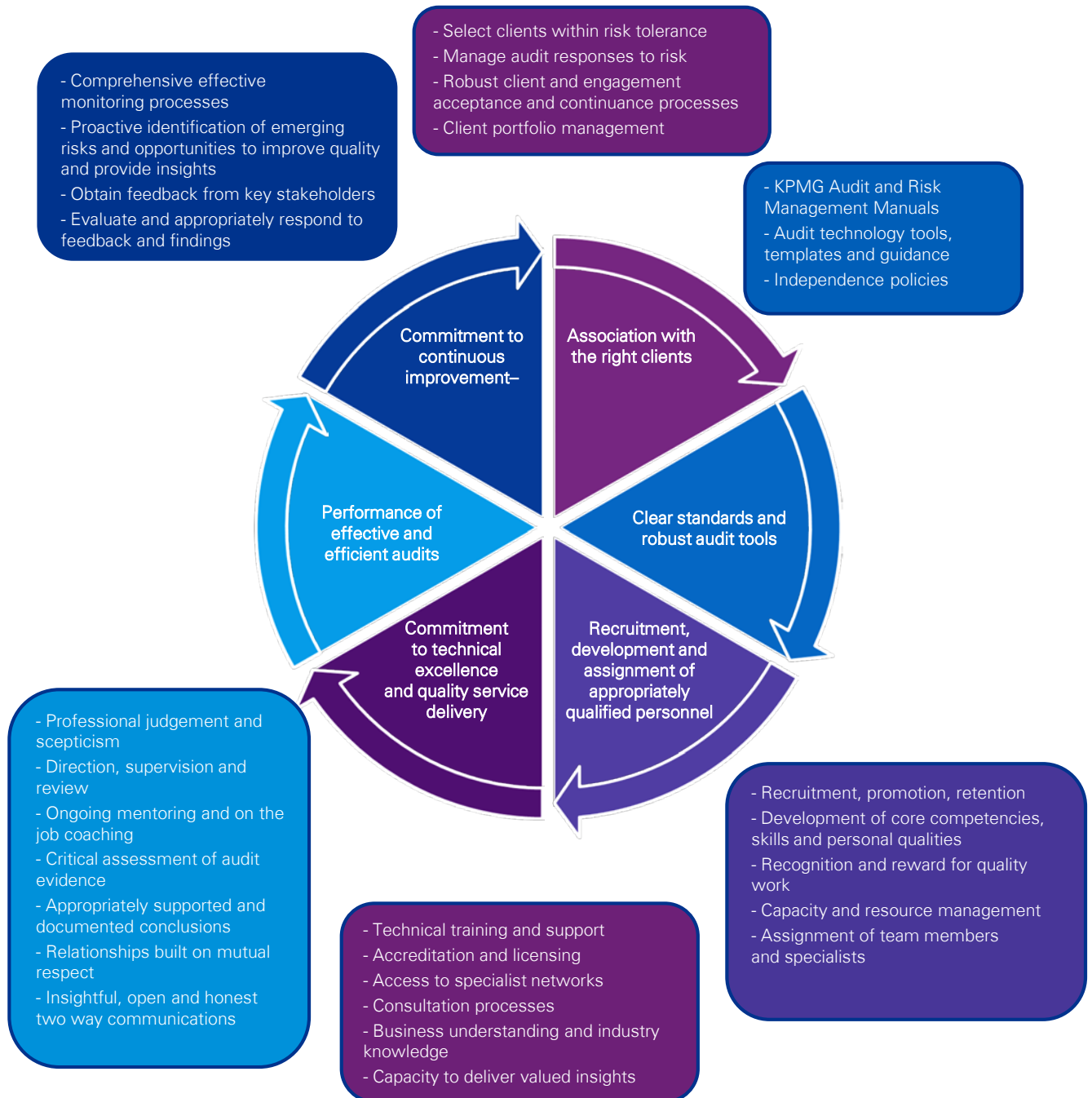
We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

**KPMG LLP**

## Appendix 4:

# KPMG's Audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework.



## Appendix 5:

# Mandatory communications

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<b>Management's responsibilities (and, where appropriate, those charged with governance)</b>	<p>Prepare financial statements in accordance with the applicable financial reporting framework that are free from material misstatement, whether due to fraud or error.</p> <p>Provide the auditor with access to all information relevant to the preparation of the financial statements, additional information requested and unrestricted access to persons within the entity.</p>
<b>Auditor's responsibilities</b>	<p>Forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.</p>
<b>Auditor's responsibilities – Fraud</b>	<p>Design and implement appropriate responses to identify, assess and obtain sufficient appropriate evidence regarding the risks of material misstatement of the financial statements due to fraud and to respond appropriately to fraud or suspected fraud identified during the audit.</p>
<b>Auditor's responsibilities – Other information</b>	<p>Obtain, read and consider whether there is a material inconsistency between the other information and 1) financial statements and 2) auditor's knowledge obtained in the audit.</p> <p>Respond appropriately when material inconsistencies appear to exist, or when other information appears to be materiality misstated.</p> <p>Report on other information in the auditor's report.</p>
<b>Roles</b>	<p>The identity and role of the engagement partner.</p>

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## Appendix 5:

# Mandatory communications (cont)










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<b>Planned scope and timing</b>	An overview of the planned scope and timing of the audit, including details about significant/ financial statement level risks (key audit matters) identified by us. We communicate levels of materiality, significant risks, fraud risks including the risk of management override of controls and the audit response to identified risks.
<b>Communications</b>	The form, timing and expected general content of the communications related to the audit.
<b>Independence</b>	Relationships that may bear on the firm's independence and the integrity and objectivity of the audit engagement partner and audit staff. We must also establish with you a timetable for reporting any insignificant breaches of the IESBA Code of Ethics and UK Ethical Standards (significant breaches are required to be reported as soon as possible) (IESBA Code of Ethics)

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## Appendix 6:

# Additional report relating to Public Interest Entities

Type		Response
Our declaration of independence		No matters to report. The engagement team and the firm have complied with relevant ethical requirements regarding independence.
Key audit partner(s)		We have identified the key audit partner at page 22 in our Audit Plan and Strategy report.
Independence of external experts engaged by KPMG and non-KPMG auditors		We have not engaged external experts or engaged non-KPMG auditors for the performance of aspects of our audit.
Communications with audit committee and management		We have described the nature, frequency and extent of communication with the audit committee and management at page 20 above.
Scope and timing of the audit		We have described the scope and timing of the audit at page 20 in this report.
Audit methodology		Our audit responses to identified risks are described at page 6 in this report.
Valuation methods		We will report the valuation methods applied to the items in the financial statements and the impact of any changes.
Going concern assessment		There are no significant matters affecting the entity's ability to continue as a going concern.
Requested explanations and documents		We will report on whether requested explanations and documents were provided by management.

## Appendix 6:

# Additional report relating to Public Interest Entities

Type		Response
Materiality		Quantitative materiality applied to the audit of the financial statements as a whole and materiality for balances/disclosures affected by qualitative factors is set out at page 9 in our Audit Plan and Strategy report.
Non-compliance with laws and regulation or articles of association		We will report on whether actual or suspected non-compliance with laws and regulation or articles of association were identified during the audit.
Significant deficiencies in internal control		We will report on all significant deficiencies and whether they have been resolved by management.
Significant difficulties		We will report on any significant difficulties encountered during the audit. We will report on significant matters arising from the audit that were discussed, or subject to correspondence, with management. We will report on matters that are significant to the oversight of the financial reporting process.
Management's approach to consolidation		We will report on whether management's approach to consolidation is consistent with IFRS.



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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website ([www.psa.co.uk](http://www.psa.co.uk)).

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

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact [...], the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to [Andrew.Sayers@kpmg.co.uk](mailto:Andrew.Sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk) by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

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CREATE: CRT086281A



**Name of meeting: Corporate Governance & Audit Committee**  
**Date: 20th April 2018**

**Title of report: Annual Report of Internal Audit 2017/18 & issues for 2018/19**

**Purpose of report; To provide information about Internal Audit activity, and conclusions on the control environment and assurance provided in 2017/18, and on matters that relate to Internal Audit activity in 2018/19**

Key Decision - Is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?	Not applicable
Key Decision - Is it in the <a href="#">Council's Forward Plan (key decisions and private reports)</a> ?	Not applicable
The Decision - Is it eligible for "call in" by Scrutiny?	Not applicable
Date signed off by Director & name Is it also signed off by the Service Director for Finance, IT & Transactional Services?	Not applicable
Is it also signed off by the Service Director for Legal, Governance & Commissioning?	
Cabinet member portfolio	Not applicable

**Electoral wards affected: All**  
**Ward councillors consulted: Not applicable**

## Public

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### 1. Summary

- 1.1 To provide information about Internal Audit activity in the year to 31st March 2018.
- 1.2 To provide an "opinion" on the adequacy and effectiveness of the Council's framework of governance, risk management and control.
- 1.3 To indicate compliance with the requirements of the Public Sector Internal Audit Standards (PSIAS).
- 1.4 To provide an Audit Plan for 2018/19 and to indicate priorities for the year.

### 2. Information required to take a decision

- 2.1 Based on an objective assessment of the Council's framework of governance, risk management and control it is concluded that the Council has sound arrangements to operate its business effectively.
- 2.2 However there are a number of observations and qualifications which are highlighted in the report which should be addressed.

