

Public Document Pack



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

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Tuesday 14 July 2020

Notice of Meeting

Dear Member

Corporate Governance and Audit Committee

The **Corporate Governance and Audit Committee** will meet in the **Virtual Meeting - online** at **10.00 am** on **Wednesday 22 July 2020**.

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', on a light-colored background.

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 Will Simpson (Chair)
Councillor Kath Pinnock
Councillor Steve Hall
Councillor John Taylor
Councillor Paola Antonia Davies
Councillor Susan Lee-Richards
Councillor Martyn Bolt

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
V Lees-Hamilton
N Patrick
M Thompson
R Smith

Green

K Allison

Independent

C Greaves
T Lyons

Labour

M Akhtar
M Sokhal
M Kaushik
H Uppal

Liberal Democrat

A Munro
A Pinnock
J Lawson
A Marchington

Ex Officio Members

Councillor Graham Turner
Councillor Elizabeth Smaje
Councillor Paul Davies

Agenda

Reports or Explanatory Notes Attached

Pages

1: Membership of the Committee

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

2: Minutes of Previous Meeting

1 - 4

To approve the Minutes of the meeting of the Committee held on 6 March 2020

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.

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.

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.

6: Public Question Time

Due to Covid-19 restrictions, questions must be received no later than 10am on 21 July. Questions should be submitted to executive.governance@kirklees.gov.uk.

7: Draft Annual Governance Statement 2019/20

7 - 26

To provide the Committee with details of the latest version of the Statement for information and comment prior to formal approval in conjunction with the Annual Accounts later in the year.

Contact: Simon Straker, Audit Manager

8: Annual report on Treasury Management 2019/20

27 - 44

To provide an annual report on borrowing and investment performance.

Contact: James Anderson, Head of Accountancy

9: Update on the Council Final Accounts for 2019/20

45 - 48

To provide an update on the final accounts and audit processes for 2019/20

Contact: James Anderson, Head of Accountancy

10: External Audit Update

49 - 84

To receive the External Audit Plan; Progress report and Sector Update; and to note the contents of a letter relating to the closure and audit of the 2019/20 accounts.

Contact: Stephen Nixon, Grant Thornton UK

11: Annual Report of Internal Audit 2019/20 and issues for 2020/21 85 - 136

To provide information about Internal Audit activity and the effectiveness of the system of internal control, and conclusions on the control environment and assurance provided in 2019/20, and on matters that relate to Internal Audit activity in 2020/21

Contact: Martin Dearnley, Head of Risk

12: Joshua Wood Charity 137 - 140

To consult with Corporate Governance & Audit Committee (CGAC) and to ascertain whether CGAC would wish the council to have a right to nominate a Trustee of the Joshua Wood Charity

Contacts: Martin Dearnley, Head of Risk
Mark Nicholson, Senior Legal Officer

13: Quarterly Report of Internal Audit - Q4 2019/20 - January 2020 - March 2020 141 - 144

To provide information about internal audit work in quarter 4 of 2019/20

Contact: Martin Dearnley, Head of Risk

14: Quarterly Report of Internal Audit Q1 2020/21 - April 2020 - June 2020 145 - 148

To provide information about internal audit work in quarter 1 of 2020/21

Contact: Martin Dearnley, Head of Risk

15: Dates of Future Meetings

Proposed dates for 2020/2021 are as follows:

23 September

24 Nov
20 Jan 2021
9 March
22 April

(Note: a proposed date in late May 2021 (following elections) will be required for a Treasury Outturn report and Accounts update).

16: 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.

17: Quarterly Report of Internal Audit Q4 2019/20 - Jan 2020 - March 2020 149 - 168

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 13.
Contact: Martin Dearnley, Head of Risk

18: Quarterly Report of Internal Audit Q1 2020/21 - April 2020 - June 2020 169 - 176

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 14.
Contact: Martin Dearnley, Head of Risk

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Contact Officer: Leigh Webb

KIRKLEES COUNCIL

CORPORATE GOVERNANCE AND AUDIT COMMITTEE

Friday 6 March 2020

Present: Councillor Will Simpson (Chair)
Councillor Paola Antonia Davies
Councillor Susan Lee -Richards
Councillor Kath Pinnock
Councillor Steve Hall

Councillor E Smaje - Chair Overview and Scrutiny
Management Committee (Ex-officio)

Apologies: Councillor John Taylor

1 Membership of the Committee

Apologies for absence were received on behalf of Councillor John Taylor

2 Minutes of Previous Meeting

That the Minutes of the meeting held on 24 January 2020 be approved as a correct record.

3 Interests

No interests were declared.

4 Admission of the Public

It was noted that all items would be considered in public

5 Deputations/Petitions

No deputations or petitions were received.

6 Public Question Time

No questions were asked.

7 Members Allowances Independent Review Panel (MAIRP) 2020/21

The Committee gave consideration to a report which set out the recommendations of the Members Allowances Independent Review Panel for the 2020/2021 municipal year.

The report advised that the Panel had met on 10 January 2020 and had agreed the following recommendations:

- (i) The current Basic Allowance be increased in line with the amount awarded to Kirklees Council officers (% yet to be agreed as national negotiations are ongoing) with effect from 1 April 2020.
- (ii) All Special Responsibility Allowances (SRAs) be increased in line with the amount awarded to Kirklees Council officers (% yet to be agreed as national negotiations are ongoing) with effect from 1 April 2020.
- (iii) Should the amount awarded to Kirklees Council officers not be agreed by 1 April 2020, any increase should be backdated to this date.

The draft Members' Allowances Scheme for 2020/21 which takes account of the recommendations set out above, was appended to the report.

The Committee gave consideration to the recommendations of the Panel and agreed that they be endorsed and submitted to Council with a recommendation of approval.

RESOLVED -

- 1) That the recommendations of the Members Allowances Independent Review Panel (Appendix A) be received and noted.
- 2) That the report be submitted to the meeting of Council on 18 March 2020 with a recommendation that the Members Allowances Scheme 2020/2021 (Appendix B) be approved and adopted with effect from 1 April 2020.

8

Annual Governance Statement 2018/19 – Quarter 3 Action Plan Update

The Committee received a report outlining progress in respect of significant governance issues in the Action Plan which had been devised in response to the 2018/19 Annual Governance Statement signed off by the Chief Executive and Leader of the Council. The Statement is a statutory requirement and accompanies the Statement of Accounts in order to provide assurance about the governance and internal control environment in which they have been compiled and to which they relate.

With regard to 2018/19, it was reported that the Statement contained 17 Issues reflecting a focus on self-awareness prior to the Corporate Peer Review Challenge last year. Significant progress was reported in the following areas:

- Risk Management,
- Financial Planning & Budgeting,
- Procurement Rule Compliance
- Challenge in Governance Arrangements
- Local Government Ethical Standards
- SAP Access

It was explained that a number of issues were not scheduled to be completed before the end of March and a final assessment of the extent of progress with each issue will be made at year end at which time reflection will determine whether or not to carry forward the Issues into the 2019/20 Statement if they remain "Significant".

During discussion of this item, Committee Members highlighted the large number of governance issues within the action plan and suggested a reduction to focus on key issues. With regard to the waste strategy an undertaking was given to provide more detail on the issue within the next submitted report.

RESOLVED- That this Committee notes the progress at Quarter 3.

9 External Audit Update

The Committee considered the audit findings report from external auditor, Grant Thornton, providing observations arising from the audit. The report concluded that it was anticipated that an unqualified audit opinion would be issued subject to the completion of the following outstanding tasks: completion of quality review procedures; review of final set of financial statements; and the receipt of the management letter of representation.

With regard to value for money, the report concluded that Grant Thornton were satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

It was reported that audit fees for 2018-19, which are subject to approval by Public Sector Audit Appointments Ltd, amounted to £137,721.

Further to Minute 10 of the last meeting of this Committee, it was reported that a meeting had been arranged for 2 April to enable Paul Dossett, National Partner at Grant Thornton, to address Committee Members in relation to the delay in signing off the Council's Statement of Accounts.

RESOLVED - That the update be noted.

10 Annual Review of Code of Corporate Governance

The Committee received a report on the review of undertaken by the Monitoring Officer on the Code of Corporate Governance. The Kirklees Code was last reviewed in 2017 following the publication of fresh guidance from CIPFA and SOLACE in 2016. It was reported that these guidelines are still current and as a result of this there have been no major revisions to the Kirklees Code.

A revised code was submitted to the Committee which highlighted some formatting changes and the inclusion of reference to Kirklees strategic objectives.

During consideration of this item, further revisions were suggested.

RESOLVED - That the revised Code of Corporate Governance, as set out in the report, be adopted subject to the inclusion of the following amendments:

Removal of the word 'also' in para 3; reference to and a link to the 'Corporate Plan'

Addition of the word 'above' before the word outcomes to clarify that it refers to the outcomes previously mentioned.

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KIRKLEES COUNCIL				
COUNCIL/CABINET/COMMITTEE MEETINGS ETC				
DECLARATION OF INTERESTS				
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.



Name of meeting: Corporate Governance & Audit Committee
Date: 22nd July 2020

Title of report: Draft Annual Governance Statement 2019/20

Purpose of report: To provide the Committee with details of the latest version of the Statement for information and comment prior to formal approval in conjunction with the Annual Accounts later in the 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 Council's Forward Plan (key decisions and private reports)?	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?	Yes
Is it also signed off by the Service Director for Legal, Governance & Commissioning?	Yes
Cabinet member portfolio	Cllr Shabir Pandor

Electoral wards affected: All
Ward councillors consulted: Not applicable
Have you considered GDPR; Yes
Public

1. Summary

- 1.1 The Committee is asked to note the latest version of the Draft 2019/20 Annual Governance Statement prior to it being signed off by the Chief Executive and Leader of the Council, which concludes that overall the governance arrangements remain fit for purpose and to consider whether the issues raised reflect the state of the governance and control framework during 2019/20.
- 1.2 As the Statement covers the period up until the Annual Financial Accounts 2019/20 are approved, there may be need for revisions to be made in the text to reflect the findings from the external audit and anything material in the intervening period. In this respect any significant impacts directly or indirectly consequent from the coronavirus epidemic will need to be reflected in the Statement. In recognition of this situation, the draft document includes separate commentary on the period from March 2020 as well as a separate conclusion and opinion as recommended by CIPFA / SOLACE.
- 1.3 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.

- 1.4 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.
- 1.5 The draft Statement highlights a number of what are termed 'Significant Governance Issues'. Some are brought forward from the 2018/19 Statement, in the main reflecting the wide-ranging nature of the issues and action required. A number of new issues have been identified too.
- 1.6 The actions and controls the Council is taking are contained within a recommended Action Plan. Because the final Statement is likely to be agreed late in this financial year, subject to the approval of this draft by this committee, it is intended that the draft Action Plan will be the subject of internal monitoring, with reporting back to Executive Team and this Committee during quarter 3 and quarter 4 for 2020/21. Any amendments made to the final version will be reflected in monitoring work should there be sufficient time to progress the action during the 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 **Working with People** – None directly
- 3.2 **Working with Partners** – None directly
- 3.3 **Place Based Working** – None directly
- 3.4 **Improving outcomes for children**– None directly
- 3.5 **Climate change and air quality**- None directly
- 3.6 **Other (e.g. Legal/Financial or Human Resources)** - 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, Service Director Finance, Head of (Audit &) Risk have commented on the draft Statement.

5. Next steps & Timelines

- 5.1 A finalised version of the Statement will be considered by the Committee ahead of the approval of the Annual Accounts later in the year. The Action Plan will be revised and updated in responding to the Significant Issues

identified. Monitoring will take place on the draft issues identified. When a final statement is approved, this will be monitored.

5.2 Communications will assist in the formatting of the final version.

6. Officer recommendations and reasons

Members are asked to comment on the draft Statement, and to formally note it.

7. Cabinet portfolio holder recommendation

Not applicable.

8. Contact officer

Simon Straker, Audit Manager 01484 221000 (73726)

9. Background Papers and History of Decisions

The Draft 2019/20 Statement is attached.
2018/19 Statement
Action Plan 2019/20 (included in the Quarterly Reports of Internal Audit).

10. Service Director responsible

Chief Executive.

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Kirklees Council

Annual Governance Statement 2019/20

Coronavirus Response

The impact of the global pandemic in Kirklees and on the Council from March 2020 was sudden, dramatic and unprecedented and has challenged the entire organisation and its governance arrangements.

From the middle of March until the start of May 2020 the Cabinet was unable to meet at all and a series of decisions were taken by the Chief Executive under emergency powers in the Constitution (in consultation wherever practicable with the Leader or leading members). Significant organisational disruption, new emergency responsibilities, increased staff absence and also staff working from home has impacted on addressing issues raised last year and created a multitude of potential new ones. So much so, that the impact so far and that likely to occur during 2020/21 have been included in an additional separate part of this Statement together with a conclusion about this period.

We would like to take this opportunity to thank all colleagues, councillors, partners and volunteers for their hard work and commitment so far which have placed the Council and the people and businesses of Kirklees in a much better place to move forward.

Overall Conclusion & Opinion

We have been advised on the extent and implications of the annual review of effectiveness of the governance framework by the Corporate Governance and Audit Committee, and are satisfied that overall the arrangements continue to be regarded as fit for purpose in accordance with our governance framework and Code of Corporate Governance. Understandably, we have less assurance than normal for the period from March 2020 but based upon the evidence available remain confident that this continued to be the case during this period of the Statement too.

We have begun to take steps on a priority risk basis to address the issues raised both by the pandemic and which form part of our ongoing response, as well as those that occurred prior to it in order to further enhance our governance arrangements as contained in the Action Plan that underpins this Statement. We are satisfied that these steps will address the need for improvements that were identified in our review and will monitor their implementation and operation during 2020/21 in conjunction with the Corporate Governance & Audit Committee ahead of next year's review.

Signed:

Cllr. Shabir Pandor, Leader of the Council



Jacqui Gedman, Chief Executive



Coronavirus Period Conclusion / Opinion

The response to Coronavirus focussed on a number of key priorities – managing business continuity, promoting public safety, maintaining support to the most vulnerable and providing a resilient response within the region.

Since March 2020, the way the Council operates and its governance arrangements have changed significantly but its' key objectives and commitment to the principles in the Local Code of Corporate Governance have remained the unwavering cornerstone to its activities and as such have remained fit for purpose in these unprecedented times.

Business continuity plans helped manage the initial phase of the response immediately prior to and following lockdown to ensure key public services and business critical activities continued in accordance with current and quickly changing Public Health England and Government advice. Cabinet and the Executive Team provided strategic leadership and support.

Whilst initially the Cabinet, and the regulatory functions exercised by the Planning & Licensing Committees continued to operate, as all political leaders supported a suspension to the non-business critical work of the Council, by 24 March 2020 all meetings had to be cancelled as social distancing measures could not be maintained if Members were actually present to take decisions as then required.

Matters about which a decision was required and which could not be deferred were then dealt with by the Chief Executive personally (or through a delegee) as provided for in the Constitution in an emergency (in consultation with the Leader, a Committee Chair and in some cases the Cabinet and Group leaders), or by Strategic Directors in accordance with the Officer Scheme of Delegation. The Chief Executive met regularly with Group leaders during this period (Public Health Emergency Advisory Group) to update them on matters and decisions which were required, as well as with the Chair of Scrutiny.