- 2.3 This Committee also needs to review, and indicate that it is content as regards, the effectiveness of its systems of internal control. The attached report contains material intended to assist the Committee in reaching a decision.
- 2.4 The report notes that whilst the external assessor has confirmed that the internal audit operates at the best of 3 rating standards, the formal report has not yet been received. This Committee should approve the Audit Charter each year but, as the external assessment may make suggestions related to the Charter, it is recommended that, pending receipt of the external assessor's report and the consideration of any actions, the March 2017 version of the Charter continue to be the basis of Internal Audit practice.

### **3. Implications for the Council**

- 3.1 Early Intervention and Prevention (EIP) -None directly
- 3.2 Economic Resilience (ER) -None directly
- 3.3 Improving Outcomes for Children -None directly
- 3.4 Reducing demand of services -None directly
- 3.5 Although each of the sub categorisations above suggest no direct implications, the work of Internal Audit covers all aspects of the Council's operations, including elements of the above, either specifically, indirectly or on a commissioned basis.
- 3.6 The report sets out information about control assurance in the broad activity areas related to the above.
- 3.7 The report also refers to financial and legal implications for the Council, including the level of resources available for Internal Audit.

### **4. Consultees and their opinions**

- 4.1 Not applicable.

### **5. Next steps**

- 5.1 This report informs the preparation of the Annual Governance Statement for 2017/18.
- 5.2 Audit activity in 2018/19 will continue to concentrate on major areas of risk and control, although resources will remain available to investigate any areas of concern on a reactive basis.

### **6. Officer recommendations and reasons**

The Committee is asked to confirm it is content with the:

- (a) Effectiveness of the broader control environment, risk management and governance arrangements of the Council (subject to the observations contained within the report)
- (b) Effectiveness of its internal audit function, and to note its conformance with Public Sector Internal Audit Standards.
- (c) Proposed audit plans for general services, and the HRA/KNH for 2018/19; and
- (d) To confirm its continued approval of the March 2017 Internal Audit Charter.

**7. Cabinet portfolio holder recommendation**

Not applicable.

**8. Contact officer**

Martin Dearnley, Head of Risk 01484 221000 (73672)

**9. Background Papers and History of Decisions**

The Annual Report Internal Audit 2017/18 is attached.

**10. Director responsible**

Not applicable.

## **KIRKLEES COUNCIL**

### **CORPORATE SERVICES: RISK SERVICE**

#### **INTERNAL AUDIT**

#### **ANNUAL REPORT OF INTERNAL AUDIT 2017/18 & ISSUES FOR 2018/19**

##### **1. Introduction**

- 1.1 This report assesses the adequacy and effectiveness of the Council's governance, risk management and control environment arrangements during 2017/18 and provides a summary of the activities and performance of Internal Audit during the year. The report also recommends an Audit Plan for 2018/19 and discusses other issues that relate to the year.

##### **2. About Internal Audit**

- 2.1 The scope of Internal Audit's activity is established by the Council's Financial Procedure Rules and the Internal Audit Strategy and Charter. These rules include a right for Internal Audit to have free and unrestricted access to carry out work as is considered by the Head of Internal Audit (the Head of Risk) to be appropriate.
- 2.2 Internal Audit reviews the Council's framework of governance, risk management and business systems and controls, although the majority of time is spent assessing arrangements for financial control. Time is also spent investigating allegations that the Council's business activities may not be operating in the ways intended and on work related to contracting strategy and contractor appraisals, to a fairly limited extent value for money, and resolving a range of finance and control related issues (the most significant of which are reported in our quarterly reports). Whilst Internal Audit work can provide some assurance about business processes, it is not resourced in a way to assess professional judgement.
- 2.3 Quarterly Reports on the activities of Internal Audit have been provided to the Corporate Governance and Audit Committee. These reports provide information about major and special investigations and an opinion about the level of assurance that can be taken from the arrangements in operation at the time of each audit ("substantial", "adequate", "limited" and "no" assurance) assessing systems, processes and establishments, locations and schools.
- 2.4 The Internal Audit opinion is based on the arrangements in operation at the time of the audit. Implementation of the agreed recommendations should provide a satisfactory degree of control in all cases.
- 2.5 Information on follow up of earlier Internal Audit work is also provided.



3. **Summary of Audit Work in 2017/18**

- 3.1 The overall proportion of work which identified that systems or operations provided "limited assurance" was 22% (no work attracted a "no assurance" status this year). This was a worsening of the position compared to previous years. There were some areas of significant operation that achieved only limited assurance, suggesting that there is a requirement to improve some core operational processes to achieve an acceptable standard. The core business systems which had attracted only limited assurance included:  
 Debtors (follow up)  
 Bank reconciliation (follow up)  
 IT Environmental Controls (follow up)  
 Counter Fraud

A number of other areas, particularly in Children's Services, attracted the limited assurance status.

	2017/18	2016/17	2015/16	2014/15	2013/14
Days spent on audit work	976	1,372	1,745	1,844	2,083
Financial and business processes and systems examined	28	54	80	67	87
Location, establishment, schools audits undertaken.	38	48	55	70	79
Follow up audit work	18	19	18	13	21
Investigations into irregularity	5	5	6	8	10
Management, governance or value for money studies Grant audits, consultancy, projects	15	26	10	8	10
Completed formal tasks	104	152	169	166	207
<b>Overall proportion of work offering limited or no assurance ("unsatisfactory" in 2014/15 and earlier)</b>	<b>22%</b> All limited assurance	<b>19%</b> 17% limited assurance 2% no assurance	<b>24%</b> All limited assurance	<b>8%</b> All unsatisfactory	<b>14%</b> All unsatisfactory

See also Appendix 5

- 3.2 The proportion of work found to provide an inadequate level of assurance was 22% overall. However, only one of the 38 school audits provided inadequate assurance (3%). Assessing only the new work on Council operations the level of activity found to be inadequate was 30%.
- 3.3 Only 56% of follow up work achieved a substantial or adequate assurance outcome. This is disappointing, and shows that the commitment to address short comings may be lacking in some areas, although it is recognised that in some cases, as with bank reconciliation and debtors identified above, the matters identified as being inadequate at the follow up stage were often new or different issues that had arisen since the original work was progressed. One school (of 6)

was inadequate at follow up as well, meaning that 7 of 12 Council arrangements -58%- remained inadequate at follow up.

- 3.4 Each year there are a number of investigations that relate to matters principally of alleged financial irregularity, some reported by management, others by various forms of allegation or whistle-blowing. Although there have been no major investigations, work included looking into allegations about the appointment of a contractor, theft from a school, poor procurement and other practices at a school and theft of car parking income.
- 3.5 During the year a number of audits and projects have looked to support improvements in value for money or governance. These have included:
- Assessment of arrangements to secure agency staffing in Children's Services
  - Review of the Emergency Duty Service
  - Use of Purchasing Cards
  - Assessment of market pay, acting up and honoraria payments
- 3.6 Audit time has also been spent on:
- Support to governance and control arrangements generally.
  - Preparation of the Annual Governance Statement and monitoring progress in relation to matters identified.
  - Monitoring and updating Contract Procedure Rules (CPRs) and Financial Procedure Rules (FPRs).
  - Financial appraisal and scoring of applicants for contracts and other aspects of assessing or approving the Council's contractual arrangements.
  - National Fraud Initiative.
  - Forming a part of the Whistleblowing assessment process by carrying out initial assessment of whistleblowing to decide on the extent to which an allegation may have sufficient merit to justify further investigation.
  - Verification/certification relating to grants, including Stronger Families and Highways Incentive Funds.
  - Support to waste management project, and to the project dealing with care home disposals.
  - Assessing write off arrangements/testing proposed debt write-offs.
  - Support to the Electronic Call Monitoring arrangements in Adult Services.
  - Monitoring work related to the Annual Governance Statement Action Plan.
- 3.7 Routine audit work continues to identify a number of procurement related issues and the involvement in monitoring and assistance has recognised others. Whilst some aspects of procurement concern appear to have been addressed (eg agency employment) CPR compliance policies and procedures are not being followed as a matter of routine in some service areas, requiring stronger understanding and compliance enforcement.
- 3.8 The Council has arrangements to generate a list of strategic and generic risks that could impact on the corporate organisation. However, during the year no routine processes systematically identified or reported on emerging risks or

issues, corporately or at service level. A new Risk Management Statement and new procedures to establish a robust process were prepared and approved during the year, reflecting on good practice elsewhere, but the implementation will not take place until the financial year 2018/19. Good practice expects that any Internal Audit planning will recognise the risk management processes of the organisation. However, where risk management arrangements are under developed, audit planning is adjusted to recognise this.

- 3.10 Although the Council used a risk based audit plan in achieving the coverage of business and activity areas, on which this opinion is based, the assurance framework delivered by Internal Audit is not comprehensive. Whilst coverage of financial (and commercial) business process and governance is risk based, in particular it does not assess the areas that involve professional judgement, particularly in relation to care related services and some other assessments that relate to individual needs.
- 3.11 During the year the Internal Audit work in relation to public housing services was subject to a specific audit plan related to both the Housing Revenue Account and Kirklees Neighbourhood Housing(KNH) (a wholly owned Council subsidiary) – which includes also Property Services- which carries out building maintenance on Council housing and public buildings.

The work plan was agreed by this Audit Committee, but responsibility for implementation and management lies with (in the most part) KNH service management and the KNH Audit Committee. Internal Audit work carried out and its assessed status is now included, cumulatively, in tabular form in each quarterly report.

There are no significant areas of concern in relation to core systems and arrangements operated by KNH. The nature of landlord responsibilities, particularly in an HRA context, and the complete ownership of the subsidiary means that in practice all risks, both legislative and commercial lie with the Council.

- 3.12 Work continues to be performed for Kirklees Active Leisure, partially under contract to that organisation and partly as a part of client side monitoring. Outcomes are reported to KAL's own Audit Committee
- 3.13 During 2017/18 we have continued to undertake some sharing (of information, audit programmes, knowledge and reports) with Calderdale Council's Internal Audit team. Calderdale IA did carry out a comparative assessment of approaches to social value, as a piece of consultancy.
- 3.14 The intention had been to complete 93 planned audit tasks (last year 126 actual). This was a total revised downwards slightly when a number of previously agreed commissions for project work in Children's Services were removed as no longer required this year (2017/18). The number of planned tasks achieved was 75 (81%) in addition to which 29 formal and initially unplanned tasks were completed. Not all of these attracted an audit opinion.

- 3.15 There were 5 planned pieces of work in progress at the year end and a number of investigations continue and will be reported in 2018/19.
- 3.16 As noted in 2.1 the Council's Financial Procedure Rules and the Strategy and Charter document allow Internal Audit unrestricted access to consider areas of activity as they see fit in providing this audit opinion. At no point during the year has any officer or Member sought to influence or restrict the scope or areas of activity of any piece of work. The conclusions reached in the work are those of Internal Audit.
- 3.17 From work during 2017/18 the vast majority of the assessments of the Council's governance, risk management, financial and business controls that were examined were sound and effective, and it is concluded that (subject to the observations above) the Council can be considered to have an adequate control environment.

**4. Performance Measures of Internal Audit**

4.1 There is very little comparative benchmarking available about the costs of Internal Audit. When this was last compared (2013/14) Kirklees Internal Audit continued to have average costs per activity day, and lower quartile costs in terms of audit days per £m gross expenditure. Comparison of staffing numbers locally suggest that taking account of Council (and other) activity, the Kirklees IA team is somewhat smaller than others.

4.2 The main performance statistics for the year are:

	Target 17/18	Actual 17/18	Actual 16/17	Actual 15/16	Actual 14/15	Actual 13/14
Work completed within time allowed	80%	77%	87%	77%	81%	79%
Draft reports issued within 10 days	85%	93%	90%	91%	90%	92%

Some work took longer than planned, though not dissimilar to some previous years.

Only a small number of customer surveys are completed, mainly by schools. Performance being lower than previous years is a reflection of the reaction by an employee respondent in a single school to a draft report issued to them. Internal audit also has an internal quality assurance system. A sample of work is checked against the achievement of a number of standards. Variances are noted and investigated/corrected, although a piece of work can achieve the standard without every feature being correct. The work tested (10% sample) during 2017/18 met the standard.

## **5 Effectiveness of the system of Internal Control**

- 5.1 The Accounts & Audit Regulations (England) 2015 require an Authority to conduct an annual review of the effectiveness of their system of internal control. An understanding of the arrangements of Internal Audit supports the ability to utilize the opinion of the Head of Internal Audit on the internal control environment as a key source of evidence in the Annual Governance Statement.
- 5.2 Financial Procedure Rules 5.6 requires the Head of Risk to review the systems of Internal Audit on an annual basis. The Public Sector Internal Audit Standards (PSIAS) make it a responsibility of the Head of Internal Audit to carry out periodic internal reviews (see Appendix 2) and every 5 years have an external review of the Internal Audit function and report these to this Committee. The standard is complex and the recommended evaluation criteria (as codified by CIPFA) are quite cumbersome, and some are difficult to evaluate.
- 5.3 The five yearly external review, required by PSIAS, was carried out by the Head of Internal Audit at Wakefield Council on a peer review basis during January and February 2018. The assessment has three potential standards;
- (A) Does not conform
  - (B) Partially conforms
  - (C) Generally conforms
- The external assessor has confirmed in writing that the Council's Internal Audit operations meets the highest standard (C), but the full report has not yet been received. This will be brought to a future meeting of this Committee. The assessor has indicated that she is likely to advise on the need for the Council's general risk management arrangements to be improved, a matter noted elsewhere in this report. (The rather vague nature of the highest standard being "generally conforms" is a reflection of the complexity of the standard, as per 5.2 above)
- 5.4 Members can gain assurance from a number of routes and strands including their assessment of this and other reports (particularly the four quarterly reports) to the Corporate Governance & Audit Committee. They can also gain assurance using factors such as performance indicators, quality assurance, client satisfaction and consultation with senior management, although it is acknowledged that for this year that information is quite limited.

## **6. Internal Audit in 2018/19**

- 6.1 As agreed and successfully implemented in 2017/18, there are no Service specific audit plans, although operational staff, heads of service and directors are still expected to participate in audit planning, delivery and response to findings. The draft proposed Audit Plans for Kirklees Council, and Housing Related Services/KNH are attached as Appendix 1.

The performance targets for Internal Audit are at Appendix 3. The schedule of key systems, organisational and business controls is attached as Appendix 4.

- 6.2 Priorities for 2018/19 will continue to be
- a) Concentrating on high impact activity - high value or high risk - whilst continuing to ensure that the organisation's core systems and its basic financial operations are not compromised during a period of continuing substantial reorganisation and change. Every activity is still potentially in view, but this will no longer be achievable within a 5 year horizon.
  - b) Demonstrating the wider assurance environment that operates across the organisation, and determining if additional processes or procedures need to be undertaken and or recorded to achieve a full set of entity control and assurance.
  - c) Work to ensure that the new approach to risk management is successfully embedded, achieves an appropriate level of openness and is not over complex.
  - d) Activity to ensure basic compliance with processes, particularly in relation to contract procedure rules.
  - e) Carrying out work contributing to the organisational objective of understanding and improving value for money, including assisting with major consulting projects as necessary.
  - f) Identifying an appropriate approach to corporate reporting and investigation of potential fraud and similar, including clear instructions to senior and operational managers about reporting such matters.
- 6.3 The overall resources available to Internal Audit, whilst substantially reduced, are believed to be sufficient in 2018/19. However, the consequence is a reduced level of assurance that can be directly provided, and the organisation needs to consider on a risk based approach, what alternative assurance is desirable and achievable, given the resources available. Whilst the scope will still exist to carry out some investigations and some consultancy tasks, regard needs to be had to the need to achieve sufficient assurance based coverage, as is a requirement of the Public Sector Internal Audit Standards. This may mean that there has to be discussion about additional resources in the event of serious multiple demands for activity.
- 6.4 Internal Audit will continue to work with the Calderdale Internal Audit team where appropriate and likely to bring mutual advantage (or to share skills or experiences).

## 7. **Conclusions**

- 7.1 This report has summarised the activities of Internal Audit during 2017/18. Detailed information has been provided to Corporate Governance & Audit Committee during the year.
- 7.2 There is sufficient evidence to demonstrate that the Council's system of governance, risk management and internal control is effective and that the opinion of the Head of Internal Audit on the internal control environment can be relied upon as a key source of evidence in the compilation of the Annual Governance Statement, although there are caveats;
- (a) That the assurance coverage is risk based, and not absolute across the entire range of organisational activity

(b) Corporate risk management arrangements do not fully support the Council's governance processes.

(c) Other matters as described in this report.

- 7.3 The proportion of audit work which resulted in an assessment providing at least adequate assurance is 78%. The remaining 22% provides a limited level of assurance. There were no "no assurance" cases this year.
- 7.4 There are no areas where, following audit recommendations, management have formally chosen to refuse to implement recommendations for action (and accordingly overtly accepted the potential consequences as a risk).
- 7.5 The opinion from the work performed - the scope of which does not presently cover every area of entity risk - is that, although there are some weaknesses in some systems of control, the overall framework of the Council's governance, risk, business and financial systems, processes, controls, and its management of assets, remains sound.
- 7.6 It is concluded that overall the Council has an adequate and effective control environment.

## 8. **Annual Governance Statement**

- 8.1 Information generated by Internal Audit forms a key part of the Council's assessment of the quality of its organisational and business controls and the degree of assurance that can be placed upon their operational effectiveness. This information is used in preparing the Council's Annual Governance Statement which accompanies the Statement of Accounts.
- 8.2 The positive opinion that the Council's arrangements provide an adequate and effective control environment needs to be considered in the context of the breadth of assurance provided by Internal Audit, and the comments contained in this report. There are a number of areas that might appropriately be escalated to the Annual Statement of Governance and these are covered in the separate report to be considered by this Committee.