The Coronavirus (Flexibility of Local Authority and Police and Crime Panel Meetings) Regulations 2020 came into force on 4 April 2020. This put in place the ability for Councils to hold meetings virtually so long as they meet certain criteria specified in the Regulations. The first virtual meeting of the Cabinet took place on 1 May at which the Chief Executive reported back on the decisions she had taken in the interim as required by the Constitution. The Regulations also enabled deferment of the Annual General Meeting.

As with all other organisations, the coronavirus outbreak represents a unique and unprecedented set of challenges to the Council as a service provider, community leader, partner and an employer. The fundamental challenge to established ways of working and global nature of the pandemic has necessarily raised a number of Issues for the Council but to date we have successfully delivered upon our key objectives and delivered services to those most in need within the principles of our governance arrangements.

Significant Issues

At some future point a full review will be conducted of the Council's response and learning points for the future. For this draft version of the Statement it is too early to say with sufficient confidence what particular issues merit inclusion. The final version of the Statement later in the

year will include the outcome of a more thorough review of the impact on the Council's key objectives.

Wider Significant Governance Issues during 2019/20

The annual review process that has been possible has identified and evaluated both ongoing and new Issues and if any meets one or more of the following criteria suggested by CIPFA / SOLACE it is regarded as Significant and included in this Statement:

- it undermines / threatens the achievement of organisational objectives (A)
- it is a significant failure to meet the principles (and sub-principles) of good Governance (B)
- it is an area of significant concern to an inspector, external audit or regulator (C)
- the head of internal audit, one of the statutory officers or the corporate governance & audit committee has recommended it be included (D)
- it is an issue of public or stakeholder concern (E)
- it is an issue that cuts across the organisation and requires cooperation to address it (F)

Progress with the Issues in last year's Statement

The Executive Team and the Corporate Governance & Audit Committee have received reports to monitor progress with the Action Plan during 2019/20. Whilst some Issues were relatively self-contained and have been resolved during the year, several are of a more all-encompassing nature, often not all under the Council's direct control, and these often take longer to address than one year, nevertheless various parts of each Issue have been resolved during the year and where appropriate this has been reflected in what remains ongoing.

Issue / Inclusion Criteria	Progress	Further Action
Strengthen the Corporate Plan with improved linkages to both revenue and capital resource allocation and performance measures. (A, B, F)	<p>A new strengthened Corporate Plan was produced for 2018-20 which explained the journey from <i>New Council to We're Kirklees</i>, focussed on the whole Borough and seven shared outcomes for residents.</p> <p>3 key principles underpin this</p> <ul style="list-style-type: none"> • Working with our partners • Working with (and not doing to, or for) residents • Working better in places 	<p>There is likely to be a substantial revision to the Corporate Plan to reflect the impact on the organisation and its finances consequent to Coronavirus (including reference to the Council's guardians of the future transformation work).</p> <p>To develop a more robust, intelligence led performance management mechanism across the organisation aligned with the</p>

Issue / Inclusion Criteria	Progress	Further Action
	<p>A shift to longer term strategic planning made in 2018/19 meant only relatively minor changes were made to the Corporate Plan for 2019/20.</p> <p>Both the Medium Term Financial Plan 2020-23 (revenue) and Capital Plan (2020-25) are well aligned to corporate plan ambition and priorities. Reviewing budget setting arrangements for 2019/20 and beyond regarding outcome based budgeting was acknowledged to be a work in progress as regards the most recent budget round.</p> <p>A revised quarterly performance monitoring system has been introduced.</p>	<p>annual planning cycle to drive resource allocation decisions that are better aligned to priority outcomes and to monitor their delivery.</p> <p>The performance management system needs embedding for both business critical indicators and other service measures used, including the development of more relevant qualitative indicators alongside quantitative ones to better measure outcomes and impacts. Consideration is also being given to how service planning can be more closely aligned with this mechanism.</p> <p>The next Corporate Plan (2020-23) also needs to take account of developmental issues included in the Peer Review Action Plan with an aligned Communications Strategy.</p>
<p>Manage delivery of the Council's Transformation Activities.</p> <p>(A, F)</p>	<p>Dedicated council resources were allocated to add quality, assurance and organisation. The input of an external partner added skills and further rigour.</p> <p>An assessment of the impact of transformation activities in the summer of 2018 also illustrated a number of areas for learning and potential re-focus.</p> <p>The Transformation Team clarified and enhanced its offer to respond to changing demands for a mix of robust project management, innovative business change skills and the ability to challenge and offer new insights.</p>	<p>To focus on the following areas of priority for allocation of transformation resources:</p> <ol style="list-style-type: none"> 1. Organisation Design - Work has started to consider the future shape of the organisation. 2. Development of Place-based working - Working with communities and delivering services that recognise the diversity of the different places across Kirklees and their needs. 3. Strengthening enabling services.

Issue / Inclusion Criteria	Progress	Further Action
	<p>Transformation is now focused on the ongoing development and sustainability of public services, which means continuing change and innovation. It is less driven by the savings targets that will come through services and overall budget monitoring.</p>	<p>4. High Needs, Placements & Waste - Existing areas of work within services, where Executive Team has identified that a broader approach may be beneficial, hence the input of transformation resources.</p> <p>5. Adult Social Care, Children's Improvement - These are moving beyond transformation into a 'business as usual' state. Transformation resources are being gradually withdrawn as change is embedded into working practice.</p> <p>These priorities may be amended consequent to learning about real organisational priorities as a consequence of coronavirus.</p>
<p>Strengthen Partnership Governance (A, B, F)</p>	<p>A light touch governance review has been completed and is leading to more solid governance structures for the Partnership Executive: a revised executive arrangement is in place with themed meetings throughout the year that draw the partner together on a topic basis.</p> <p>Revised governance framework and Partnership agreement with KNH. Interim governance control and management arrangements were implemented at KNH to enable revised responsibilities and authority between the Cabinet and KNH Board to become operational and seamless.</p> <p>The Children's Partnership Board arrangements have re-launched recently.</p>	<p>Even prior to Covid 19 there was still scope to increase the effectiveness of some partnership arrangements and for changes made in 2019/20 to become embedded. This need now has a sharpened focus than ever before because of the heightened risks faced with associated parties/partnerships - KNH/ Kirklees Stadium Development Limited, plus KAL. Also, Kirklees Community Association is now in view for governance reasons.</p> <p>In conjunction with the outcome of the Corporate Peer Review a report was taken to Cabinet during May 2020 on the options for the future of housing management and KNH, and consultations is taking place with</p>

Issue / Inclusion Criteria	Progress	Further Action
	<p>Arrangements for the Health & Wellbeing Board are being refreshed with engagement including other local authorities'</p> <p>Recruited and realigned resources to support partnership working.</p>	<p>stakeholders.</p>
<p>Continue to Strengthen Risk Management</p> <p>(A, B, D, F)</p>	<p>New Strategy & Risk Panel established.</p> <p>The Corporate Matrix has been regularly updated along with an emerging risk report, and this has been discussed by ET and Leadership Management Team. The CGAC has commented positively on the Corporate Matrix but expressed concerns about the quality and consistency of the directorate based risk management processes.</p>	<p>This still needs more work, as the quality of directorate based risk arrangements requires improvement, as does risk elevation.</p>
<p>Continue to improve manager capacity and skill base.</p> <p>(A, F)</p>	<p>Work continues on each of the 3 key strands of the People Strategy (Attraction, Development and Wellbeing). Updates on each theme have been reported regularly to Scrutiny Panel and the Modern Organisation Board. The 'Development' strand addresses cultural transformation, developing our workforce, leadership and management and performance.</p>	<p>Complete implementation of the People Strategy and embed across the manager base.</p> <p>Strengthen the wider corporate centre to develop its capacity; and invest in the Council's ICT systems.</p>
<p>School Governance arrangements need review and improvement.</p> <p>(D, E)</p>	<p>A Schools Causing Concern Group chaired by the Service Director has been established to identify and share issues for remediation.</p>	<p>Look to understand what is causing a (historically) large number of complaints about governance and management in schools, and look to identify potential solutions.</p>

Issue / Inclusion Criteria	Progress	Further Action
Governance arrangements need developing to identify and manage issues arising from historically different service delivery. To learn from the lessons arising and make sure the issues are addressed.	<p>Work has commenced to develop a corporate approach that satisfies initial management of such issues as they emerge through the corporate risk management process via the Risk Panel and these are flagged up to ET and enable organisational reflection and learning with a view to being less insular and to draw upon wider external assurances and develop an assurance backed culture.</p> <p>Where issues such as historically poor safeguarding, health and safety or HR practices are identified, checking will be undertaken to ensure that the same practices are not still in operation and to take appropriate action.</p>	To embed and disseminate the learning following the identification and response of such issues on a corporate basis.

New Issues in 2019/20

Issue / Inclusion Criteria	Action
<p>Develop and strengthen the governance arrangements for decision-making and place-based working, including greater clarity to the roles and responsibilities of Members and officers, including greater congruence between officer and member structures (as per Peer Review).</p> <p>(A, B & C)</p>	<p>Develop new proposals around governance and decision-making arrangements</p> <p>Complete the re-design of the councillor role profile. This will form the basis of how we redesign support for councillors and how officers work more effectively and collaboratively with them.</p>
<p>Formulate a corporate Assurance Framework and culture, especially for good and sustainable financial management in the Council. Identify and respond to any gaps and address</p>	<p>Compile all the various sources of assurance and determine how they inter-relate to one another.</p> <p>Commission internal audit to undertake an initial self-assessment review based on the best practice</p>

<p>matters identified.</p> <p>(All)</p>	<p>in CIPFA's Financial Management code' and report back to CGAC for an initial assessment.</p> <p>Manage any wider areas about which assurance is inadequate.</p> <p>Ensure issues are responded to appropriately and completed actions are delivered.</p>
<p>Develop a more strategic corporate management of the investigation and treatment of cases of suspected fraud & corruption.</p> <p>(D)</p>	<p>Refresh the Corporate Strategy engaging Members and CGAC in particular and focus resources on key risk areas.</p>
<p>Address the issues raised in connection with maintaining the health and safety of housing tenants, ensuring that management and operational arrangements provide for the health and safety of all Council employees, tenants and residents.</p> <p>(C, D, E)</p>	<p>Implement the recommendations in the agreed Action Plan as monitored by the Chief Operating Officer, Board and Cabinet.</p>

A detailed Action Plan sits behind this summary and the Executive Team and Corporate Governance & Audit Committee will monitor progress quarterly during 2020/21.

Statement Scope

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, 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.

Kirklees Council has a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA / SOLACE framework *Delivering Good Governance in Local Government 2016*. A copy of the Code is available from the Monitoring Officer. The current version following annual review can be found at

<https://www.kirklees.gov.uk/beta/council-and-democracy.aspx#your-council>

This Statement explains how the Council has complied with the Code during 2019/20 and up to the date that the Statement of Accounts was approved and thus meets the requirements of the Accounts and Audit Regulations 2015, as revised by the Accounts and Audit (Amendment)

Regulations 2020. It provides assurance about the Council's governance framework, including the other entities in the Group Accounts, a wholly owned subsidiary, Kirklees Neighbourhood Housing Limited and a joint venture, Kirklees Stadium Development Limited, to enable readers of the consolidated Accounts to be satisfied that proper arrangements are in place to govern spending and safeguard assets. Where specific improvements and/ actions are ongoing or needed, brief information is provided about the key issues and the main areas of work that have been progressed during 2019/20. A more detailed Action Plan sits behind this summary.

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 key parts of the governance framework

- a Local Code of Corporate Governance overseen by the Service Director Legal, Governance & Commissioning and the Corporate Governance and Audit Committee, to assess operational practice and behaviour, and prepare this Statement.
- a Council Constitution
- a Leader and Cabinet model of governance, supplemented by decisions of the Chief Executive March – May 2020 under the emergency powers of Part 3.7 of the Constitution and Strategic Directors under the Officer Scheme of Delegation. Cabinet meetings have been held virtually since 1 May in accordance with new legislation. Virtual meetings were rolled out to enable other Committees to meet similarly as soon as was possible.
- a corporate governance, audit and scrutiny process as set out in the Constitution,
- 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 as Section 151 Officer. The S151 Officer is a professionally qualified accountant and reports directly on financial matters to the Chief Executive as a member of ET.
- a Corporate Plan that outlines how officers will seek to run the Council to meet our community commitments and objectives
<https://www.kirklees.gov.uk/beta/delivering-services/pdf/corporate-plan-201820.pdf>

- oversight and delivery of the Council Transformation Programme, including a number of officer boards as described in the Constitution, notably the Children’s Board
 - a Monitoring Officer who has responsibility for the Constitution and ensuring the legality of Council actions and decision making.
 - a 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 Authorities (2014)*.
 - codes of conduct defining the standards of behaviour for Members and employees
 - an Anti-Fraud & Corruption Policy
 - a Risk Management Strategy
 - systems of financial and business internal control
 - an internal audit section, that is compliant with the Public Sector Internal Audit Standards and Code of Ethics
 - whistle blowing arrangements
 - a complaints system for residents and service users
 - business continuity arrangements
 - a senior manager to act as the Caldicott Guardian to protect the confidentiality of patient and service-user information
 - a Data Protection Officer reporting directly to the Chief Executive and a Senior Information Risk Officer
 - arrangements to manage other parts of the Council’s Group. The S151 Officer monitors and reports on the financial effectiveness of the subsidiary and joint venture companies, whose accounts are subject to external audit.
- The governance arrangements of KNH Limited were revised in 2018/19 with a strengthened Board to oversee housing operations and to act as a single purpose vehicle to deliver the housing management and maintenance service. Housing Policy and Strategy, housing/asset investment and Housing Revenue Account business planning matters are determined by the Council, Cabinet or Council officers with advice from KNH officers.
- a Covid Recovery Framework using the strong foundations established during lockdown to help the Council come back stronger across a themed recovery programme supported by an Outbreak Control Plan approved by the local Health Protection Board.

2019/20 Review of effectiveness

Kirklees Council has a legal responsibility for conducting, at least annually, a review of the effectiveness of its governance framework. The review is informed by a number of sources including the work of the executive managers, the Head of Audit & Risk’s annual report, the external auditor and other review agencies and inspectorates and Member Committees. 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 described below, although due to the timing of the Coronavirus outbreak some sources of assurance used are in interim or draft version pending return to more normal working. A further assessment will be made later in the year before finalising the Statement.

1. Annual 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 CGAC approved the annual review of the effectiveness of its system of internal control and internal audit. The Head of Audit & Risk's self-assessment of current compliance with the Public Sector Internal Audit Standards & Code of Ethics and revised CIPFA Local Government Application Note 2019, concluded that overall Internal Audit does conform to these Standards and an Action Plan has been agreed to further improve compliance and progress with this, which will be monitored by the CGAC.

2. Head of Audit and Risk's Annual Assurance Opinion

Based both on the programme of planned Internal Audit work and the findings of ad hoc reviews and investigations undertaken and other than in respect of a small number of significant control issues that have arisen during the year, 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.

Concern was expressed about the following key areas about which Limited Assurance opinions were produced and which were given due consideration as Significant Governance Issues:

- Need to adopt a corporate assurance framework
- Council and KNH Health & Safety Issues
- Better control of the risk of fraudulent creditor payments

3. External Auditor's Review

During the year the External Auditor's Annual Report included

- an unqualified opinion on the Council's 2018/19 financial statements; and
- an unqualified value for money conclusion, stating that we have made proper arrangements to secure economy, efficiency and effectiveness in our use of resources.

The period to which this Statement relates has been elongated this time beyond the normal point of the September following the end of the previous financial year by two factors

- additional professional requirements on the external auditor, and
- The impact of coronavirus.

It is likely that the Statement will apply until at least 30 November and the Annual Review reflects this extension, albeit that work is ongoing too in order address the issues as described in the Action Plan.

4. Corporate Governance & Audit Committee (CGAC)

The Committee considered and approved an updated Local Code of Corporate Governance at its meeting in March.

During 2019/20 the CGAC reviewed a number of aspects of the Council's governance arrangements and noted or approved revisions or made recommendations to Council as appropriate. CGAC also receives assurance from various annual reports such as health and safety, emergency planning and business continuity, information governance and customer corporate complaints and is informed of peer review activity.

Recognising the need to ensure that members of the Committee have the appropriate support and skills to carry out their role, training sessions were provided during the year including looking at Treasury management.

5. Overview & Scrutiny Management Committee

During 2019/20 the Committee and its four Panels reviewed a number of aspects of the Council's governance arrangements and key issues faced and strategies and responses to manage these, including the climate emergency, community cohesion and financial reporting.

6. Standards Committee

During the year the Committee reviewed various aspects of Member conduct, and initiated review of the standards process in response to publication of the report of the Committee on Standards in Public Life.

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 continue to fully conform to those set out in the Statement.

8. External Inspections & Peer Reviews

Two key pieces of work were undertaken during the year.

- Local Government Association Corporate Peer Review Challenge

The Challenge took place during July 2019. It involved substantial input from a wide range of staff, elected members and stakeholders. The peer team considered five key areas of

inquiry, which form the core components covered by all such Challenges. These are areas the LGA believe are critical to councils' performance and improvement:

- understanding of the local place and priority setting;
- leadership of place;
- organisational leadership and governance;
- financial planning and viability; and
- capacity to deliver.

In addition to the five areas above, the Council asked the peer team to take a sense check of whether the Council has the right focus, how the Council's 'journey' might be speeded up and what more the Council could do.

The outcome of the report was largely positive. It did provide a series of key recommendations and an Action Plan has been compiled to manage the response, which includes development issues being managed through the new Corporate Plan and governance ones through the Action Plan for this Statement.

- Ofsted Inspection – Children's Services

A full inspection commenced in June 2019 and concluded that significant progress had been made across Children's Services since the last inspection took place in 2016 which led to special measures being introduced.

It acknowledged the improvements that have been made in supporting children, young people and families, noting that the authority is showing clear and focused leadership; a strengthening of partnerships; and improved workforce stability. It adds that there are no widespread or serious failures, children who need help and protection are now recognised and the risk of significant harm is quickly responded to.

Whilst the report confirmed that Kirklees is no longer considered inadequate in any of its service areas, it did outline a number of areas for further improvement, which is reflected in the judgement of 'requires improvement to be good'. Work is in progress to address these improvement areas.

9 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 escalation of appropriate issues. These arrangements are subject to both Cabinet and Scrutiny oversight.

10 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 continuing to work on a

number of areas where arrangements need to be revised to strengthen and embed the governance framework, as identified in the Action Plan for this Statement.

11 Director of Public Health / Emergency Planning

As the coronavirus outbreak escalated during March 2020, the risk and potential impact on the Council and the whole of Kirklees was assessed and the scale and magnitude of the issues raised came into focus. Advice and guidance building on that from Public Health England has continued apace ever since.

12 Monitoring Officer / Senior Information Risk Owner

Reviewed information governance and security matters as role of Chair of the Information Governance Board, as well as wider organisational governance and compliance with the Constitution.

DRAFT



Name of meeting: Corporate Governance and Audit Committee

Date: 22 July 2020

Title of report: Annual Report on Treasury Management 2019-20

Purpose of report

Financial Procedure Rules require that the Council receives an annual report on Treasury Management activities for the previous financial year. The report reviews borrowing and investment performance.

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 Council's Forward Plan (key decisions and private reports)?	Yes
The Decision - Is it eligible for "call in" by Scrutiny?	Yes
Date signed off by Service Director & name	Eamonn Croston 10 July 2020
Is it also signed off by the Service Director for Finance	As above
Is it also signed off by the Service Director for Governance and Commissioning Support?	Julie Muscroft – 13 July 2020
Cabinet member portfolio	Cllr Graham Turner

Electoral wards affected: Not applicable

Ward councillors consulted: Not applicable

Public or private: Public

GDPR: This report contains no information that falls within the scope of General Data Protection Regulations

1. Summary

1.1 The Council's treasury management operation for the year has followed the strategy approved by Council on 13 February 2019. Investments averaged £32.7 million, were largely deposited in instant access accounts and earned an average interest rate of 0.73%. Total external borrowing at 31st March 2020 increased by £31.0 million to £426.9 million (£395.9 million as at 31st March 2019). The increase is mainly due to the borrowing requirements in the capital plan. Temporary borrowing increased for the year by £39.5 million

to £40.9 million (£1.4 million 31st March 2019). The majority of borrowing is on fixed rate terms and the average long term borrowing rate for 2019-20 was 4.67%.

- 1.2 In 2017-18 the Council approved a revision to its Minimum Revenue Provision (MRP) policy, which relates to the amount of revenue resources set aside each year to provide for its outstanding debt repayments over the longer term. This was done by updating its approach to Supported Borrowing from 2007-08 onwards, moving from a 4% reducing balance to an annuity basis in its repayment of debt.
- 1.3 In updating the approach the Council effectively over-provided in previous years the re-payment of debt to the sum of £91.1m. Within the Treasury Management Strategy 2018-19 the Council set out its approach to unwind this over-provision at £9.1m each year over the next 10 years, starting from 2017-18 onwards.
- 1.4 Following approval within the 2018-19 Treasury Management Strategy there was a further increase in the un-winding in the General Fund MRP for 2018-19 and 2019-20. The maximum amount of un-wind in any one year cannot be more than the overall annual MRP calculation, as otherwise the Council would end up in a negative MRP position, which is not allowable under accounting rules. The calculation estimated for the Treasury Management Strategy was £13.5m. The actual MRP calculation for 2019-20 and hence the maximum unwind allowable is £13.7m. In the 2019-20 the unwind has therefore been increased by a further £200k.
- 1.5 Treasury management costs incurred in the year include £10.8 million on net interest payments. The Council complied with its treasury management prudential indicators in the year.

2. Information required to take a decision

2.1 Background

- 2.1.1 The Council has adopted the CIPFA Code of Practice on Treasury Management and operates its treasury management service in compliance with this Code and various statutory requirements. These require that the prime objective of the activity is to secure the effective management of risk, and that borrowing is undertaken on a prudent, affordable and sustainable basis.
- 2.1.2 Council Financial Procedure Rules require that the Council receives an annual report on Treasury Management activities for the year. Cabinet is responsible for the implementation and monitoring of the treasury management policies. Corporate Governance and Audit Committee undertake a scrutiny role with regard to treasury management.
- 2.1.3 In reviewing 2019-20 performance, reference will be made to the Treasury Management Strategy Report approved by Budget Council on 13 February 2019.

2.2 Borrowing and Investment Strategy 2019-20

- 2.2.1 The Council's overall Treasury Management Strategy prioritises security, liquidity and risk management which was adhered to in 2019-20. The Council aims to invest externally, balances of £30 million, largely for the purpose of managing day-to-day cash flow requirements, with any remaining balances invested "internally", offsetting borrowing requirements. The investment strategy is designed to minimise risk, investments being made primarily in instant access accounts or short-term deposits, with the major British owned banks and building societies, or Money Market Funds.
- 2.2.2 Although it only affected the last couple of weeks of the 2019-20 financial year, COVID-19 had a significant impact on treasury management. . In an operational sense, this resulted in a shortage of options for short-term borrowing within the market as a whole, with a resultant increase in rates. Due to the cyclical nature of local government cashflows and the uncertainty around the implications for future cashflows, various central government mitigations were implemented to ease sectoral concerns about short-term access to funds and market liquidity. For the Council, this position was eased with the receipt in advance of several tranches of Central Government funding for 2020-21. Further specific details are provided in the subsequent paragraphs within this report.

2.3 The Economy and Interest Rates

Below paragraphs 2.3.1-2.3.6 are a commentary from our external treasury management advisors, Arlingclose.

- 2.3.1 The UK's exit from the European Union and future trading arrangements, had remained one of major influences on the UK economy and sentiment during 2019-20. The 29th March 2019 Brexit deadline was extended to 12th April, then to 31st October and finally to 31st January 2020. Politics played a major role in financial markets over the period as the UK's progress negotiating its exit from the European Union together with its future trading arrangements drove volatility, particularly in foreign exchange markets. The outcome of December 2019 General Election removed a lot of the uncertainty and looked set to provide a 'bounce' to confidence and activity.
- 2.3.2 The headline rate of UK Consumer Price Inflation fell to 1.7% year on year in February, below the Bank of England's target of 2%. Labour market data remained positive. The International Labour Organisation (ILO) unemployment rate was 3.9% in the three months to January 2020 while the employment rate hit a record high of 76.5%. The average annual growth rate for pay excluding bonuses was 3.1% in January 2020 and the same when bonuses were included, providing some evidence that a shortage of labour had been supporting wages.
- 2.3.3 Gross Domestic Product (GDP) growth in Q4 2019 was reported as flat by the Office for National Statistics and service sector growth slowed and production and construction activity contracted on the back of what at the time were concerns over the impact of global trade tensions on economic activity. The annual rate of GDP growth remained below-trend at 1.1%.
- 2.3.4 Then coronavirus swiftly changed everything. COVID-19, which had first

appeared in China in December 2019, started spreading across the globe causing plummeting sentiment and falls in financial markets not seen since the Global Financial Crisis as part of a flight to quality into sovereign debt and other perceived 'safe' assets.

2.3.5 In response to the spread of the virus and sharp increase in those infected, the government enforced lockdowns, central banks and governments around the world cut interest rates and introduced massive stimulus packages in an attempt to reduce some of the negative economic impact to domestic and global growth.

2.3.6 The Bank of England, which had held policy rates steady at 0.75% through most of 2019-20, moved in March 2020 to cut rates to 0.25% from 0.75% and then swiftly thereafter brought them down further to the record low of 0.10%. In conjunction with these cuts, the UK government introduced a number of measures to help businesses and households impacted by a series of ever-tightening social restrictions, culminating in pretty much the entire lockdown of the UK.

2.4 Investment Activity

2.4.1 The Council's treasury management investments totalled £52.0 million as at 31 March 2020 (£39.1 million 31 March 2019). The Council invested an average balance of £32.7 million externally during the year (£45.2 million 2018-19). Interest income of £0.204 million was generated through these investments (£0.313 million 2018-19) and £0.183 million dividend income from the CCLA Property Fund. Appendix 1 shows where investments were held at the beginning of April 2019, the end of September 2019 and the end of March 2020, by counterparty, by sector and by country. The Council's average lending rate for the year was 0.73% (0.67% 2018-19).

2.4.2 The majority of investments were placed in instant access bank deposit accounts/Money Market Funds (MMFs). MMFs offer greater diversification of counterparties and thus lower risk, as well instant access and relatively good returns. The Council invested £10 million during the year in the CCLA Property Fund as part of the 2019-20 Treasury Management Strategy.

2.5 Borrowing Update

2.5.1 On 9th October 2019 the Public Works Loan Board (PWLB) raised the cost of certainty rate borrowing by 1% to 1.8% above UK gilt yields as HM Treasury was concerned about the overall level of local authority debt. As a result, by way of an example, a 30 year maturity loan on 8th October was 1.96% which increased to 2.97% the following day. PWLB borrowing remains available and although rates have reduced, (a 30 year maturity loan on 6th July was 2.68%) it is still 1% higher than it would otherwise have been. Market alternatives are available and new products have been developed; however, the financial strength of individual authorities is subject to increased scrutiny by investors and commercial lenders for any market alternative.

2.5.2 The Chancellor's March 2020 Budget statement included significant changes to PWLB policy and launched a wide-ranging consultation on the PWLB's future direction. Announcements included a reduction in the margin on new HRA loans, the value of this discount is 1% below the rate at which the authority usually borrows from the PWLB, available from 12th March 2020.

2.5.3 The consultation proposals allow authorities that are not involved in “debt for yield” activity to borrow at lower rates as well as stopping local authorities using PWLB loans to buy commercial assets primarily for yield without impeding their ability to pursue their core policy objectives of service delivery, housing, and regeneration. The consultation closes on 31st July 2020 with implementation of the new lending terms expected in the latter part of this calendar year or financial year beginning 2021-22.

2.6 Borrowing Requirement and Debt Management

2.6.1 In terms of borrowing, long-term loans at the end of the year totalled £373.7 million and short-term loans (excluding interest accrued) £53.2 million (£384.1 million and £11.8 million 31 March 2019), an overall increase of £31.0 million. There was no new long term borrowing in 2019-20. Appendix 2 details repayments of long-term loans during the year and short-term loans outstanding as at 31 March 2020.

2.6.2 Fixed rate loans account for 83.53% of total long-term debt (see also Appendix 5) giving the Council stability in its interest costs. The maturity profile for all long-term loans is shown in Appendix 3 and shows that no more than 9% of all debt is due to be repaid in any one year. This is good practice as it reduces the Council’s exposure to a substantial borrowing requirement in any one particular future year, when interest rates might be at a relatively high level.

2.6.3 The primary source of the Council’s borrowing is from the Government i.e. Public Works Loan Board (PWLB). See also, 2.5 above.

2.6.4 The Council held a £10.0 million range Lender Option Borrower Option (LOBO) with Barclays at the beginning of the year paying interest of 4.1%. LOBO loans are when the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. As previously reported (to Corporate Governance and Audit Committee on 15th November 2019), Barclays approached the Council with a view to converting this to a fixed rate loan. This was subsequently agreed in July 2019 and converted to a fixed rate maturity loan with an interest rate of 3.75%. This brings the total of LOBO loans down to £61.6 million which represents 16% of total external borrowing.

2.6.5 The table below sets out the actual external borrowing requirement against estimated requirements;

2.8 Risk and Compliance Issues

- 2.8.1 The Council has complied with its prudential indicators for 2019-20, which were approved as part of the Treasury Management Strategy. Details can be found in Appendix 5. Indicators relating to affordability and prudence are highlighted in this appendix.
- 2.8.2 When the Council has received unexpected monies late in the day, officers have no alternative but to put the monies into the Barclays Business Reserve Account overnight. The account is maintained so that usually, daily balances are under £100k. The maximum daily amount deposited in this account overnight as a result of unexpected late payments was £1.6m. Whilst this is not an ideal situation, the Council is still within investment limits as per the Treasury Management Strategy which is set at £10m per counterparty.
- 2.8.3 In line with Council Treasury Management Strategy, the Council has not placed any direct investments in companies as defined by the Carbon Underground 200.
- 2.8.4 The Council is aware of the risks of passive management of the treasury portfolio and, with the support of the Council's consultants (Arlingclose), has proactively managed the debt and investments over the year.
- 2.8.5 The CIPFA Code of Practice requires that treasury management performance be subject to regular member scrutiny. The Corporate Governance and Audit Committee performs this role and members have received reports on strategy, half yearly monitoring and now the outturn for the year 2019-20. Training was provided to Members on the 15th November 2019.