Contact Officer

M E Dearnley –Head of Internal Audit; (Head of Risk) – 01484 221000- x 73672

**Appendix 1**  
**Draft Audit Plans 2018/19**

**Council**

Corporate

National Fraud Initiative 2018/19  
Cyber Security  
Ethics  
Information Security (toolkit)  
GDPR  
Business Continuity  
Mandatory Staff Training  
Health and Safety  
Proceeds of Crime Act (Money Laundering)

Adults Social Care

Third Party Payments (Domiciliary Care)  
Safeguarding  
Adult Care Quality of Provision  
Deferred Charges (follow up)  
Clients Property (follow up)  
Home Care Charges (follow up)

Child Protection and Family Support

Safeguarding  
Section 17 Payments (follow up)  
Purchasing Cards (follow up)

Learning and Early Support

High Schools x 4  
Primary Schools x 30  
School follow ups x 5  
Troubled Families Claims  
Associate Framework

Commercial, Regulatory and Operational Services

Accident and Casualty Reduction  
Highways Network Asset Management Review  
Non Domestic Property Repairs and Maintenance  
Taxi Licensing  
Building Control Approvals  
Car Parks Income and Fine Collection (follow up)  
Environmental Enforcement (follow up)

Economy, Regeneration and Culture

Fire Safety  
Homeless Management



Policy, Intelligence and Public Health

Emergency Plan

Sexual Health Contract

Public Access ICT Controls

Performance Management

Translation/Interpretation (follow up)

Finance and Accountancy

SAP Ordering and Category Management

BACS Bureau

Direct Debit Payments

Treasury Management

Government Grant Income

VAT

SAP Debtors Key Controls (follow up)

Bank Reconciliation (follow up)

Revenues and Benefits

Debt Recovery and Write Offs

Digital Transformation

NDR Liability including relief

CT Liability

CT Reduction Scheme

NFI 2018 Single Person Discounts

Information Technology

Contract and Supplier Management

Environmental Controls (follow up)

Legal and Governance

Yortender

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**HRA & KNH Audit Plan 18/19**

Debtors and Creditors Interface

SAP System Overview and Utilisation

Stocks and Stores

Rent Levels

Fraud

Current Tenant Arrears (impact of Universal Credit)

Management Fee

Write Offs

Service Charges

## Appendix 2

### Recommendations from the (Head of Internal Audit's own) summary Annual Review of Internal Audit - 2017

	Recommendations	Actions	Date	Progress
1	It would be appropriate to ensure that IA staff have appropriate skills, needed to address the new more strategic approach to audit.(3.3)	Carry out a simple skills assessment, and determine if there are gaps, and look to meet any training requirement	July 2017	Carried out as a part of PRD during 2017/18 and some training agreed
2	Ensure an appropriate devotion of resources to assurance activity (such that the core purpose of IA is not compromised) 4.1	Active monitoring	Quarterly	A large proportion of the planned IA assurance programme was completed in 2017/18

A further report will address any issues raised by the external assessment

## Appendix 3

### INTERNAL AUDIT PERFORMANCE TARGETS 2018/19

<u>Objectives</u>	<u>Performance Measures</u>
Achieve planned audit work; as adjusted	90% of planned priority audits achieved
Achieve each planned audit within budgeted time allowed	80% of planned work achieved within initial time budget
Achieve high level of work quality and customer satisfaction	90% good or better responses to customer questionnaires
Delivery of completed audit work	85% of draft reports issued within 10 days of completion of site work

## **Appendix 4**

### **KEY CORPORATE SYSTEMS 2018/19** **Financial Systems & Controls**

Payroll (SAP)  
Housing Rents  
Debtors (SAP)  
Procurement / Creditors (SAP)  
Payments for Social Care  
School Payments  
Treasury Management  
Council Tax  
NDR  
Council Tax Reduction Scheme (residual Benefits)  
Internal Recharging

### **Key Organisation & Business Controls**

Code of Corporate Governance  
Contract Procedure Rules  
Financial Procedure Rules  
Contract Management  
HR Operations  
Risk Management  
IT Controls  
Performance Management Systems  
Partnership Governance  
Emergency & Business Continuity Planning  
Information Security  
Health & Safety  
Fraud Bribery & Corruption Risk  
Whistleblowing

## Appendix 5

### DETAILED PERFORMANCE STATISTICS FOR 5 YEAR

	2017/18	2016/17	2015/16	2014/15	2013/14
Number of days spent on audit work	976	1,372	1,745	1,844	2,083
Number of processes and systems examined	16	42	55	55	67
Percentage offering limited assurance/ *unsatisfactory.	44%	19%	20%	*11%	*9%
Number of location/ establishment audits undertaken.	3	14	23	26	36
Percentage offering limited assurance/ *unsatisfactory.	0%	21%	13%	*8%	*14%
Number of school audits undertaken	35	34	32	44	43
Percentage offering limited assurance/ *unsatisfactory.	3%	18%	28%	*7%	*7%
Follow up audit work carried out	18	19	18	13	21
Percentage offering limited assurance/ *unsatisfactory.	44%	21%	33%	*8%	*5%
Number of business control audits undertaken	12	12	25	12	20
Percentage offering limited assurance/ *unsatisfactory.	18%	17%	28%	*0%	*20%
Number of investigations into irregularity	5	5	6	8	10
Number of management, governance or value for money studies	4	26	2	1	2
Number of grant audits, consultancy, projects	11		8	7	8
Completed formal tasks	104	152	169	166	207
<b>Overall proportion of work offering limited assurance/ *unsatisfactory</b>	<b>22%</b>	<b>19%</b>	<b>24%</b>	<b>*8%</b>	<b>*14%</b>

**Name of meeting: Corporate Governance & Audit Committee**

**Date: 20 April 2018**

**Title of report: Annual Governance Statement 2017/18**

**Purpose of report; To note the draft Statement**

Key Decision - Is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?	Not applicable
Key Decision - Is it in the <a href="#">Council's Forward Plan (key decisions and private reports)?</a>	Not applicable
The Decision - Is it eligible for "call in" by Scrutiny?	Not applicable
Date signed off by Director & name	Not applicable
Is it also signed off by the Service Director for Finance, IT & Transactional Services	n/a
Is it also signed off by the Service Director - Legal Governance and Commissioning?	Yes
Cabinet member portfolio	Cllr David Sheard

**Electoral wards affected: All**

**Ward councillors consulted: Not applicable**

**Public**

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## 1. Summary

- 1.1 The Committee is asked to note the draft 2017/18 Annual Governance Statement prior to it being signed off by the Chief Executive and Leader of the Council. The Statement covers the period up to the point at which the Annual Statement of Accounts is approved, at the July meeting of the Committee for 2018/19, so there may be revisions made in the intervening period for consideration ahead of Accounts approval.
- 1.2 The Statement is a statutory requirement and accompanies the Statement of Accounts in order to provide readers with assurance about the governance and internal control environment in which they have been compiled and to which they relate.
- 1.3 The draft Statement has been compiled following the annual review of the effectiveness of the overall internal control and governance arrangements and draws on a number of forms of assurance which have been presented to various parts of the Council during the year, including many to this Committee (e.g. annual activity reports), being principally the Annual Report of Internal Audit, reports by the external auditor, Monitoring Officer and from the performance management framework.
- 1.4 The draft Statement highlights a number of what are termed 'Significant Governance Issues', nine of which are ongoing ones brought forward

from the 2016/17 Statement, as well as three new issues identified during last year. Three important issues from 2016/17 have been addressed satisfactorily. The actions and controls the Council is taking to address the issues raised are being formulated into an Action Plan that the Committee will be able to monitor during the coming year.

## **2. Information required to take a decision**

2.1 The detail is contained within the draft Statement.

## **3. Implications for the Council**

3.1 Early Intervention and Prevention (EIP) -None directly

3.2 Economic Resilience (ER) -None directly

3.3 Improving Outcomes for Children -None directly, although the draft Statement includes reference to the Ofsted Inspection Improvement Plan.

3.4 Reducing demand of services -None directly

3.5 Although each of the sub categorisations above suggest no direct implications, the review of the effectiveness of the internal control and governance arrangements covers all aspects of the Council's operations, including elements of the above, either specifically, indirectly or on a commissioned basis.

## **4. Consultees and their opinions**

4.1 The Chief Executive, Strategic Directors, Service Director Legal, Governance & Commissioning, Acting Service Director Finance, Head of (Audit &) Risk have commented on the draft Statement.

## **5. Next steps**

5.1 A finalised version of the Statement will be considered by the Committee ahead of the approval of the Annual Accounts at the September meeting. An Action Plan will be drawn up to enable the Committee to monitor progress in responding to the significant issues identified.

## **6. Officer recommendations and reasons**

6.1 Members are asked to note the draft Statement.

## **7. Cabinet portfolio holder recommendation**

7.1 Not applicable.

## **8. Contact officer**

Simon Straker, Audit Manager - 73726

## **9. Background Papers and History of Decisions**

The draft 2017/18 Statement is attached.  
Annual Governance Statement 2016/17.

- 10. Director responsible**  
Chief Executive.

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# Kirklees Council

## Annual Governance Statement 2017/18

### **Scope of responsibility**

Kirklees Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, Kirklees Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and this includes arrangements for the management of risk. Kirklees Council has a Code of Corporate Governance, which is consistent with the principles of the CIPFA / SOLACE framework *Delivering Good Governance in Local Government 2016*. A new Code of Corporate Governance was agreed in November 2017 part way through the current financial year. A copy of the Code is available from the Monitoring Officer.

This Statement explains how the Council has complied with the Code and also meets the requirements of Accounts and Audit Regulations 2015, Regulation 6, which requires all relevant bodies to publish an annual governance statement to accompany their Statement of Accounts.

This Statement aims to provide assurance about the Council's governance framework to enable readers of the Accounts to be satisfied that proper arrangements are in place to govern spending and safeguard assets. Where specific improvements and/ actions are needed, brief information is provided about the key issues and the main areas of work that have been progressed during 2017/18 and are being developed going forward in 2018/19, together with an Action Plan to assign responsibility and a timescale for implementation.

### **The purpose of the governance framework**

Corporate governance is a phrase used to describe how organisations direct and control what they do. For local authorities this also includes how a Council relates to the

communities that it serves. The governance framework comprises the systems and processes, culture and values by which the Council is directed and controlled and its' activities through which it accounts to, engages with and leads its communities. It enables the Council to monitor the achievement of its' strategic objectives as set out in the Corporate Plan and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Kirklees Council's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.

Kirklees Council has been working to its Code of Corporate Governance for the year ended 31 March 2018 and up to the date of approval of the Statement of Accounts. The Code was refreshed part way through the 2017/18 financial year.