Looking ahead – Treasury Management developments in 2020-21

2.9 Re-financing/re-payment of current Long Term Borrowing

- 2.9.1 As outlined within the Council approved Treasury Management Strategy 2020-21, the Council will continue to look to repay existing long term debt when the opportunity arises where it becomes beneficial for the Council to do so.
- 2.9.2 In light of a number of lenders currently reviewing their holding of LOBO loans, there may be further opportunities to convert or re-finance existing LOBOs. With LOBO loans the Lender has the option to exercise their right to change the interest rate at which point the borrower can then choose to accept the new interest rate or choose to re-pay at no additional cost. Should any opportunities arise in the future then these would be investigated and reported back to members.
- 2.9.3 It is intended that Council officers liaise with the Council's external Treasury Management advisors, Arlingclose, to review lender options, and proceed if they are considered to be in the longer term best interests of the Council.

2.10 Loan Funding Sources

- 2.10.1 The Council may be presented with additional sources of long-term funding at certain points in time, beyond those currently listed in the Council's current

Treasury Management Strategy. These may be at preferential rates of interest and therefore the Service Director Finance (Section 151 Officer) will look to maximise the use of source funds when it is preferential to do so.

- 2.10.2 One such opportunity is with SALIX Finance Ltd. SALIX Finance Ltd provides interest free Government funding to the public sector to improve their energy efficiency, reduce carbon emissions and lower energy bills. The Council to date has taken the opportunity to secure £6.8m interest free loan to part fund the £11m approved street lighting replacement scheme in the Council's approved capital plan.

2.11 Investment Opportunities

- 2.11.1 The Service Director Finance, supports the approach that the borrowing and investment strategy for 2020-21 continues to place emphasis on the security of the Council's balances.

- 2.11.2 Average current cashflow balances from April 2020 is £92.2 million, significantly higher than the ideal balances of £30m normally required for 'business as usual' day to day cashflow requirements. Business grants of £113.6m and Covid-19 related grants of £23.9m received in March 2020 have overstated this current cash flow figure so far this year. The receipt of these grants in March 2020 was a result of concerns about short-term access to funds for local authorities and market liquidity. Government addressed these issues early by providing, in advance, funding normally allocated in instalments in-year. As a result, liquidity risks within the sector to be able to manage daily cashflow requirements efficiently and effectively, are currently minimal but will remain under regular review through the remainder of the year. A high level financial impact of COVID-19 report on 21 May highlighted potential financial impacts on the Council, including ongoing cashflow volatility (see below):

[COVID-19 - Impact upon Council Finances \(Agenda Item 7\)](#)

- 2.11.3 In order to increase investment returns and following member approval to add the Local Authorities Pooled Investment Fund (LAPF) as an approved Council investment in the 2019-20 Treasury Management Strategy, the Council invested £10 million into the fund during the year.
- 2.11.4 The Local Authorities Property Fund was established in 1972 and is managed by CCLA Fund Managers. As at March 2020 there are assets under management of £1,206m. The Fund aims to provide investors with a high level of income and long-term capital appreciation, and it is an actively managed, diversified portfolio of UK commercial property. It principally invests in UK assets, but may invest in other assets.
- 2.11.5 The fund returned a gross dividend yield of 4.4% in 2019-20 (4.2% 2018-19), which compares with average 0.73% on other short-term investments (see paragraph 2.4.1 above). Net income of £0.183 million was received by the Council in 2019-20. This reflects a part-year effect as the £10m was invested in two £5m tranches (in May 2019 and February 2020).
- 2.11.6 Arlingclose commented that: *In a relatively short period since the onset of the COVID-19 pandemic, the global economic fallout was sharp and large. Market reaction was extreme with large falls in equities, corporate bond*

markets and, to some extent, real estate echoing lockdown-induced paralysis and the uncharted challenges for governments, businesses and individuals. Gilt yields fell but credit spreads widened markedly reflecting the sharp deterioration in economic and credit conditions associated with a sudden stagnation in economies, so corporate bonds yields (comprised of the gilt yield plus the credit spread) rose and prices therefore fell.

- 2.11.7 The falls in the capital values of the underlying assets of the Local Authorities Property Fund (LAPF) were reflected in the 31st March fund valuations with the fund registering negative capital returns over 12 months to March 2020.
- 2.11.8 These unrealised capital losses of £0.9m in 2019-20 will not have an impact on the General Fund as the Council is utilising a Government dispensation for LAPF financial investment capital losses/gains at each year end to be notionally adjusted for within the Council's annual accounts, rather than it being a charge to the General Fund. It should be noted, that the current dispensation ends in 2023-24.
- 2.11.9 The investment in the fund is part of a longer term investment strategy to mitigate against any short-term market volatility or risk. As this fund has no defined maturity date its performance and continued suitability in meeting the Authority's investment objectives is regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three to five-year period total returns will exceed cash interest rates.
- 2.11.10 As a result of the receipt in advance in March 2020, of a tranche of central government funding for 2020-21 (as noted in paragraph 2.11.2); the Council has taken up an opportunity to prepay its superannuation contributions to the West Yorkshire Pension Fund for 2020-21. This is expected to result in a saving to the Council of approximately £600k.

2.12 New Borrowing

- 2.12.1 Following the 1% increase in PWLB borrowing rates in October 2019, Arlingclose suggest that PWLB rates are now relatively expensive (albeit reset to the rates they were 12 months previous) compared to alternative longer term funding sources, where Councils are considering longer term borrowing. The Council's current approach is to continue to borrow short term, but this will be subject to ongoing review in consultation with Arlingclose, as to when it may be more appropriate to borrow longer term. It will also be considered in light of the timing of PWLB rates potentially coming down from current levels, depending what Government implements following the PWLB Future Lending Terms consultation. As noted earlier in the report (paragraph 2.11.2) in light of COVID, cashflow remains relatively volatile (compared to business as usual) but measures introduced by Government have actually resulted in a lot of short term funds being currently available at low rates.

3. Implications for the Council

- 3.1 Working with People** – no impact
3.2 Working with Partners – no impact
3.3 Place Based Working – no impact

APPENDIX 1

Kirklees Council Investments 2019/20											
Counterparty	Credit Rating Mar 2020*	1 April 2019			30 September 2019			31 March 2020			
		£m	Interest Rate	Type of Investment	£m	Interest Rate	Type of Investment	£m	Interest Rate	Type of Investment	
<u>Specified Investments</u>											
Santander	Bank	F1/A+	2.0	0.85%	35 Day Notice	0.0	0.85%	35 Day Notice	0.0	0.85%	35 Day Notice
Aberdeen Standard	MMF**	AAAmf	9.9	0.79%	Instant Access	10.0	0.74%	Instant Access	10.0	0.48%	Instant Access
Aviva	MMF**	Aaa-mf	10.0	0.79%	Instant Access	7.2	0.72%	Instant Access	6.6	0.45%	Instant Access
Deutsche	MMF**	AAAmf	0.0	0.71%	Instant Access	10.0	0.72%	Instant Access	2.9	0.41%	Instant Access
Goldman Sachs	MMF**	AAAmf	7.2	0.72%	Instant Access	0.0	0.67%	Instant Access	7.5	0.28%	Instant Access
Thurrock Council	Local Authority		5.0	0.94%	Local Authority	0.0	N/A	Local Authority	10.0	2.50%	Local Authority
Suffolk County Council	Local Authority		5.0	0.95%	Local Authority	0.0	N/A	Local Authority	0.0	N/A	Local Authority
Surrey County Council	Local Authority		0.0	N/A	Local Authority	0.0	N/A	Local Authority	5.0	1.25%	Local Authority
CCLA	Property Fund		0.0	N/A	Property Fund	5.0	N/A	Property Fund	10.0	N/A	Property Fund
			39.1			32.2			52.0		
<u>Sector Analysis</u>			£m	%age		£m	%age		£m	%age	
Bank			2.0	5%		0.0	0%		0.0	0%	
MMF**			27.1	69%		27.2	84%		27.0	52%	
Local Authorities/Cent Govt			10.0	26%		0.0	0%		15.0	29%	
Property Fund			0.0	0%		5.0	16%		10.0	19%	
			39.1	100%		32.2	100%		52.0	100%	
<u>Country analysis</u>			£m	%age		£m	%age		£m	%age	
UK			12.0	31%		5.0	16%		25.0	48%	
MMF**			27.1	69%		27.2	84%		27.0	52%	
			39.1	100%		32.2	100%		52.0	100%	

*Fitch short/long term ratings, except Aviva MMF (highest Moody rating). See next page for key. ** MMF – Money Market Fund. These funds are domiciled in Ireland for tax reasons, but the funds are made up of numerous diverse investments with highly rated banks and other institutions. The credit risk is therefore spread over numerous countries, including the UK. The exception to this is the Aviva Government Liquidity Fund which invests directly in UK government securities and in short-term deposits secured on those securities.

Key – Fitch’s credit ratings:

		Long	Short	
Investment Grade	Extremely Strong	AAA	F1+	
		AA+		
	Very Strong	AA		
		AA-		
		A+		
	Strong	A		F1
		A-		
		BBB+		F2
	Adequate	BBB		
		BBB-		F3
Speculative Grade	Speculative	BB+	B	
		BB		
		BB-		
	Very Speculative	B+		
		B		
		B-		
	Vulnerable	CCC+		C
		CCC		
		CCC-		
		CC		
C				
Defaulting	D	D		

Appendix 2

Long-term loans repaid and short-term loans outstanding 31 March 2020

Long-term loans repaid during 2019-20

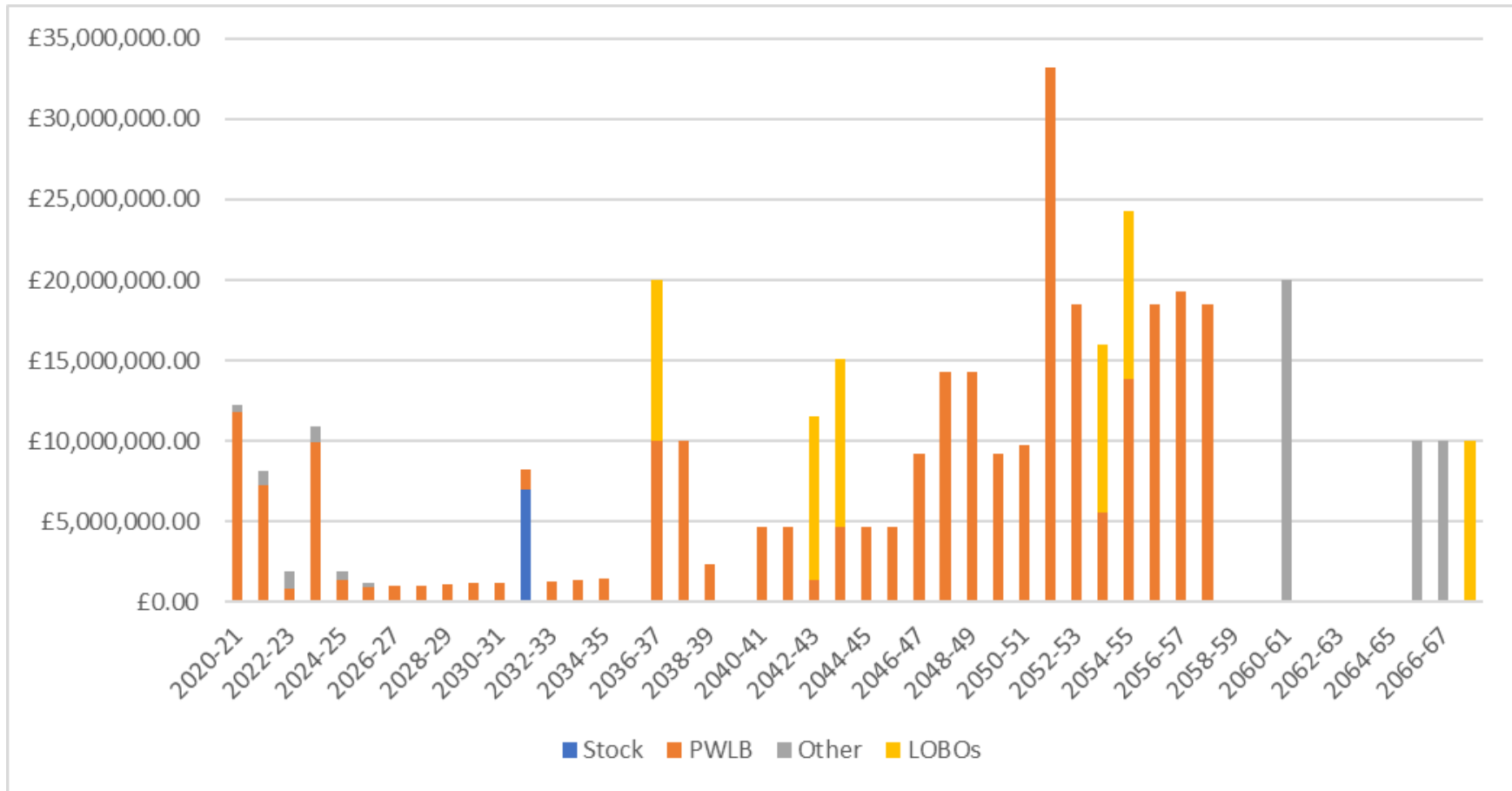
	Amount £000s	Rate %	Date repaid
Repayments on maturity			
PWLB (476012)	4,613	8.50	10 Jun 19
Repayments on annuity loans			
PWLB (496956)	353	4.58	30 Sep 19
PWLB (496956)	361	4.58	30 Mar 20
Total	5,327		

Short-term loans outstanding 31 March 2020

	Amount £000s	Rate %	Length (days)
Temporary borrowing from the Money Market			
Rugby Borough Council	5,000	0.83	139
Staffordshire County Council	5,000	0.85	90
Hampshire County Council	5,000	0.72	42
Blackburn & Darwen Borough Council	5,000	0.75	50
South Lanarkshire Council	5,000	0.75	43
Ribble Valley Borough Council	1,500	0.80	46
Warrington Borough Council	10,000	1.00	35
Mansfield Building Society	1,000	1.00	33
West Lindsey District Council	2,000	0.75	28
Local lenders/Trust Funds	1,431		
Total Temporary borrowing	40,931		
Long-term loans due to mature in the next twelve months	12,277		
Total	53,208		

Kirklees Council Loan Maturity Profile (All Debt)

Appendix 3



Appendix 4

Kirklees Council - Borrowing and Investment Trends

At 31 March	2020	2019	2018	2017	2016	2015
<u>Investments</u>	52.0m	39.1m	36.1m	31.3m	38.3m	38.7m
ST Borrowing (excl interest accrued)	53.2m	11.8m	20.8m	37.7m	16.0m	21.1m
LT Borrowing	373.7m	384.1m	392.4m	400.5m	408.4m	422.6m
Total Borrowing	426.9m	395.9m	413.2m	438.2m	424.4m	443.7m
Deferred liabilities (non PFI)	3.7m	3.9m	4.1m	4.1m	4.3m	4.4m
Net debt position	378.6m	360.7m	381.2m	411.0m	390.4m	409.4m
<u>Capital Financing Requirement (excl PFI)</u>						
General Fund	461.5m	436.6m	420.3m	412.8m	411.3m	422.2m
HRA	175.4m	175.3m	182.8m	186.2m	192.4m	196.6m
Total CFR	636.9m	611.9m	603.2m	599.0m	603.7m	618.8m
Balances "internally invested"	206.1m	212.1m	185.9m	156.7m	175.0m	170.7m
Ave Kirklees' investment rate for financial year	0.7%	0.7%	0.3%	0.4%	0.5%	0.4%
Ave Base rate (Bank of England)	0.7%	0.7%	0.3%	0.3%	0.5%	0.5%
Ave LT Borrowing rate (1)	2.4%	2.5%	2.5%	2.5%	3.2%	3.7%

(1) Based on average PWLB rate throughout the year on a 25 to 30 year loan (less 0.2% PWLB certainty rate) repayable on maturity.

APPENDIX 5

Treasury Management Prudential Indicators

Interest Rate Exposures

While fixed rate borrowing can contribute significantly to reducing the uncertainty surrounding future interest rate scenarios, the pursuit of optimum performance justifies retaining a degree of flexibility through the use of variable interest rates on at least part of the treasury management portfolio. The Prudential Code requires the setting of upper limits for both variable rate and fixed interest rate exposure:

	Limit Set 2019-20	Actual 2019-20
Interest at fixed rates as a percentage of net interest payments	60% - 100%	84%
Interest at variable rates as a percentage of net interest payments	0% - 40%	16%

The interest payments were within the limits set.

Maturity Structure of Borrowing

This indicator is designed to prevent the Council having large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

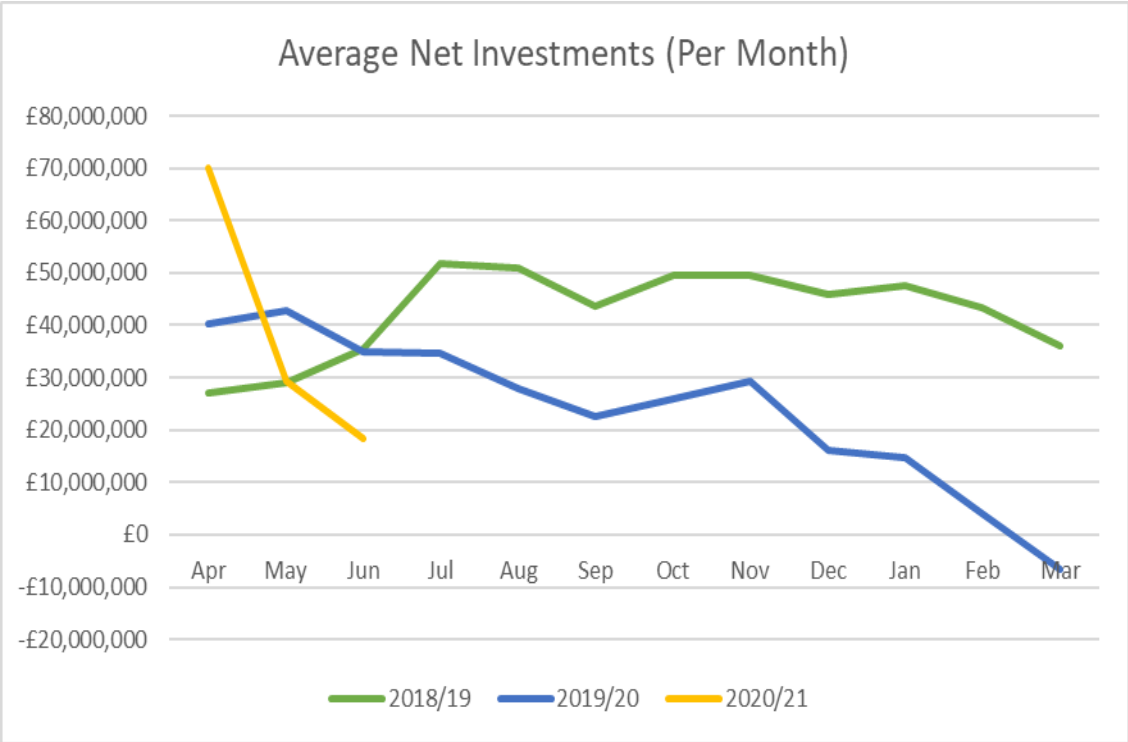
Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate	Limit Set 2019-20	Actual Levels 2019-20
Under 12 months	0% - 20%	4%
12 months to 2 years	0% - 20%	2%
2 years to 5 years	0% - 60%	4%
5 years to 10 years	0% - 80%	2%
More than 10 years	20% - 100%	88%

The limits on the proportion of fixed rate debt were adhered to.

Total principal sums invested for periods longer than 364 days

The Council has not invested any sums longer than 364 days.

APPENDIX 6



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Name of meeting: Corporate Governance and Audit Committee
22 July 2020

Title of report: Update on the Council’s final accounts for 2019/20

Purpose of report

The report updates Members on the final accounts and audit processes for 2019/20.

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 Council’s Forward Plan (key decisions and private reports)?	No
The Decision - Is it eligible for “call in” by Scrutiny?	No
Date signed off by Strategic Director & name	Rachel Spencer-Henshall - 13 July 2020
Is it also signed off by the Service Director for Finance	Eamonn Croston 10 July 2020
Is it also signed off by the Service Director for Governance and Commissioning Support?	Julie Muscroft 13 July 2020
Cabinet member portfolio	Cllr Shabir Pandor Cllr Graham Turner

Electoral wards affected: Not applicable

Ward councillors consulted: Not applicable

Public or private: Public

GDPR: This report contains no information that falls within the scope of General Data Protection Regulations.

1. Summary

The report updates Members on the final accounts and audit processes for 2019/20.

The preparation of the Statement of Accounts is a statutory requirement and local authorities are normally required to have them signed by the section 151 Officer by 31 May and published with an Audit Certificate by 31 July, following the end of the financial year. However, in a sector-wide

response to the consequences of the COVID-19 pandemic *and consequential logistical and capacity impact on both Council and audit capacity*, CIPFA amended the statutory deadline for the production of the Unaudited Statement of Accounts for 2019-20. For the Council the revised deadline is 31 August 2020. The accompanying deadline for the completion of the audit was also amended to 30 November 2020.

Despite the significant challenges to the Council's finance team dealing with multiple competing demands, the team has made significant progress and the draft accounts will be completed and signed by the Council's Service Director - Finance over the coming weeks.

The six week public inspection period for the draft accounts 2019/20 will commence and run for 6 weeks from the date that the draft accounts are live on the Council's website. The audit of the 2019/20 Statement of Accounts is expected to commence shortly afterwards.

This Committee is responsible for the approval of the Council's Audited Statement of Accounts and the final version of the Annual Governance Statement once the audit has been completed.

The two historic objections that were raised during the Public Inspection period for the 2016-17 accounts were resolved by KPMG (as reported to this committee on 26th July 2019) and the formal audit certificates were issued.

2. Information required to take a decision

- 2.1 The Council's draft Annual Governance Statement is to be presented separately on this meeting's agenda and will be incorporated in to the Statement of Accounts
- 2.2 The COVID pandemic has brought significant challenges to the organisation, and no less so for the Council's finance team. The Council's finance function is managing competing priority demands within a volatile environment, while at the same time logistically having to adapt quickly and en masse, to the added challenges of remote working. The team however is absolutely committed to ensuring continued delivery to all relevant statutory and internal Council planning cycle reporting deadlines.

In prioritising workloads, the team has ensured that the draft accounts are produced in as timely a fashion as possible i.e. as close to the original statutory deadline for the draft accounts, of 31 May, as possible. The rationale for this has been that the team could capitalise on the early year end preparation work pre-COVID, and as well allow our auditors scope to commence aspects of their audit work earlier in the process given the auditor's own logistical and capacity challenges.

The approach taken will also then enable the same finance staff involved in the final accounts process to free up valuable capacity earlier to support the many and varied other in-year demands and challenges that the finance team are supporting the organisation with.

The draft accounts will be completed and signed by the Council's Service Director - Finance over the coming weeks, ahead of this years' revised statutory sign off deadline of 31 August 2020 (previously 31 May 2020).

- 2.3 The six week public inspection period for the draft accounts 2019/20 will commence from the date that the draft accounts are live on the Council's website. The audit of the 2019/20 Statement of Accounts is expected to commence shortly afterwards
- 2.4 It is intended that the audited Statement of Accounts are presented to this Committee for approval prior to the 30 November statutory deadline.

3. Implications for the Council

3.1 **Working with People**
N/A

3.2 **Working with Partners**
N/A

3.3 **Placed based working**
N/A

3.4 **Climate Change and Air Quality**
N/A

3.5 **Improving Outcomes for Children**
N/A

3.6 **Other (e.g. Legal/Financial or Human Resources)**

The annual statement of accounts are subject to external validation by appointed auditors to ensure that Council funds are also properly accounted for.

4. Consultees and their opinions

N/A

5. Next steps

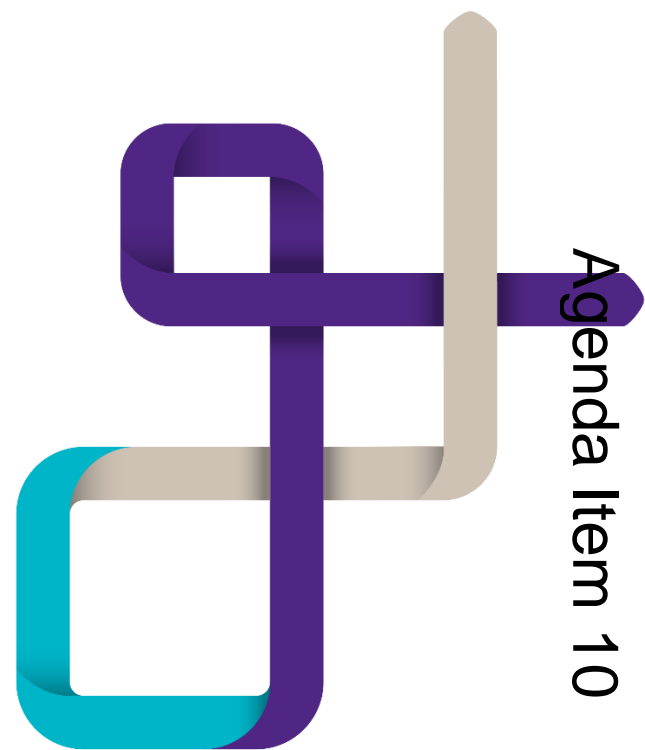
It is intended that the Audited Statement of Accounts and Annual Governance Statement are presented to this Committee for approval prior to the 30 November statutory deadline.



External Audit Plan

Year ended 31 March 2020

Kirklees Metropolitan Council
May 2020



Contents



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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1. Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Kirklees Metropolitan Council ('the Authority') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Kirklees Metropolitan Council. We draw your attention to both of these documents on the [PSAA website](#).

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the :

- Authority and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Corporate Governance and Audit Committee); and
- Value for Money arrangements in place at the Authority for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Corporate Governance and Audit Committee of your responsibilities. It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Authority's business and is risk based.

Group Accounts	The Authority is required to prepare group financial statements that consolidate the financial information of Kirklees Neighbourhood Housing Ltd and Kirklees Stadium Development Ltd.
Significant risks	<p>Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:</p> <ul style="list-style-type: none"> • Management override of controls • Valuation of land and buildings • Valuation of net pension fund liability • Covid 19 <p>We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report.</p>
Materiality	We have determined planning materiality to be £13.37m (PY £17.3m) for the group and £13.25m (PY £17.2m) for the Authority, which equates to 1.35% of your prior year gross expenditure. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £669k (PY £865k) for the group and £663k (PY£ 858k) for the Authority.
Value for Money arrangements	<p>Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks:</p> <ul style="list-style-type: none"> • Financial standing – the Authority as other authorities, continues to operate under significant financial pressures. For 2019/20, the Authority planned to deliver a balanced outturn position but to achieve this required planned savings. Since setting the original budget the Covid-19 pandemic has led to significant additional spend and requires a reprofile of the short and medium term financial plan.
Audit logistics	<p>Our interim visit took place in January 2020 and our year end audit will take place between July and October 2020. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A.</p> <p>Our fee for the audit will be £152,221 (PY: £137,721) for the Authority, subject to the Authority meeting our requirements set out on page 15.</p>
Independence	We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements..

2. Key matters impacting our audit

Factors

Covid -19 and Going concern issues

The coronavirus global pandemic is impacting how people work. The Council plays a key role in supporting the public in this time and service and financial pressures will continue to emerge for all organisations, including the Council, as the lockdown continues and this impacts upon the local and national economy further.

Whilst it is a constantly evolving picture, we are expecting the delivery of the audit to be impacted by staff at audited bodies and audit teams working remotely to avoid spreading the virus as well as inevitable sick days reducing staff capacity.

The government has approved legislation confirming that the deadline for local government financial audits will be extended to 30 November 2020 from 31 July 2020. Authorities need to have approved their draft financial statements by 31 August 2020 at the latest.

The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents.

At a national level, the government continues its negotiation with the EU over Brexit. The Authority will need to ensure that it is prepared for all outcomes, including in terms of any impact on contracts, on service delivery and on its support for local people and businesses.

Financial reporting and audit – raising the bar

The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing as detailed in Appendix 1.

Our work in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved, with a corresponding increase in audit procedures. We have also identified an increase in the complexity of local government financial transactions which require greater audit scrutiny.

Our response

Since early March, we have been liaising with members of your finance team to discuss how we can work together effectively to deliver the audit despite the restrictions on physical interaction. We will also consider how Covid-19 impacts the Council's finances, services and ability to continue as a going concern.

Following the government's announcement on Monday 16th March, we also closed our offices for the foreseeable future and have asked our people to work from home rather than in the office.

All of our staff are set up to work remotely and we use a variety of tools to communicate and share information such as Microsoft Teams and Info.

We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.

We will consider whether your financial position leads to material uncertainty about the going concern of the group and will review related disclosures in the financial statements.

We will continue to meet with senior managers and consider the Authority's financial position and delivery of the savings programme.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee, as set further in our Audit Plan, has been agreed with the Service Director - Finance and PSAA.

We have revised our headline materiality % from 1.75% to 1.35% of gross cost of services expenditure in response to this heightened regulatory expectation.

3. Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Audit Scope	Risks identified	Planned audit approach
Kirklees Metropolitan Council	Yes		<ul style="list-style-type: none"> Please refer to the significant risks identified in section 4 of this report 	Full scope UK statutory audit performed by Grant Thornton UK LLP
Kirklees Neighbourhood Housing Ltd (wholly owned subsidiary)	No		<ul style="list-style-type: none"> Incomplete or incorrect consolidation of material balance for KNH's net pension fund liability 	<p>Specific scope procedures on the subsidiary's net pension fund liability and relevant disclosures</p> <p>These procedures will be carried out by the Grant Thornton UK LLP group engagement team</p>
Kirklees Stadium Development Ltd (joint venture)	No		<ul style="list-style-type: none"> No specific significant risks identified at planning stage 	Analytical review performed by Grant Thornton UK LLP.

Key changes within the group:

- Up to the time this plan was prepared there have been no significant changes within the Group. Should this change before the year end we will re-assess the components and provide an update to the Corporate Governance and Audit Committee.