## **The governance framework**

Key elements of the systems and processes that comprise Kirklees Council's governance include arrangements for:

- a local Code of Corporate Governance that assigns overall responsibility for corporate governance to the Service Director of Legal, Governance & Commissioning, working with the Corporate Governance and Audit Committee, to assess operational practice and behaviour, and prepare this Statement. The key policies and procedures that comprise the core of this process are described within the Code, together with the standards and cultural expectations of the organisation
- a Leader and Cabinet model of governance. During the year several of the Cabinet portfolios were revised to meet individual circumstances and to ensure delivery of the Council's priorities.
- a revised governance and scrutiny process following the Ofsted report on Children's Services which include a dedicated Children's Scrutiny Panel
- statutory officer roles performed by the Chief Executive as Head of Paid Service, the Service Director, Legal, Governance & Commissioning as Monitoring Officer and the Service Director Finance, IT & Transactional Services as Section 151 Officer. The Acting Chief Executive became substantive in summer 2017. Towards the end of the year the S151 Officer left the Council and the role was assumed on a temporary basis by the Head of Finance & Accountancy, supported by his counterpart at Calderdale MBC. The acting S151 Officer is a professionally qualified accountant, as was his predecessor and reports directly on financial matters to the Chief Executive as a member of the Executive Team (ET). The Council is currently reviewing the requirements for this role.
- a Corporate Plan that outlines how officers will seek to run the Council to meet our community commitments at the same time as achieving our objectives within the continuing and significant financial constraints on the Council over the medium term.

- oversight and delivery of the Council Transformation Programme, including a number of officer boards as described in the Constitution
- the Monitoring Officer who has responsibility for defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions in the Constitution, with clear delegation arrangements and protocols for effective communication, and ensuring the legality of the Authority's actions and decision making.
- the S151 Officer who has responsibility for ensuring that the financial management arrangements conform with all of the governance requirements of the five principles that define the core activities and behaviours that belong to the role in the CIPFA *Statement on The Role of the Chief Financial Officer in Local Government (2010)*.
- developing, communicating and embedding codes of conduct defining the standards of behaviour for members and staff;
- a mechanism to enable both employees and the public to anonymously share concerns through the whistle blowing arrangements
- a system for receiving, investigating and reporting the outcome of complaints from residents and service users as well as requesting information about the Council's activities and about themselves under the Freedom of Information and Data Protection legislation
- a nominated senior manager to act as the Caldicott Guardian responsible for protecting the confidentiality of patient and service-user information and enabling appropriate information-sharing in conjunction with the Council's information governance and security policies and arrangements
- managing partnerships and other group working that complement the Council's overall governance arrangements. The S151 officer monitors and reports on the financial effectiveness of the subsidiary and joint venture companies, whose accounts are subject to external audit, albeit that the joint venture companies have a different financial year. In addition, the Council provides an internal audit service to Kirklees Neighbourhood Housing (KNH) Limited and the Company's governance arrangements include an Audit Committee.

## Annual Review of effectiveness

Kirklees Council has a legal responsibility for conducting, at least annually, a review of the effectiveness of its governance framework and that of the other parts of its Group activities such as KNH, including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the Council who have responsibility for the development and maintenance of the governance environment, the Head of Audit & Risk's annual report, and also by comments made by the external auditors and other review agencies and inspectorates. The Council has four bodies / committees jointly responsible for monitoring and reviewing governance. These are:

- the Executive (Cabinet);
- the Corporate Governance & Audit Committee;
- the Overview & Scrutiny Committee; and
- the Standards Committee.

The main parts of the review process are as follows:

## 1. Review of effectiveness of the system of internal control

In accordance with the requirements of the Accounts and Audit Regulations 2015 and Public Sector Internal Audit Standards (PSIAS) the Council conducts an annual review of the effectiveness of its system of internal control to be considered as part of its governance assurance processes, including the production of the AGS.

Responsibility for the review rests with the Corporate Governance & Audit Committee. The 2017/18 review [approved by the Corporate Governance & Audit Committee 20 April 2018] demonstrated that we have an effective system of internal control including a policy framework, internal audit function, Audit Committee and effective management engagement, although there is scope for improvements in a number of areas as outlined later in this Statement. The Head of Audit & Risk has commissioned and received an initial independent external assessment of the current degree of compliance with the Public Sector Internal Audit Standards which concluded that Internal Audit does conform with these Standards and an Action Plan has been agreed to further improve compliance and progress with this which will be monitored by the Corporate Governance & Audit Committee. KPMG, our external auditors, confirmed that, where required, they take assurance from the quality and extent of internal audit work done in 2017/18, including assurance over the core financial systems activity.

## 2. Head of Audit and Risk Annual Assurance Opinion 2017/18

The Head of Audit and Risk is responsible for providing an independent opinion on the adequacy and effectiveness of the Council's systems of internal control, risk management and governance arrangements. This is delivered through an annual risk based programme of audit work designed to raise standards across the Council. Internal Audit Quarterly Summary Reports are presented to the Corporate Governance & Audit Committee to provide assurance that the annual programme is being delivered as planned. This culminates in the Annual Opinion Report.

Based on the programme of planned Internal Audit work and other than in respect of a small number of significant control issues that have arisen during the year (where actions / steps to deal with / manage the issue have been identified, appropriate remedial steps have been agreed with management), the Head of Audit and Risk has provided assurance that overall the Council's systems of governance, risk management and internal control are generally sound and operate reasonably consistently across Services.

The main issue and priority, as recognised by management, continues to be that the Council sustains and completes the programme of transformational change and embeds improvement across the Council whilst maintaining service delivery and the effective operation of key controls. In a Council of Kirklees' size and complexity, with its significant change agenda and the impact of the Comprehensive Spending Review settlement, there is a heightened risk of reduced compliance with control mechanisms, particularly where roles and systems are changing and/or where there is reduced capacity.

Individual areas of potential risk and areas for improvement have been identified, recommendations have been made to address the risk, and management action plans have been agreed. The Council continues to conform to the CIPFA *Code of Practice on Managing the Risk of Fraud & Corruption* and its response is appropriate for its fraud and corruption risks and it commits to maintain its vigilance to tackle fraud.

The Corporate Governance & Audit Committee has approved a realignment of approach to audit planning and providing assurance to reflect key risks within available resources.

### 3. External Auditor's Review of the Effectiveness of our Governance Arrangements

During the year the External Auditor's Annual Report to those charged with Governance confirmed

- an unqualified opinion on the Council's 2016/17 financial statements (two objections remain to be resolved but these did not affect the overall opinion); and
- an unqualified value for money conclusion, except in relation to Children's Services, stating that we have made proper arrangements to secure economy, efficiency and effectiveness in our use of resources.

### 4. Corporate Governance & Audit Committee

The Committee's terms of reference include agreeing and updating regularly the Council's Code of Corporate Governance, monitoring its operation and compliance with it.

During 2017/18 the Corporate Governance & Audit Committee reviewed a number of aspects of the Council's governance arrangements and noted or approved revisions or made recommendations to Council as appropriate, including:

- Revision to parts of the Constitution which were approved and subsequently passed at Annual Council. Council, Contract and Financial Procedure Rules for 2017/18
- External Audit reports
- Corporate Customer Standards Annual Report 2016/17
- Information Governance Annual Report 2016/17
- Emergency Planning & Continuity Annual Report 2016/17
- Standards Regime & Members' Code of Conduct Review
- the Head of Audit & Risk's Quarterly and Annual Reports
- the Treasury Management Strategy – confirmed ongoing compliance with the CIPFA Code of Practice and various statutory requirements.
- Reviewed and updated the Council's Code of Corporate Governance

Recognising the need to ensure that members of the Committee have the appropriate support and skills to carry out their role a series of short training sessions were provided through the year looking at Treasury management, the role and expectations of Governance and Audit Committee as well as interpreting financial accounts. The sessions were also offered to other members with an interest in the topics.

### 5. Overview & Scrutiny Committee

During 2017/18 the Committee reviewed a number of aspects of the Council's governance arrangements including:

- Children's Services Improvement Partnership with Leeds City Council
- Improving the quality of health & adult social care
- Medium Term Financial Plan

- Democracy Commission report
- Citizen's Account
- Corporate performance monitoring
- Prevent Strategy
- statutory consideration of preparation for winter flooding and crime & disorder issues

## 6. Standards Committee

During the year the Committee reviewed various aspects of Member conduct, support and training, the appointment of an Independent Person for the Council and consultation by the Committee on Standards in Public Life to inform review of Local Government Ethical Standards.

## 7. Role of the Chief Financial Officer

The role of the Chief Financial Officer (CFO) continues to reflect the governance arrangements set out in the CIPFA Statement, which are required to ensure the CFO is able to operate effectively and perform their core duties as part of the review of the Constitution. The Council's financial management arrangements fully conform to those set out in the Statement.

## 8. External Agencies' Reviews

### Ofsted

As reported in last year's Statement, the Council received an *Inadequate* opinion concerning the performance of its Children's Social Services activity at the end of 2016. Following the Ofsted report, the Government appointed a Commissioner to advise the Secretary of State for Education about the prospects for delivery of the required improvement within the designated timescale and with the Council's full support the Secretary of State subsequently determined that Leeds City Council should act as its' partner in achieving improvement to Children's Services, and the partnership agreement has now been approved by the Department for Education. The Director of Children's Services at Leeds City Council now also holds the statutory post of Director for Children's Services at Kirklees.

Ofsted have continued to review progress in implementing the Action Plan to address the key issues from their original inspection.