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

4. Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
<p>The revenue cycle includes fraudulent transactions (Rebutted)</p>	<p>Authority</p>	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Kirklees Metropolitan Council, mean that all forms of fraud are seen as unacceptable 	<p>Therefore we do not consider this to be a significant risk for Kirklees Metropolitan Council.</p>
<p>Management over-ride of controls</p>	<p>Authority</p>	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	Authority	<p>The Authority re-values its land and buildings on a three-yearly basis. In the intervening years, such as 2019/20, to ensure the carrying value in the Authority and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, the group requests a desktop valuation from its valuation expert to ensure that there is no material difference. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>We therefore identified valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding. As part of this and as a new development for 2019/20, we will engage our own valuer to assess the instructions to the Authority's valuer, the Authority's valuer's report and the assumptions that underpin the valuation • test revaluations made during the year to see if they had been input correctly into the Authority's asset register

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	Authority	<p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£738m in the Authority's 2018/19 balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>We will:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report • agree the advance payment made to the pension fund during the year to the expected accounting treatment and relevant financial disclosures • obtain assurances from the auditor of West Yorkshire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Covid-19	Authority and Group	<p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;</p> <ul style="list-style-type: none"> - Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation - Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates - Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and - Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. <p>We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Work with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach • Liaise with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise • Evaluate the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic. • Evaluate whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely • Evaluate whether sufficient audit evidence can be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances • Evaluate management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment • Discuss with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence

5. Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Authority
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions
- We consider our other duties under the Local Audit and Accountability Act 2014 (the Act) and the Code, as and when required, including:
 - Giving electors the opportunity to raise questions about your 2019/20 financial statements, consider and decide upon any objections received in relation to the 2019/20 financial statements
 - Issue of a report in the public interest or written recommendations to the Authority under section 24 of the Act, copied to the Secretary of State
 - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act or
 - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the group's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and material uncertainties, and evaluate the disclosures in the financial statements.

6. Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

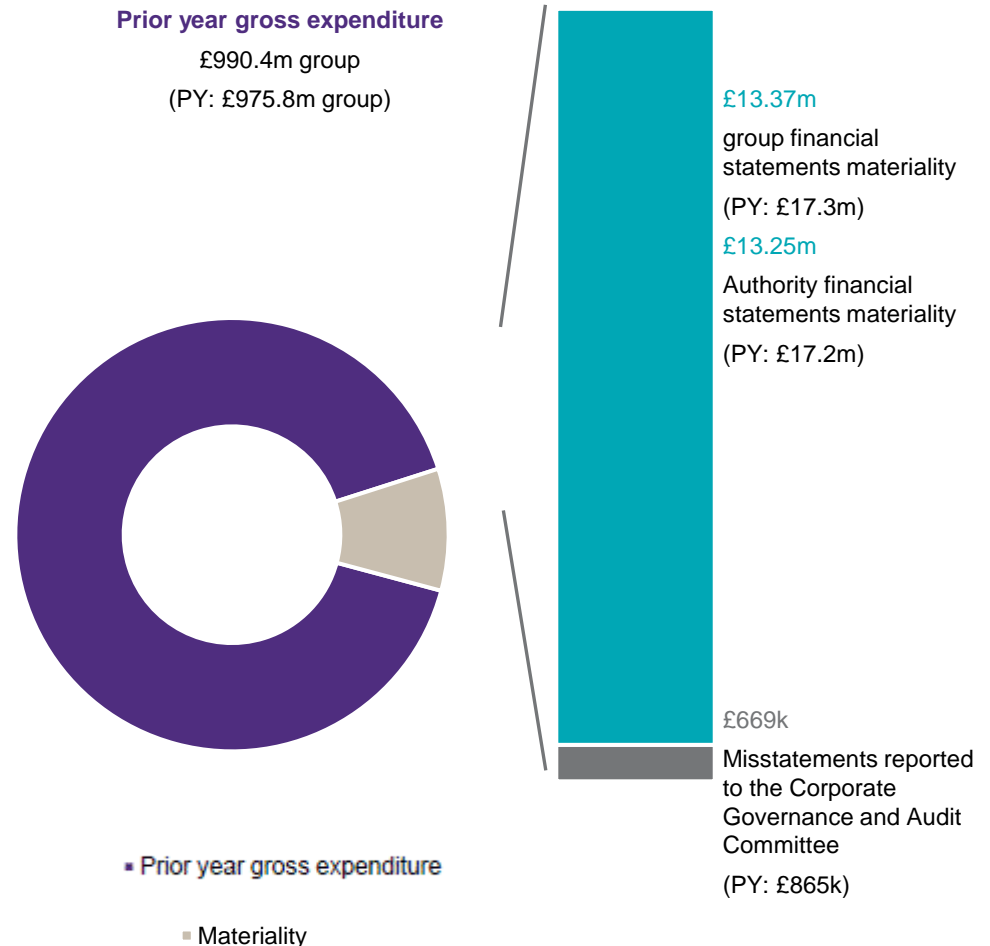
We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Authority for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £13.37m (PY £17.3m) for the group and £13.25m (PY £17.2m) for the Authority, which equates to 1.35% of your prior year gross expenditure for the year. In 2018/19 we had used 1.75% of gross expenditure to determine materiality and the reduction in % compared to the previous year reflects the higher profile of local audit following external reviews such as those led by Sir John Kingman and Sir Tony Redmond. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £20k for senior officer remuneration.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report 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) '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) 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 group and Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £669k (PY £865k) for the group and £663k (PY £858k) for the Authority.

If management have 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.



8. Value for Money arrangements

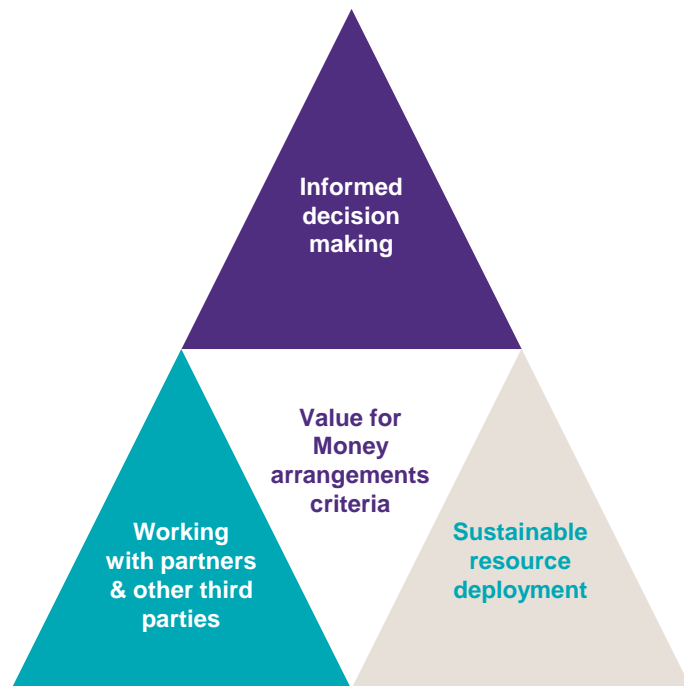
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

The guidance identifies one single criterion for auditors to evaluate:

“In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.”

This is supported by three sub-criteria, as set out below:



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Significant VFM risks

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



Sustainable Resource Deployment

Financial standing – the Authority in common with other authorities, continues to operate under significant financial pressures. For 2019-20, the Council is planning to deliver a balanced outturn position but to achieve this, needs to deliver planned savings.

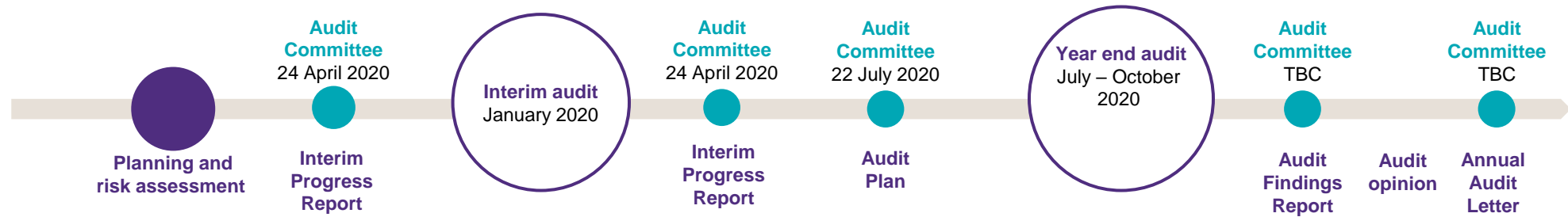
Since setting the original budget the Covid-19 pandemic has led to significant additional spend and requires a significant reprofile of the short and medium term financial plan.

We will assess the progress made by the Authority in achieving the 2019/20 financial outturn and consider how the Authority plans to manage additional pressures arising from Covid-19.

Impact of Covid-19 on Value for Money and Financial Standing

As part of our VfM work we will ensure we understand the arrangements you are putting in place to manage risks around business continuity in the current crisis. We do not envisage this will be a significant audit risk for 2019/20, although we will keep this under review for 2020/21. We will also review your assessment of going concern and financial stability in the light of increased uncertainties around for example Council Tax and NNDR collection rates, car park income, and performance of subsidiary companies, and where relevant investment properties. We envisage linking the additional VfM work around financial standing with our Going Concern opinion work.

9. Audit logistics & team



Jon Roberts, Key Audit Partner

Jon leads our relationship with you and takes overall responsibility for the delivery of a high quality audit, ensuring highest professional standards are maintained and a commitment to add value to the Council.



Stephen Nixon, Senior Audit Manager

Stephen plans, manages and leads the delivery of the audit. He is the first point of contact for your finance team for discussing any emerging issues.



Aaron Gouldman, Assistant Manager

Aaron's role is to assist in planning, managing and delivering the audit fieldwork, ensuring the audit is delivered effectively, efficiently and supervises and co-ordinates the on site audit team.

9. Audit logistics & team

New team arrangements

Your substantive Engagement Leader, Robin Baker is currently on long-term sick leave and Jon Roberts will take over the role until Robin is able to reassume his position. Jon is a partner with the firm and has many years experience in leading the audits of our most complex councils.

Following a restructure of our operational arrangements in our North Region, Stephen Nixon has been assigned as your permanent replacement for Marianne Dixon. Stephen is locally-based and has a large amount of local government audit management experience, particularly with major local audits similar to Kirklees MBC.

Jon and Stephen look forward to building our relationships with management and members and a productive working experience with you.

Client responsibilities

Where clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
 - ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
 - ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
 - ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

10. Audit fees

Planned audit fees 2019/20

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. Within the public sector, where the FRC has recently assumed responsibility for the inspection of local government audit, the regulator requires that all audits achieve a 2A (few improvements needed) rating. Details underpinning the increased regulatory focus of auditors and associated increased scope of audit work was outlined in our letter to the Service Director – Finance dated 18 February 2020 following discussion at Corporate Governance and Audit Committee.

Our work across the sector in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved. We have also identified an increase in the complexity of local government financial transactions. Combined with the FRC requirement that 100% of audits achieve a 2A rating this means that additional audit work is required. We have set out below the expected impact on our audit fee. The table overleaf provides more details about the areas where we will be undertaking further testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee for 2019/20 at the planning stage, as set out below and with further analysis overleaf, has been agreed with the Service Director - Finance and PSAA.

	Actual Fee 2017/18 (KPMG)	Actual Fee 2018/19 (Grant Thornton)	Proposed fee 2019/20 (Grant Thornton)
Council Audit	£158,729	£137,721	£152,221
Total audit fees (excluding VAT)	£158,729	£137,721	£152,221

Assumptions:

In setting the above fees, we have assumed that the Authority will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards:

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with staff of appropriate skills, time and abilities to deliver an audit to the required professional standard.

Audit fee variations – Further analysis

Planned audit fees

The table below shows the planned variations to the original scale fee for 2019/20 based on our best estimate at the audit planning stage. Further issues identified during the course of the audit may incur additional fees. In agreement with PSAA (where applicable) we will be seeking approval to secure these additional fees for the remainder of the contract via a formal rebasing of your scale fee to reflect the increased level of audit work required to enable us to discharge our responsibilities. Should any further issues arise during the course of the audit that necessitate further audit work additional fees will be incurred, subject to PSAA approval.

Audit area	£	Rationale for fee variation
Scale fee	122,221	
Raising the bar	9,000	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity. As outlined earlier in the Plan, we have also reduced the materiality level, reflecting the higher profile of local audit. This will entail increased scoping and sampling.
Pensions – valuation of net pension liabilities under International Auditing Standard (IAS) 19	3,500	We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
PPE Valuation – work of experts	11,000	We have therefore engaged our own audit expert – Gerald Eve and increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations. The increase includes an estimate for the fee payable to the auditor's expert. We estimate that the cost of the auditors expert will be in the region of £5,000.
New accounting standard IFRS16 Leases	2,500*	You are required to respond effectively to new accounting standards and we must ensure our audit work in these new areas is robust. This year we will both be responding to the introduction of IFRS16. IFRS16 requires a leased asset, previously accounted for as an operating lease off balance sheet, to be recognised as a 'right of use' asset with a corresponding liability on the balance sheet from 1 April 2021. There is a requirement, under IAS8, to disclose the expected impact of this change in accounting treatment in the 2019/20 financial statements, even though the implementation date has been delayed from 1 April 2020 to 1 April 2021.
Enhanced audit report	4,000	As the Authority holds listed debt, it meets the FRC definition of a Public Interest Entity. Certain additional Ethical and Quality standards apply, including the need for us to produce an Enhanced Audit Report.
Revised audit fee	152,221	

11. Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. The following other services were identified:

Service	£	Threats	Safeguards
Audit related:			
Certification of Housing capital receipts grant	2,000*	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £2,000 in comparison to the total fee for the audit of £152,221 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Housing Benefit Certification	TBC	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £TBC in comparison to the total fee for the audit of £152,221 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Teachers' Pension Return Certification	5,000*	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the total fee for the audit of £152,221 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
NCT Certification	5,000*	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the total fee for the audit of £152,221 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Total	39,240		

* Estimated fees

11. Independence & non-audit services

Service	£	Threats	Safeguards
Non-audit related:			
CFO Insights licence fee	11,500	Self-Interest (because this is a recurring fee)	<p>This is an online software service that enable users to rapidly analyse data sets. CFO Insights is a Grant Thornton & CIPFA collaboration giving instant access to financial performance, service outcomes and socio-economic indicators for local authorities.</p> <p>It is the responsibility of management to interpret the information. The scope of our service does not include making decisions on behalf of management or recommending or suggesting a particular course of action. These factors mitigate the perceived self-interest threat. The fee for the work is negligible in comparison to the total fee for the audit.</p>
Total	11,500		

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Corporate Governance and Audit Committee. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

The firm is committed to improving our audit quality – please see our transparency report - <https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/annual-reports/interim-transparency-report-2019.pdf>

Appendix

A. Audit Quality – national context

Appendix A: Audit Quality – national context

What has the FRC said about Audit Quality?

The Financial Reporting Council (FRC) publishes an annual Quality Inspection of our firm, alongside our competitors. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continuous improvement in audit quality.

All of the major audit firms are subject to an annual review process in which the FRC inspects a small sample of audits performed from each of the firms to see if they fully conform to required standards.

The most recent report, published in July 2019, shows that the results of commercial audits taken across all the firms have worsened this year. The FRC has identified the need for auditors to:

- improve the extent and rigour of challenge of management in areas of judgement
- improve the consistency of audit teams' application of professional scepticism
- strengthen the effectiveness of the audit of revenue
- improve the audit of going concern
- improve the audit of the completeness and evaluation of prior year adjustments.

The FRC has also set all firms the target of achieving a grading of '2a' (limited improvements required) or better on all FTSE 350 audits. We have set ourselves the same target for public sector audits from 2019/20.

Other sector wide reviews

Alongside the FRC, other key stakeholders including the Department for Business, energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. A number of key reviews into the profession have been undertaken or are in progress. These include the review by Sir John Kingman of the Financial Reporting Council (Dec 2018), the review by the Competition and Markets authority of competition within the audit market, the ongoing review by Sir Donald Brydon of external audit, and specifically for public services, the Review by Sir Tony Redmond of local authority financial reporting and external audit. As a firm, we are contributing to all these reviews and keen to be at the forefront of developments and improvements in public audit.

What are we doing to address FRC findings?

In response to the FRC's findings, the firm is responding vigorously and with purpose. As part of our Audit Investment Programme (AIP), we are establishing a new Quality Board, commissioning an independent review of our audit function, and strengthening our senior leadership at the highest levels of the firm, for example through the appointment of Fiona Baldwin as Head of Audit. We are confident these investments will make a real difference.

We have also undertaken a root cause analysis and put in place processes to address the issues raised by the FRC. We have already implemented new training material that will reinforce the need for our engagement teams to challenge management and demonstrate how they have applied professional scepticism as part of the audit. Further guidance on auditing areas such as revenue has also been disseminated to all audit teams and we will continue to evolve our training and review processes on an ongoing basis.

What will be different in this audit?

We will continue working collaboratively with you to deliver the audit to the agreed timetable whilst improving our audit quality. In achieving this you may see, for example, an increased expectation for management to develop properly articulated papers for any new accounting standard, or unusual or complex transactions. In addition, you should expect engagement teams to exercise even greater challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. As a result you may find the audit process even more challenging than previous audits. These changes will give the Corporate Governance and Audit Committee – which has overall responsibility for governance - and senior management greater confidence that we have delivered a high quality audit and that the financial statements are not materially misstated. Even greater challenge of management will also enable us to provide greater insights into the quality of your finance function and internal control environment and provide those charged with governance confidence that a material misstatement due to fraud will have been detected.

We will still plan for a smooth audit and ensure this is completed to the timetable agreed. However, there may be instances where we may require additional time for both the audit work to be completed to the standard required and to ensure management have appropriate time to consider any matters raised. This may require us to agree with you a delay in signing the announcement and financial statements. To minimise this risk, we will keep you informed of progress and risks to the timetable as the audit progresses.

We are absolutely committed to delivering audit of the highest quality and we should be happy to provide further detail about our improvement plans should you require it.

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Audit Progress Report and Sector Update

Kirklees Metropolitan Borough Council

Year ended 31 March 2020

9 July 2020



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Introduction

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This paper provides the Corporate Governance and Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Corporate Governance and Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk.

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either Jon or Stephen.

The logo for Grant Thornton, consisting of the company name in white text on a dark purple rectangular background.

Covid-19 update

Impact on working arrangements:

- Following the government's announcement on Monday 16th March, we closed our Grant Thornton offices for the foreseeable future and your audit team are continuing to work from home.
- We will therefore be working remotely during the accounts audit and have discussed the logistics of these arrangements with the finance team.
- Although there are some audit tasks which are best undertaken in person, the majority of the audit will be completed remotely. This is however likely to make the audit process longer. We will work closely with the finance team to make this different way of working as efficient as possible.
- We acknowledge there may need to be flexibilities to planned audit timings due to potential illness within the audit team or the finance team and due to any further developments of Covid-19.

Impact on accounts and audit opinions:

The following sets out a number of the key issues which finance teams will need to consider as part of the year end closedown.

- Impact on reserves and financial health and whether the Council needs to provide additional disclosures that draw attention to a material uncertainty around Going Concern (this could also impact on the VfM conclusion)
- Impact on collectability of debt and assumptions made in bad debt provisions
- Impact on the valuation of Property, Plant and Equipment
- Impact on post-balance sheets events and consideration of the consequences of the virus post 31 March 2020 with some form of disclosure may be needed
- Disclosure of critical judgements
- Disclosure of material estimation uncertainties
- Impact on the content of the Annual Governance Statement, particularly with regards to risks, controls and mitigation
- Considerations in respect of service continuity and disaster planning arrangements (this could impact on the VFM conclusion)
- Impact on reporting to those charged with governance and signing arrangements.

Changes to the local government accounts production and audit timetable:

- The requirement for the public inspection period to include the first 10 working days of June has been removed. Instead local authorities must commence the public inspection period on or before the first working day of September 2020. This means that draft accounts must be approved by 31 August 2020 at the latest.
- Kirklees MBC anticipates publishing its draft 2019-20 draft accounts by mid-July 2020 ahead of the 31 August deadline.
- The audited accounts target date has moved from 31 July to 30 November 2020.
- Given this is a developing situation, there may be further changes to the accounts process for 2019-20 and we will be in regular dialogue with the finance team over the coming weeks.

Progress as at 9 July 2020

Financial Statements Audit 2018/19

Since the last Corporate Governance and Audit Committee we have completed the 2018/19 audit. On 13 May 2020 we issued our:

- Unqualified opinion on the 2018/19 financial statements
- Unqualified Value for Money Conclusion
- Certification that the 2018/19 audit was complete

The outbreak of Covid-19 resulted in additional procedures being required to complete the audit in order to address the financial impact of the virus upon the Council. These procedures concluded satisfactorily and management agreed to include an assessment of the Covid-19 in their 2018/19 Post Balance Sheet Event disclosure.

Financial Statements Audit 2019/20

We started planning for the 2019-20 financial statements audit in early 2020 and have issued a detailed Audit Plan, setting out our proposed approach to the audit of the Council's 2019-20 financial statements to this Committee.

We commenced our interim audit in February 2020. Our interim fieldwork included:

- Updating our review of the Council's control environment
- Updating our understanding of financial systems including walk-through of key financial systems
- Early substantive testing.

The revised statutory target for the issue of the 2019-20 opinion is 30 November 2020. We have discussed our Audit Plan and timetable with officers.

The final accounts audit commenced on 6 July with our findings to be reported in our Audit Findings (ISA260) Report. We expect to receive the Council's draft 2019-20 accounts in mid July 2020.

We will present our Audit Findings Report at the October/November Corporate Governance and Audit Committee meeting and issue our audit opinion by the 30 November target date.

Value for Money 2019/20

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The overall VFM criterion is: "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 three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Details of our initial risk assessment to determine our approach are included in our Audit Plan.

Other areas

Meetings

We continue to meet (via Microsoft Teams) with senior officers including the Service Director - Finance as part of our regular liaison meetings and continue to be in discussions with finance staff regarding emerging developments.

Events

We provide a range of workshops, along with network events and publications to support the Council to help to ensure that members of your Finance Team are up to date with the latest financial reporting requirements for local authority accounts.

Audit Deliverables

2019-20 Deliverables	Planned Date	Status
<p>Audit Plan</p> <p>We are required to issue a detailed audit plan to the Corporate Governance and Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2019-20 financial statements and a Conclusion on the Council's Value for Money arrangements.</p>	July 2020	Complete
<p>Interim Audit Findings</p> <p>We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.</p>	January 2020 March 2020	Complete.
<p>Audit Plan Addendum</p> <p>We issued an updated Audit Plan to highlight the impact of Covid-19 on our audit approach.</p>	April 2020	Complete
<p>Audit Findings (ISA260) Report</p> <p>The Audit Findings Report will be reported to the October/November Corporate Governance and Audit Committee.</p>	October 2020	Not yet due
<p>Auditors Report</p> <p>This is the opinion on your financial statement, annual governance statement and value for money conclusion.</p>	By 30 November 2020	Not yet due
<p>Annual Audit Letter</p> <p>This letter communicates the key issues arising from our work.</p>	December 2020	Not yet due

Sector Update

Councils continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with Corporate Governance and Audit Committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local
government

Financial Reporting Council – aid to Audit Committees in evaluating audit quality

The Financial Reporting Council (FRC) issued an update of its Practice Aid to assist audit committees in evaluating audit quality in their assessment of the effectiveness of the external audit process.

The FRC notes that, “The update takes account of developments since the first edition was issued in 2015, including revisions of the UK Corporate Governance Code, the requirement for all Public Interest Entities (PIEs) to conduct a tender at least every 10 years and rotate auditors after at least 20 years, and increasing focus generally on audit quality and the role of the audit committee. It also takes account of commentary from audit committees suggesting how the Practice Aid could be more practical in focus and more clearly presented.

The framework set out in the Practice Aid focuses on understanding and challenging how the auditor demonstrates the effectiveness of key professional judgments made throughout the audit and how these might be supported by evidence of critical auditor competencies. New sections have been added addressing the audit tender process, stressing that high-audit quality should be the primary selection criterion, and matters to cover in audit committee reporting.

As well as illustrating a framework for the audit committee’s evaluation, the Practice Aid sets out practical suggestions on how audit committees might tailor their evaluation in the context of the company’s business model and strategy; the business risks it faces; and the perception of the reasonable expectations of the company’s investors and other stakeholders. These include examples of matters for the audit committee to consider in relation to key areas of audit judgment, and illustrative audit committee considerations in evaluating the auditor’s competencies.

The FRC encourages audit committees to use the Practice Aid to help develop their own approach to their evaluation of audit quality, tailored to the circumstances of their company. Audit committees are encouraged to see their evaluation as integrated with other aspects of their role related to ensuring the quality of the financial statements – obtaining evidence of the quality of the auditor’s judgments made throughout the audit, in identifying audit risks, determining materiality and planning their work accordingly, as well as in assessing issues.”



The Practice Aid can be obtained from the FRC website:

<https://www.frc.org.uk/getattachment/68637e7a-8e28-484a-aec2-720544a172ba/Audit-Quality-Practice-Aid-for-Audit-Committees-2019.pdf>

What is the future for local audit?

Paul Dossett, Head of local government at Grant Thornton, has written in the Municipal Journal “Audit has been a hot topic of debate this year and local audit is no exception. With a review into the quality of local audit now ongoing, it’s critical that part of this work looks at the overarching governance and management of the audit regime. We believe there is a strong need for new oversight arrangements if the local audit regime is to remain sustainable and effective in the future.”

Paul goes on to write “Local (local authority and NHS) audit has been a key part of the oversight regime for public services for more than a century. The National Audit Office (NAO) has exercised this role in central government for several generations and their reporting to Parliament via the Public Accounts Committee is a key part of the public spending accountability framework.

Local audit got a significant boost with the creation of the Audit Commission in 1983 which provided a coordinated, high profile focus on local government and (from 1990) NHS spending and performance at a local level. Through undertaking value for money reviews and maintaining a tight focus on the generational governance challenges, such as rate capping in the 1980s and service governance failings in the 1990s, the Commission provided a robust market management function for the local audit regime. Local audit fees, appointments, scope, quality and relevant support for auditors all fell within their ambit.

However, the Commission was ultimately deemed, among other things, to be too expensive and was abolished in 2010, as part of the Coalition Government’s austerity saving plans. While the regime was not perfect, and the sector had acknowledged that reform of the Commission was needed, complete abolition was not the answer.

Since then, there has been no body with complete oversight of the local audit regime and how it interacts with local public services. The Ministry of Housing, Communities and Local Government; Department of Health; NHS; NAO; Local Government Association (LGA); Public Sector Audit Appointments Ltd (PSAA); the Financial Reporting Council (FRC); the Chartered Institute of Public Finance & Accountancy (CIPFA), audit firms and the audited bodies themselves all have an important role to play but, sometimes, the pursuit of individual organisational objectives has resulted in sub-optimal and even conflicting outcomes for the regime overall.

These various bodies have pursued separate objectives in areas such as audit fee reduction, scope of work, compliance with commercial practice, earlier reporting deadlines and mirroring commercial accounting conventions – to name just a few.

This has resulted in a regime that no stakeholder is wholly satisfied with and one that does not ensure local audit is providing a sufficiently robust and holistic oversight of public spending.

To help provide a more cohesive and co-ordinated approach within the sector, we believe that new oversight arrangements should be introduced. These would have ultimate responsibility for ensuring the sustainability of the local audit regime and that its component parts – including the Audit Code, regulation, market management and fees – interact in an optimal way. While these arrangements do not need to be another Audit Commission, we need to have a strategic approach to addressing the financial sustainability challenges facing local government and the NHS, the benchmarking of performance and the investigation of governance failings.

There are a number of possible solutions including:

- 1) The creation of a new arm’s length agency with a specific remit for overseeing and joining up local audit. It would provide a framework to ensure the sustainability of the regime, covering fees, appointments, and audit quality. The body would also help to create a consistent voice to government and relevant public sector stakeholders on key issues arising from the regime. Such a body would need its own governance structure drawn from the public sector and wider business community; and
- 2) Extending the current remit of the NAO. Give it total oversight of the local audit regime and, in effect, establish a local audit version of the NAO, with all the attendant powers exercised in respect of local audit. In this context, there would be a need to create appropriate governance for the various sectors, similar to the Public Accounts Committee.

While the detail of the new arrangements would be up for debate, it’s clear that a new type of oversight body, with ultimate responsibility for the key elements of local audit, is needed. It would help to provide much-needed cohesion across the sector and between its core stakeholders.

The online article is available here:

<https://www.themj.co.uk/What-is-the-future-for-audit/214769>



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Our ref:
Your ref:

Mr Eamonn Croston
Service Director – Finance
Kirklees Council
Strategic Finance Service
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27 May 2020

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Dear Eamonn

Preparation and audit of the 2019/20 Statement of accounts

I hope you and your colleagues are all keeping safe and well in these very unusual and difficult times.

Whilst we must observe that preparation of the statement of accounts is the responsibility of the responsible financial officer, in this letter we set out some key issues relating to the preparation and audit of 2019/20 financial statements, some of which are also covered by CIPFA's recent Bulletin 05 Closure of the 2019/20 Financial Statements. We would welcome early engagement with you on these matters and will make arrangements to discuss them with you further.

Financial reporting issues arising as a result of the Covid-19 pandemic

As noted in Bulletin 05, there are numerous issues that will impact local authorities as a result of the Covid-19 pandemic.

Possible implications for the 2019/20 statement of accounts include:

- impairment of non-current assets
- impairment of investments, including investments in group entities
- changes in expected credit losses
- changes in the fair value of investment properties, surplus assets and financial instruments affecting measurement and disclosure
- events after the reporting period requiring adjustment to the accounts or disclosure
- increased estimation uncertainty
- commentary on the effects of the pandemic on the authority within the narrative report

Bulletin 05 provides guidance in relation to these matters and references the requirements of the Code. We would welcome early engagement with you regarding the authority's assessment of the impact of the pandemic on its 2019/20 statement of accounts.

Going Concern basis of accounting

Paragraphs 43-45 of Bulletin 05 refer to the Going Concern basis of accounting. It confirms that that local authorities can only be discontinued under statutory prescription and as such should continue to prepare their financial statements on a going concern basis. The bulletin also discusses whether an authority needs to make an assessment of its ability to continue as a going concern.

Grant Thornton UK LLP's view is that in preparing their financial statements authorities are required to disclose material uncertainties related to events or conditions that may cast significant doubt upon their ability to continue as a going concern. In view of the Covid-19 pandemic and pressures on local authority finances, consideration of this requirement will come into sharper focus in audits of 2019/20 financial statements.

In conducting your audit we will comply with our responsibilities under International Standard on Auditing 570 *Going Concern*, and also with Practice Note 10: *Audit of financial statements of public sector bodies in the United Kingdom* issued by the Public Audit Forum to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, and to conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern.

Accounting for the McCloud and Sargeant judgements in 2019/20

CIPFA published a McCloud Briefing (<https://www.cipfa.org/services/networks/pensions-network/event-documents/cipfa-mccloud-briefing-note>) on 9 March to assist local, police and fire authorities and LGPS funds in commissioning IAS19 valuations for inclusion in the 2019/20 statements of accounts. This Briefing provided some background to the McCloud and Sargeant judgements.

Subsequently on 30 April CIPFA has published Bulletin 05 Closure of the 2019/20 Financial Statements (<https://www.cipfa.org/policy-and-guidance/cipfa-bulletins/cipfa-bulletin-05-closure-of-the-201920-financial-statements>).