## 9. Significant Partnerships

Partnerships range from joint venture partnerships, thematic partnerships and their subsidiaries to key contractual agreements managing substantial amounts of public money. The main contact officer for each Partnership is responsible for assessment of the governance arrangements and providing details of any significant changes to the membership and circumstances of the partnership. This information is used by senior officers of the Council to assess the potential risk that the partnership presents to the reputation or financial standing of the Council. The Council is working on a number of areas where arrangements need to be revised to strengthen and embed the governance framework.

## 10. Officer Governance

Officer Boards as prescribed in the Constitution have continued to drive forward the Transformation Programme within the context of the Medium Term Financial Plan with strategic oversight from the Executive Team and escalated of appropriate issues. These arrangements are subject to both Cabinet and Scrutiny oversight.

## **Overall Conclusion & Opinion**

We have been advised on the implications of the results of the above review of effectiveness of the governance framework by the Corporate Governance and Audit Committee, and are satisfied that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

The areas with ongoing and revised actions planned are outlined below.

## **Progress with the remaining significant governance issues in last year's Statement**

Three of the issues included in last year's Statement have been resolved or substantial progress has been made enabling us to be assured that they no longer represent a risk to the effectiveness of the governance arrangements, namely the

- refresh of the Code of Corporate Governance referred to earlier,
- arrangements to manage business continuity following a major IT incident, and
- interaction with the role of Kirklees Children's Safeguarding Board.

The remaining areas are described below:

### 1. **Strengthening the Corporate Plan and management arrangements to be more outcome focussed**

The Corporate Planning process is being developed to ensure it includes a clear direction of travel incorporating the delivery of longer term key priorities, often with partners, such as investment in the highway network and town centres regeneration but is not yet sufficiently aligned to the budget setting process.

New corporate performance arrangements are established but need embedding more over a longer period of time to drive improvements required.

### 2 **Strengthening the governance framework with key Partners**

Whilst the governance arrangements with key partners have been improved considerably with much strengthened Board arrangements which are working as intended and agreed partnership outcomes, the challenge now is to embed these within the normal working relationship with all parties and to deliver the desired outcomes.

### **3 Risk Management arrangements**

A revised Risk Management Statement that places greater emphasis on the identification of project and major circumstantial threats and improved “management” of the situation was approved at the Corporate Governance & Committee and Cabinet. A new quarterly review arrangement, with the chief executive and executive team, now considers risk alongside organisational performance and a cross service officer panel has been established to aid the identification, quantification and assessment of risk and report to Executive Tam accordingly. Corporate Risk now needs to be fully developed and embedded further and appropriate action taken by risk owners.

### **4 Procurement Rule Compliance**

A new governance and management structure has been agreed, designed to provide a more centralised focus and strengthen arrangements. It now needs to be implemented to drive improved effectiveness and compliance across the Council at an increased pace, both in terms of forward planning and management of contracting.

### **5 Increasing the capacity and skills to deal with workforce management**

The People Strategy has been launched, highlighting 5 themes which provide an overall focus for the work that is needed. 8 work streams will be key to delivery of the Strategy and will feed into and support the transformation agenda. The Strategy that is supported by an action plan which is being reviewed and updated on an ongoing basis now needs to be ‘owned’ by the organisation, managers and staff. Corporate standards and guidance needs to be developed more quickly to enable managers to develop the necessary skills to make and lead changes that are required.

### **6 Develop Information Governance arrangements to be GDPR compliant and cyber resilient**

The GDPR Project is ongoing and well managed but the level of change required is significant and high risk and will continue to require substantial commitment, effort and training to ensure that the council meets statutory requirements and to ensure cyber resilience.

### **7 Meeting the challenging savings targets required in the Medium Term Financial Plan**

Planned savings in 2017/18 totalled £54m against a general fund (net) revenue budget of £307m. This has been a significant challenge for the organisation, and the Council has successfully delivered £49m of the planned savings in-year; equivalent to 91%. A further £7m unplanned savings in-year have also been identified.

Whilst the amount of future change / saving is less than that which has been achieved already, the task faced to do so remains as great, given that the most readily deliverable changes have been made already and there remains uncertainty about how local government funding will be met after 2020. The lead in time and impact of many of the remaining planned changes is such that the risk of delay is heightened. The organisation must ensure concerted management effort that remains focussed on designing,



implementing and embedding and cost controlling planned saving for 2018/19 and beyond.

## **8 Implementing and embedding the Ofsted Improvement Plan for Children's Services**

Planned intensive leadership support from Leeds City Council is ongoing until summer 2018, when it is anticipated a permanent arrangement for the leadership of children's services will be in place, together with a new IT system, followed by ongoing support, advice and mentoring until summer 2019. Getting the outcomes right for children and young people should also achieve reductions in costs over time.

Based on experience in Leeds and in other authorities that it will take two to three years to fully realise projected savings there is a heightened risk of impact upon the Council's wider financial position due to the scale of operation. Moreover, the Council still has substantial progress to make on its journey to improve the assessed quality of its Children's Services. Focus in 2018/19 needs to be on implementing the leadership, IT and other changes that are necessary to move substantially forward in respect of quality and cost of provision and that will inform the external auditor's VFM Conclusion on the Council overall.

## **9 Improve Income Recovery Performance and Cost-effectiveness**

Improvements have been made to IT system configuration and user training and the Payments project has been completed including the provision of technology to provide a more cost effective administration of income recovery. The underlying issue remains one of effective credit control whereby payment by direct debit or at the point of order becomes the corporate standard with proactive management of outstanding historical debt.

## **Significant governance issues identified in 2017/18**

Arising from a fundamental period of change in the history of local government the annual review of governance effectiveness described above has identified the following additional significant governance issues in the current year;

### **10 Managing the risks arising from innovative projects or ones that are new to the Council that form part of the Transformation Programme**

The Transformation Programme includes delivery of several projects that are innovative and/ or new to the Council and thus require new skills, knowledge and experience for successful outcomes.

### **11 Appropriate response to major issues that require decisions for the medium term, notably waste strategy and management**

There are a number of major issues which do not have a consequence in 2018/19 but have very substantial future consequences that need effective management and resolution in the short term. The most pressing of these is Waste Strategy and Management, others include aspects of children's services delivery, adult social care and health and social care integration.

**12 Enhance the effectiveness and challenge of organisational governance including, Scrutiny, Corporate Governance & Audit committees**

The current systems and procedures for ensuring effective organisational governance would benefit from review and strengthening, particularly set against the backcloth of regional devolution, to ensure that there is a positive and a learning approach by effective challenge of the Cabinet by Council and Scrutiny, and of officers by the Cabinet, and Corporate Governance & Audit Committee.

An Action Plan has been formulated and will be subject to regular review by Internal Audit, with initial reporting to the Executive Team and Corporate Governance & Audit Committee.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

**Signed:**

David Sheard  
Leader of the Council

Jacqui Gedman  
Chief Executive

## **DRAFT ANNUAL GOVERNANCE STATEMENT 2017/18**

### **ACTION PLAN FOR 2018/19**

	<b><u>Significant Governance Issue</u></b>	<b><u>Managed Action</u></b>	<b><u>Director Lead</u></b>
1	Corporate management arrangements and the Corporate Plan need strengthening to achieve more successful outcomes of key Council objectives with limited resources	Continue to develop the Corporate Plan with a clear direction of travel that incorporates longer term strategic planning around key issues Review budget setting arrangements for 2019/20 and beyond regarding outcome based budgeting Embed revised corporate performance management arrangements	SD Policy, Intelligence & Public Health and Executive Team Acting SD Finance
2	The governance framework with key Partners needs to be strengthened	Clearer management of related (associated) parties  Develop and embed partnership boards and arrangements, including member training	SD Policy, Intelligence & Public Health and Executive Team
3	Overall risk management arrangements do not reflect the current financial position	Develop corporate risk management fully and embed the new arrangements Ensure risk owners take appropriate action	SD Legal, Governance & Commissioning Head of Risk
4	Procurement Rule compliance needs strengthening to protect the Council from legal challenge and ensure value for money	Implement and embed the strengthened and centralised revised arrangements	SD Legal, Governance & Commissioning

	<b><u>Significant Governance Issue</u></b>	<b><u>Managed Action</u></b>	<b><u>Director Lead</u></b>
5	There is a lack of sufficient capacity and skills to deal with workforce management	<p>Promote ownership of the People Strategy by the organisation, managers and staff.</p> <p>Deliver the project work streams</p> <p>Develop timely corporate standards and guidance to enable managers to develop the necessary skills to make and lead changes that are required.</p> <p>Embed and develop the Aspiring Manager programme</p>	SD Policy, Intelligence & Public Health Head of HR / OD
6	Current Information Governance arrangements require development in preparedness to be compliant with revised Data Protection regulation in 2018 and the risk of a cyber security incident	<p>Delivery of GDPR Project with support from the Information Governance Board</p> <p>IT technical response</p>	SD Legal, Governance & Commissioning Head of IT
7	The Council needs to ensure it meets the challenging savings targets required in the Medium Term Financial Plan	Delivery of the Transformation Programme ensuring appropriate focus on designing, implementing, embedding and cost controlling planned saving for 2018/19 and beyond.	Chief Executive SD Policy, Intelligence & Public Health SD Finance Head of Transformation
8	Addressing the serious weaknesses identified in the Ofsted inspection report of Children's Services	Continue to implement and embed the Ofsted Improvement Plan in conjunction with Leeds City Council colleagues to improve the provision of Children's Services and achieve the savings required	Director for Children's Services

	<b><u>Significant Governance Issue</u></b>	<b><u>Managed Action</u></b>	<b><u>Director Lead</u></b>
9	Income recovery needs strengthening to ensure cost effectiveness	<p>Implement payment at the point of order or by direct debit as the corporate standard per Financial Procedure Rules and customer relationship management</p> <p>Introduce more proactive corporate debt recovery management</p>	<p>Acting SD Finance SD Commercial, Operational &amp; Regulatory Services</p> <p>Head of Revenues &amp; Benefits</p>
10	Transformation Programme Project Management Risk	<p>Project Risk Management</p> <p>Ensure appropriate knowledge, skills and experience are available</p> <p>Learn from partners</p>	SD Policy, Intelligence & Public Health
11	Medium Term Risks requiring Decisions in the Short Term	<p>Maintain visibility via the revised risk management arrangements and take action accordingly</p> <p>Political input to raising Government awareness of the implications for authorities of any further delay in determination of its overall strategy and policy</p> <p>Align the Waste Management contract renewal with a Waste Strategy which meets DEFRA obligations.</p>	<p>Chief Executive All SD</p> <p>SD Commercial, Operational &amp; Regulatory Services</p>
12	Enhancing organisational governance systems and procedures, particularly around challenge effectiveness at Scrutiny and Corporate Governance & Audit committees	<p>Address the recommendations regarding decision making arising from the Kirklees Democracy Commission</p> <p>Skills audit in conjunction with Group Business Managers Review Member Training</p> <p>Specialist training for key roles</p> <p>Consider a peer review</p>	Chief Executive SD Legal, Governance & Commissioning

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**Name of meeting: Corporate Governance & Audit (CGA) and Council**

**Date: 20 April 2018 (CGA) & 23 May 2018 (Council)**

**Title of report: Proposed revisions to the terms of reference for the Health & Wellbeing Board**

**Purpose of report:** The purpose of this report is to seek approval to the proposed amendments to the Terms of Reference for the Health and Wellbeing Board.

<b>Key Decision - Is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?</b>	<b>No</b>
<b>Key Decision - Is it in the <a href="#">Council's Forward Plan (key decisions and private reports?)</a></b>	<b>Not applicable</b>
<b>The Decision - Is it eligible for call in by Scrutiny?</b>	<b>No</b>
<b>Date signed off by <u>Strategic Director</u> &amp; name</b>	<b>Richard Parry - 11 April 2018</b>
<b>Is it also signed off by the Service Director for Finance IT and Transactional Services?</b>	
<b>Is it also signed off by the Service Director for Legal Governance and Commissioning Support?</b>	<b>Julie Muscroft - 11 April 2018</b>
<b>Cabinet member <a href="#">portfolio</a></b>	<b>Give name of Portfolio Holder</b>

**Electoral wards affected: N/A**

**Ward councillors consulted: N/A**

**Public or private: Public**

## 1. Summary

The purpose of this report is to seek approval to the proposed amendments to the Terms of Reference for the Health and Wellbeing Board.

In accordance with The Local Authority (Public Health, Health and Wellbeing boards and Health Scrutiny) Regulations 2013, if the Council wishes to alter the voting rights and membership of the Health and Wellbeing Board, the Board must first be consulted on any proposed amendments.

On the 22 March 2018 the Health and Wellbeing Board, considered and approved the amendments to the terms of reference.

The proposed revision to the Terms of Reference (TOR) (see attached) aims to:

- Clarify the role, purpose and reflect the full range of the Board's responsibilities
- Improve understanding of the purpose and role of other boards and organisations
- Build constructive relationships across these bodies

In addition, changes to the management structure at Greater Huddersfield and North Kirklees CCGs which now has one Chief Officer and Lay Member representing both organisations has also been reflected in the TOR. This has implications for voting as they would hold a vote for each CCG. The Health and Social Care Act states at s.194 (7) that:

*'A person may, with the agreement of the Health and Wellbeing Board, represent more than one clinical commissioning group on the Board'*

The text in red denotes the proposed revisions to the terms of reference.

**2. Information required to take a decision**

The information is contained within the report.

**3. Implications for the Council**

**3.1 Early Intervention and Prevention (EIP)**

None.

**3.2 Economic Resilience (ER)**

None.

**3.3 Improving Outcomes for Children**

None.

**3.4 Reducing demand for services**

None.

**3.5 Other (eg Legal/Financial or Human Resources)**

None.

**4. Consultees and their opinions**

The Health and Wellbeing Board agreed the revisions at its meeting on the 22 March 2018.

**5. Next steps**

Following consideration by Corporate Governance and Audit Committee on the 20 April 2018, the report will progress to Annual Council on 23 May 2018 for ratification.

**6. Officer recommendations and reasons**

That the revised Terms of Reference of the Health and Wellbeing Board be approved and recommended by CGA for approval by the Council.

**7. Cabinet portfolio holder's recommendations**

Not Applicable



8. **Contact officer**  
Phil Longworth, Health Policy Officer Tel: 01484 221000  
Jenny Bryce-Chan, Governance Officer Tel: 01484 221000
9. **Background Papers and History of Decisions**  
Revisions to the Terms of Reference were last made in May 2016.
10. **Service Director responsible**  
Julie Muscroft, Service Director, Legal Governance and Commissioning, Tel: 01484 221000

## Health and Wellbeing Board

### Membership

Membership of the Board includes **voting and non-voting members as set out below:-**

Councillors, NHS Clinical Commissioning Group representatives, Healthwatch and Council Directors.

#### Voting members

- Three Members of Kirklees Council's Cabinet, one of whom may be the Leader
- One Senior Councillor from the main opposition group
- One Councillor from a political group other than the administration and main opposition group
- Director for Children Services
- Director for Public Health
- Director of Adult Social Service
- One representative of local Kirklees Healthwatch
- Three representatives of North Kirklees Clinical Commissioning Group, with one representative being a GP
- Three representatives of Greater Huddersfield Clinical Commissioning Group, with one representative being a GP
- 

#### Non-voting members

- Chief Executive Kirklees Council
- Member of NHS England ( Statutory requirement: to participate in the Board's preparation of JSNA / JHWS and if requested to participate in exercise of the commissioning functions of the Board in relation to the Kirklees HWB Area)

#### Invited observers

**Invited observers from key local partners to promote integration:**

Chief Executive or nominated representative of significant partners:

- Mid Yorkshire Hospitals Trust
- Calderdale and Huddersfield Foundation Trust
- South West Yorkshire Partnership Foundation Trust
- Current community health provider
- West Yorkshire Police

#### Terms of Reference

The Health and Wellbeing Board is a statutory Committee of the Council **bringing** together the NHS, the Council **and partners to:**

- **Improve the health and wellbeing of the people in their area, reduce health inequalities and promote the integration of services.**
- Develop, publish and own the Joint Strategic Needs Assessment for Kirklees (JSNA) (which is known locally as the Kirklees Joint Strategic Assessment (KJSA)) to inform local planning, commissioning and delivery of services and meet the legal responsibilities of Kirklees Council and the Clinical Commissioning Groups.

- Publish and maintain a statement of needs for pharmaceutical services across the Kirklees area.
- Develop, publish and own the Joint Health and Wellbeing Strategy for Kirklees, based on the JSNA and other local intelligence, to provide the overarching framework for planning, commissioning and delivery of services.
- Provide the structure for overseeing local and regional planning and accountabilities for health and wellbeing related services and interventions and the development of sustainable integrated health and social care systems.
- Promote integration and partnership working with the NHS, social care, public health and other bodies in the planning, commissioning and delivery of services to improve the wellbeing of the whole population of Kirklees, including as part of regional working.
- Ensure the involvement and engagement of service users, patients and the wider public in planning, commissioning and delivery of services to improve the wellbeing of the whole population of Kirklees.
- Provide leadership and oversight of key strategic programmes, such as the Kirklees Health and Wellbeing Plan, Better Care Fund, and to encourage use of associated pooled fund arrangements where appropriate.
- Provide assurance that the commissioning and delivery of plans of partners have taken sufficient account of the Joint Health and Wellbeing Strategy and the Joint Strategic Needs Assessment.
- Ensure that the Council's statutory duties in relation to health protection arrangements and plans are delivered through the work of its sub-committee, the Kirklees Health Protection Board.
- Exercise any other functions of the Council delegated to the Board by the Council.

## Voting Rights

See membership list

In accordance with The Local Authority (Public Health, Health and Wellbeing boards and Health Scrutiny) Regulations 2013, if the Council's wishes to alter the voting rights and membership the board must first be consulted on any proposed amendments.

## Substitute Members

Voting Board Members can send a substitute to represent them should they be unable to attend and if appropriate cast their vote.

## Quorum

The quorum for the board will be attendance by 50% of the accountable bodies and 50% of the membership.

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**Name of meeting: Corporate Governance and Audit Committee**

**Date: 20 April 2018**

**Title of report: Proposed Dates of Council – 2018 to 2019 Municipal Year**

**Purpose of report:**

**To determine dates and times for meetings of Council for the 2018-2019 municipal year**

Key Decision - Is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?	Not applicable
Key Decision - Is it in the <a href="#">Council's Forward Plan (key decisions and private reports)?</a>	No
The Decision - Is it eligible for "call in" by Scrutiny?	No
<b>Date signed off by Director &amp; name</b>	
Is it also signed off by the Service Director for Financial Management, IT, Risk and Performance?	N/A
Is it also signed off by the Service Director - Legal Governance and Commissioning	Yes
Cabinet Member portfolio	Not applicable

**Electoral wards affected: Not applicable**

**Ward councillors consulted: Not applicable**

**Public or Private Status: Public**

## 1. Summary

Council Procedure Rule 2 (1) advises that the dates of ordinary Council Meetings in each Municipal Year will be determined by the Council following recommendations made by the Corporate Governance and Audit Committee.

Council Procedure Rule 5(1) states that there shall be two types of Ordinary meeting of the Council, one which focuses on Holding the Executive to Account, and the other for Key Discussions. No less than four ordinary meetings must be designated as Holding the Executive to Account.

The following dates/times are proposed, all meetings to be held in Huddersfield Town Hall at 5.30pm.

The meeting of Annual Council, scheduled for 22 May 2019, will commence (with a civic ceremony) at 12.30pm.

Date	Council Meeting
2018	
Wednesday 11 <sup>th</sup> July	Holding Executive to Account
Wednesday 12 <sup>th</sup> September	Key Discussion
Wednesday 10 <sup>th</sup> October	Holding Executive to Account
Wednesday 7 <sup>th</sup> November	Key Discussion
Wednesday 12 <sup>th</sup> December	Holding Executive to Account
2019	
Wednesday 16 <sup>th</sup> January	Key Discussion
Wednesday 13 <sup>th</sup> February	Budget Council
Wednesday 20 <sup>th</sup> March	Holding Executive to Account
Wednesday 22 <sup>nd</sup> May	Annual Council

## 2. Information required to take a decision

Not applicable

## 3. Implications for the Council

### 3.1 Early Intervention and Prevention (EIP)

Not applicable

**3.2 Economic Resilience (ER)**

Not applicable

**3.3 Improving Outcomes for Children**

Not applicable

**3.4 Reducing demand of services**

Not applicable

**4. Consultees**

Leading Members (prior to Corporate Governance and Audit Committee)

**5. Next steps**

To submit the recommendation of the Committee to Annual Council.

**6. Officer recommendations and reasons**

That the report be submitted to the meeting of Annual Council on 23 May 2018 with a recommendation that the schedule of Council meetings for 2018-2019, be approved.

**7. Cabinet portfolio holder recommendation**

Not applicable.

**8. Contact officer**

Andrea Woodside, Governance Officer

**9. Background Papers and History of Decisions**

Not applicable.

**10. Assistant Director responsible**

Julie Muscroft, Service Director - Legal, Governance and Commissioning

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**Name of meeting: Corporate Governance & Audit Committee**

**Date: 20<sup>th</sup> April 2018**

**Title of report: Quarterly Report of Internal Audit 2017/18**

**Quarter 4: January 2018 - March 2018**

**Purpose of report; To provide information on Internal Audit activity in the fourth quarter of 2017/18, and other assurance information.**

Key Decision - Is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?	Not applicable
Key Decision - Is it in the <a href="#">Council's Forward Plan (key decisions and private reports)?</a>	Not applicable
The Decision - Is it eligible for "call in" by Scrutiny?	Not applicable
Date signed off by Director & name	Not applicable
Is it also signed off by the Service Director for Finance, IT & Transactional Services	
Is it also signed off by the Service Director - Legal Governance and Commissioning?	
Cabinet member portfolio	Not applicable

**Electoral wards affected: All**

**Ward councillors consulted: Not applicable**

**Public but with a private appendix**

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## 1. Summary

- 1.1 This report sets out the activities of Internal Audit in the fourth quarter of 2017/18.  
This report contains information about 22 formal opinion based pieces of work, 1 investigation, 4 other projects or tasks and 1 completed audit related to the Housing Revenue Account (HRA) and Kirklees Neighbourhood Housing.
- 1.2 The investigation related to an employee whose work roles are split causing a risk of error, although none was identified.
- 1.3 The 22 opinions covered a range of matters including an assessment of arrangements for market pay and honorias/acting up allowances, assessment of some payroll arrangements, and of one major public health contract. All provided at least adequate assurance.
- 1.4 As part of the work, 8 schools were visited and all but one offered substantial or adequate assurance.
- 1.5 Business controls audit work assessed areas such as risk management, the officer delegation scheme, vacancy management, housing register and IT business recovery. All these areas provided at

least adequate assurance. There were areas that require improvement to comply with recommended standards as set out in the Appendix.

- 1.6 Of 4 follow-up audits, only 1 had improved sufficiently to be rated adequate.
- 1.7 Overall, only 77% of work in this period attracted a positive outcome- in line with the year average. The cumulative positive outcome for the year is 78% (target 80%).
- 1.8 There are no Internal Audit resourcing issues this quarter=
- 1.9 It was agreed at March 2018 Council that this committee consider any surveillance activities under the Regulation of Investigatory Powers Act 2000. (Annex 1). It is intended that in order to improve the overall visibility of assurance work, some additional material is appended to future quarterly reports about other control environment reporting matters, including a summary of progress against the actions contained as a consequence of the annual governance statement.

## **2. Information required to take a decision**

- 2.1 The detail is contained within the Appendix.

## **3. Implications for the Council**

- 3.1 Early Intervention and Prevention (EIP) -None directly
- 3.2 Economic Resilience (ER) -None directly
- 3.3 Improving Outcomes for Children -None directly
- 3.4 Reducing demand of services -None directly
- 3.5 Although each of the sub categorisations above suggest no direct implications, the work of internal audit covers all aspects of the councils operations, including elements of the above, either specifically, indirectly or on a commissioned basis.
- 3.6 The main issues relate to those areas highlighted above- where there are risks associated with basic processing arrangements, and delivering sound governance and control.

## **4. Consultees and their opinions**

- 4.1 Directors/Head of Service have been involved in the outcomes from each audit project.

## **5. Next steps**

- 5.1 To consider if any additional activity is sought.(Limited assurance audit outcomes are routinely followed up)

## **6. Officer recommendations and reasons**

- 6.1 Members are asked to note the Internal Audit Quarterly Report and determine if any further action is sought on any matter identified.
- 6.2 Members are also asked to note that there has been no Regulation of Investigatory Powers Act activity during the period from December 2017 to the date of this report.

**7. Cabinet portfolio holder recommendation**

7.1 Not applicable.

**8. Contact officer**

Martin Dearnley, Head of Risk (01484 221000; x 73672)

**9. Background Papers and History of Decisions**

The detailed Quarter 4 Internal Audit Report is attached as an appendix for consideration in private session.

**10. Director responsible**

Not applicable.

**Annex 1;  
Additional disclosure of information**

**Reporting of surveillance activity under the Regulation of Investigatory Powers Act 2000.**

None this period

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**Name of meeting: Corporate Governance & Audit Committee**  
**Date: 20<sup>th</sup> April 2018**

**Title of report: REPORT INTO THE COUNCILS RELATIONSHIPS WITH FRESH HORIZONS LTD, WHICH ENTERED ADMINISTRATION / A CREDITORS VOLUTARY ARRANGEMENT IN SEPTEMBER 2015 AND CLOSED FOLLOWING RECEIVERSHIP IN SPRING 2016.**

Key Decision - Is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?	Not applicable
Key Decision - Is it in the <a href="#">Council's Forward Plan (key decisions and private reports)?</a>	Not applicable
The Decision - Is it eligible for "call in" by Scrutiny?	Not applicable
Date signed off by Director & name  Is it also signed off by the Service Director for Finance, IT & Transactional Services  Is it also signed off by the Service Director - Legal Governance and Commissioning?	Not applicable
Cabinet member portfolio	Not applicable

**Electoral wards affected: All**  
**Ward councillors consulted: Not applicable**

**Public**

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## 1. Summary

- 1.1 Fresh Horizons was a Social Enterprise formed in 2002, with the help and encouragement of the Council. It worked closely with Kirklees Council, KNH and the community. The main areas of operation were at the Chestnut Centre where Fresh Horizons managed the building, two nurseries and a library, as well as other community based social and learning activities. Other functions included managing other Kirklees and KNH buildings, managing a Music Library and managing buildings/ housing for private landlords. Fresh Horizons operated a construction business, as a subsidiary
- 1.2 The business grew rapidly in the 5 financial years up to March 2015, but ran into financial difficulties. It subsequently was restructured following a creditors voluntary arrangement, in autumn 2015, although the business closed in 2016. At that time some of the business activities transferred on to another not for profit organisation, Local Services 2 You Ltd, that continues to operate them. The council was a creditor at that time.
- 1.3 The Council needs to ensure that in developing innovative projects, it understands its objectives, intentions, willingness to invest, desires for control and involvement and its exit strategy.

## **2. Information required to take a decision**

- 2.1 No decision is required, but more detail is contained within the confidential report attached.

## **3. Implications for the Council**

- 3.1 Early Intervention and Prevention (EIP) -None directly
- 3.2 Economic Resilience (ER) –This project had sought to promote ER.
- 3.3 Improving Outcomes for Children – this project had sought to promote assistance of children
- 3.4 Reducing demand of services –This project had sought to promote community resilience
- 3.5 The partial replacement operator continues to seek to meet these objectives.

## **4. Consultees and their opinions**

- 4.1 None. (those involved in the arrangements managing Fresh Horizons have made comments which are reflected in this report and appendix)

## **5. Next steps**

- 5.1 None

## **6. Officer recommendations and reasons**

- 6.1 To note the report

## **7. Cabinet portfolio holder recommendation**

- 7.1 Not applicable.

## **8. Contact officer**

Martin Dearnley, Head of Risk (01484 221000; x 73672)

## **9. Background Papers and History of Decisions**

There is a confidential report that contains commercial information, attached as an appendix.

## **10. Director responsible**

Not applicable.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

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of the Local Government Act 1972.

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