Grant Thornton's UK LLP's view remains as communicated during our 2018/19 audit. The two tribunals give rise to a legal obligation that is required to be measured under IAS 19. Disclosure of a contingent liability in relation to the McCloud and Sargeant judgements is not, in our view, appropriate, and where this has a material impact on the financial statements, we would have to consider the implications for our opinion.

Deferral of the implementation of IFRS 16 Leases

At its meeting on 27 March CIPFA/LASAAC agreed to defer the implementation of IFRS 16 Leases to the 2021/22 financial year, with an effective date of 1 April 2021. This decision aligns with the proposals across the public sector.

Although the implementation of IFRS 16 has been delayed to 1 April 2021, in our view authorities still need to include disclosure in their 2019/2020 statements to comply with the requirement at 3.3.4.3 of 2019/20 Code and underlying requirement of IAS 8 paragraphs 30 and 31. As a minimum, we would expect authorities to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases. If the impact of IFRS 16 is not known or reasonably estimable, we expect the financial statements to state this.

Valuation uncertainty and RICS Covid-19 Valuation practice alert

The Code requires that where assets are revalued the revaluations shall be sufficiently regular to ensure that carrying amounts do not differ materially from current value at the end of the reporting period.

We note a significant increase in volatility and uncertainty in markets following the outbreak of Covid-19, and that different markets will react differently. RICS has issued a Valuation practice alert following the pandemic, and in practice we are noting that a significant number of valuers are including 'material valuation uncertainty' disclosures within their reports. Our expectation is that authorities will assess the impact of such disclosures, taking account of the requirement of Code paragraph 3.4.2.90 to provide appropriate disclosure in relation to major sources of estimation uncertainty.

Dedicated Schools Grant (DSG)

The Department for Education published its response to a consultation on changing the conditions of grant and regulations applying to the DSG in January 2020. DfE's response confirmed changes to the conditions of grant would be made as proposed and that provisions would be included in the Schools and Early Years Finance (England) Regulations 2020 regarding the carrying forward of deficits.

Bulletin 05 acknowledges the regulations relate specifically to the 2020/21 financial year and states CIPFA's view that to faithfully represent the balance sheet position for reserves at 31 March 2020, any accumulated DSG deficit should be disclosed as a negative earmarked usable reserve.

In our response to DfE's consultation we disagreed that changing the conditions of the grant would be sufficient in isolation to achieve the Government's intention to require overspends to be carried forward and not charged against general reserves, as this would be at odds with the requirements of proper accounting practice and the Code.

Grant Thornton UK LLP remains of the view that where overspends arise against DSG and are to be carried forward as a call against the schools' budget in future years, these should form part of the un-earmarked general fund as:

- expenditure is required to be recognised in the year in which it is incurred, forming part of the 'Surplus / Deficit on Provision of Services' within the Comprehensive Income and Expenditure Statement
- the Schools & Early Years Finance Regulations 2020 regulations do not allow for expenditure to be reversed out of the General Fund in 2019/20.

I hope this is helpful and I look forward to engaging with you on the issues raised in this letter.

Yours sincerely



Engagement Lead and Key Audit Partner

For and on behalf of Grant Thornton UK LLP

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Name of meeting: Corporate Governance & Audit Committee
Date: 22nd JULY 2020

Title of report: Annual Report of Internal Audit 2019/20 & issues for 2020/21

Purpose of report; To provide information about Internal Audit activity and the effectiveness of the system of internal control, and conclusions on the control environment and assurance provided in 2019/20, and on matters that relate to Internal Audit activity in 2020/21

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 Council's Forward Plan (key decisions and private reports) ?	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? Is it also signed off by the Service Director for Legal, Governance & Commissioning?	Not applicable
Cabinet member portfolio	Not applicable

Electoral wards affected: All
Ward councillors consulted: Not applicable
Have you considered GDPR; Yes
Public

1. Summary

- 1.1 To provide information about Internal Audit activity in the year to 31st March 2020 (both at Kirklees Council and the controlled subsidiary organization, Kirklees Neighbourhood Housing Ltd) and note the outcome of the annual review of the effectiveness of the Council's system of internal control.
- 1.2 To provide an "opinion" on the adequacy and effectiveness of the Council's framework of governance, risk management and internal control.
- 1.3 To indicate compliance with the requirements of the Public Sector Internal Audit Standards (PSIAS) and Code of Ethics.
- 1.4 To provide an initially proposed Audit Plan for 2020/21 and to indicate priorities for the year.
- 1.5 To provide a recommended revised Audit Plan for 2020/21 that reflects timing and resourcing matters reflecting the disruption and impact of the coronavirus pandemic.
- 1.6 To approve a 2020/21 Audit Charter.

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 overall, the Council has sound arrangements to operate its business effectively. This is however based on the relatively limited coverage of planned audit activity, and from some unplanned work of the nature of ascertaining assurance and formed in the knowledge of an absence of material issues raised or identified in respect of other areas of operation. The opinion is based on the operations of Kirklees Council, and its wholly owned subsidiary Kirklees Neighbourhood Housing Ltd. This Committee takes responsibility as Audit Committee for both organisations.
- 2.2 However there are several 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 the system of internal control. The attached report contains material intended to assist the Committee in reaching a decision.
- 2.4 The report notes that following the external assessment undertaken at the end of the 2017/18 year (which attributed the operation with the highest standard which is "generally conforms"), assessment against the Public Sector Internal Audit Standards (PSIAS) and Code of Ethics has been undertaken this year internally by the Head of Risk as Head of Internal Audit. The assessment has been undertaken against the CIPFA recommended assessment criteria, and the outcomes from this assessment are included in the report.
- 2.5 Each year the Committee needs to consider and approve an Internal Audit Strategy & Charter. A proposed 2020/21 version is attached.
- 2.6 Two draft audit plans are included within the papers- an initial proposed plan for 2020/21 and a revised version that is considered now to be more realistic, given the operational issues resultant from the impact of coronavirus. The initial audit plan was the subject of consultation with Kirklees Strategic Directors and KNH. It was prepared before the Coronavirus crisis, based on the expectation of a full year of routine work in 2020/21. It proved difficult to commence any routine work in the first two months, with IA staff spending some time supporting other operational issues, and carrying out some on-going assurance about coronavirus related projects and issues, including those for emergency schemes and arrangements, that contain risk of fraud and irregularity. Since the middle of June 2020 progress has been made in some areas to deliver some routine work.- some of which has been slightly changed or reprofiled to achieve practicality in a virtual assessment (of essentially records stored within the IT systems within the organisation).
- 2.7 The second presented plan reflects a more realistic indication of what might be achieved during the remaining part of 2020/21. This will be somewhat reduced plan that ought to still provide a reasonable level of assurance in current circumstances. This position continues to need monitoring, and work carried out will depend on assurance provided, risk, resources and skills available. This Committee may need to consider if in the circumstances they are happy with the resource level that is available, or to seek additional resources to gain satisfaction in relation to the control environment, although in practice the ability to source the appropriate skill (externally) is likely to be difficult, expensive and

may not provide a substantial improvement in assurance. This is a matter which can be considered at a future meeting.

- 2.8 There remains much uncertainty about how the coronavirus will impact nationally, through the remainder of the year, and how the council interprets its approach. Accordingly, it is likely to be necessary to consider further amendments to the Audit Plan for 2020/21 during the year. This will be carried out initially, if necessary, under the authority of the Head of Internal Audit, with subsequent consideration by this Committee.

3. Implications for the Council

- 3.1 **Working with People** – None directly
3.2 **Working with Partners** – None directly
3.3 **Place Based Working** – None directly
3.4 **Improving outcomes for children**– None directly
3.5 **Climate change and air quality**- None directly
3.6 **Other (e.g. Legal/Financial or Human Resources)**- 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. 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 Not applicable, although Executive Team have been consulted collectively and individually on the initial draft plan for 2020/21.

5. Next steps & Timelines

- 5.1 This report informs the preparation of the Annual Governance Statement for 2019/20.
5.2 Audit activity in 2020/21 will concentrate on major areas of risk and control, based on a prioritised risk assessment. Resources will remain available to investigate significant 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 its internal audit function, and to note its conformance with Public Sector Internal Audit Standards and Code of Ethics
- (b) Effectiveness of the Council's overall system of internal control
- (c) Effectiveness of the broader control environment, risk management and governance arrangements of the Council (subject to the observations contained within the report);
- (d) 2020/21 Internal Audit Strategy and Charter and approve this document
- (e) Proposed amended audit plan for 2020/21 (Appendix 3A) and
- (f) Proposals in relation to actions necessary due to the ongoing disruptions to internal audit work during 2020/21. (2.8 above)

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 of Internal Audit 2019/20 is attached.

10. Service Director responsible

Not applicable.

KIRKLEES COUNCIL

CORPORATE SERVICES: RISK SERVICE

INTERNAL AUDIT

ANNUAL REPORT OF INTERNAL AUDIT 2019/20 & ISSUES FOR 2020/21

1. Introduction

- 1.1 This report assesses the adequacy and effectiveness of the Council's governance, risk management and control environment arrangements during 2019/20 and provides a summary of the activities and performance of Internal Audit during the year. The report also recommends a risk-based Audit Plan for 2020/21 and discusses other issues that relate to the year. This report relates to both Kirklees Council and its wholly owned subsidiary Kirklees Neighbourhood Housing Ltd (KNH).

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 appropriate by the Head of Internal Audit (the Head of Risk)
- 2.2 Internal Audit reviews the Council's assurance framework for governance, risk management and business systems and controls. Some assurance is obtained through the work of other agencies - such as health and safety. Internal Audit time is spent
- (a) Assessing arrangements for financial control.
 - (b) Assessing arrangements for other business and organisational controls – such as IT.
 - (c) Investigating allegations that the Council's business activities may not be operating in the ways intended.
 - (d) On work related to contracting strategy and contractor appraisals.
 - (e) To a very limited extent on value for money.
 - (f) Resolving a range of finance and control related issues (the most significant of which are reported in the quarterly reports).
 - (g) On aspects of fraud prevention - such as the biennial National Fraud Initiative (although customer fraud is currently investigated by others).
 - (h) Contributing generally and providing advice to Council wide and Service specific matters related to governance, risk, financial and business control. Whilst Internal Audit work can provide some assurance about business processes, it is not resourced in a way to assess the judgement of other professionals.
- 2.3 Quarterly Reports on the activities of Internal Audit have been provided to the Corporate Governance and Audit Committee. These reports provide

- (i) an opinion about the level of assurance that can be taken from each planned audit on the arrangements in operation at the time of each audit.
 - (ii) an opinion about follow-up of earlier Internal Audit work.
 - (iii) information about investigations, and other internal audit activity.
- Implementation of the agreed recommendations should provide a satisfactory degree of control in all cases.

3. **Summary of Audit Work in 2019/20**

3.1 Most audit work concludes with an assurance based opinion,

Opinion	% in year	
Substantial assurance	27	Positive
Adequate assurance	55	
Limited assurance	18	Adverse
No assurance	0	

3.2 18% of work concluded with an adverse opinion against a corporate target of 20%. This was 22% in 2018/19.

3.3 There were some areas of significant operation about which only limited assurance could be provided this year. These included certain aspects (but not all of):

- Key controls in the accounts payable arrangements
- IT procurement
- Safety management (asbestos, fire safety, and wider aspects in KNH/housing management systems)
- Petty Cash
- The ParentPay system (used to collect school meals and other income)
- Those who have no other recourse to public funds
- Major contract management

There was some strong improvement in arrangements for SAP Security and User Access Controls, although there is still a need for improvement. Limited progress had been made in relation to the improvements of recording of mandatory training and in relation to Corporate Performance management information.

3.4 Information on reported audit opinions in the last five years is shown in the table below

	2019/20	2018/19	2017/18	2016/17	2015/16
Days spent on audit work	1,376	894	976	1,372	1,745
Financial and business processes and systems examined	47	25	28	54	80
Location, establishment, schools audits undertaken.	29	34	38	48	55
Follow up audit work	13	9	18	19	18
Investigations into irregularity	7	2	5	5	6
Management, governance or value for money studies Grant audits, consultancy, projects	16	19	15	26	10
Completed formal tasks	112	89	104	152	169
Overall proportion of work offering limited or no assurance	18% All limited assurance	22% 21% Limited assurance 1% no assurance	22% All limited assurance	19% 17% limited assurance 2% no assurance	24% All limited assurance

Note that additional time was spent on council and KNH work during 2019/20; this was partly as a result of slightly less time being spent on other clients for operational reason (which will need to be provided back in 2020/21) and some additional resource availability more work was achieved.

See also Appendix A

3.5 Assessing only the new work on Council operations the level of activity found to be inadequate was 16%.

3.6 Of follow up work 69% achieved a substantial or adequate assurance outcome. This is an improvement on the 2018/19 (when it was 44%) Addressing agreed actions are an important part of a management response to any adverse audit findings. Some work was also undertaken to identify if recommendations made as a part of work that identifies a positive outcome are implemented. The work completed suggested that this is substantially the case, as 85% of those contacted confirmed all the agreed recommendations had been implemented and the remaining four auditees provided an update on the matters outstanding.

3.7 There were a small number of investigations reported during the year, detailed in the quarterly reports that included reports about adult day services, an outdoor centre, several children's nurseries, Kirklees Neighbourhood Housing and the national fraud initiative

3.8 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.
- Support to the Information Governance Board, and implementation of GDPR /Data Protection Act
- 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 enough merit to justify further investigation.
- Verification/certification relating to grants, such as Highways Incentive Funds.
- Support to corporate projects (such as waste management, housing strategy)
- Assessing write off arrangements/testing proposed debt write-offs.
- Monthly pay project
- Troubled Families grant analysis
- SAP control updates

3.9 Audit follow up work confirmed that the Council has made significant progress in implementing its new Risk Management Statement. A corporate risk matrix lists the fairly stable set of risks and threats to the organisation, albeit it cannot predict or significantly assist in national emergencies as is currently/has recently been ongoing. In normal circumstance, the corporate matrix is reviewed quarterly by the Risk Panel, Executive Team (ET), and (informally) by Cabinet. A detailed directorate-based matrix that is completed by directors and their senior managers and includes directorate risks and some cross-council risks implemented at service level is now in its final stage of implementation. This process has been subject to some quality checking, and the intention had been that a complete and acceptable version of the matrix would be achieved by the end of March 2020, although this target has not been achieved due to the prioritisation on other matters. Although the process can be enforced, it is still not clear that there is cross council engagement, and the service matrix system still cannot be relied upon as the core source of the quarterly reporting of emerging risks and threats. This remains a task subject to separate information collection from directors, the risk panel and various sources, although there is still good engagement in the reporting process to ET and beyond. Completion of the current planned work should substantially improve the ability of internal audit to rely on risk management arrangements as a source of both its assurance and its planning, although this is not fully embedded for the start of the audit year 2020/21. Good practice expects that any Internal Audit planning will recognise the risk management processes of the organisation. However, where risk management arrangements do not provide an assured picture, 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 necessarily not comprehensive. Whilst coverage of financial (and commercial) business process and governance is risk based, 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. The Corporate Governance & Audit Committee can, and does, gain wider governance assurance from these other sources, although not all have routine arrangements for reporting and this arrangement is not formally documented and reviewed. Those that are formally covered are listed in Appendix 2, but there are other potential sources of assurance.

- 3.11 From April 2019, the audit work that relates to the housing and construction management organisation Kirklees Neighbourhood Housing Ltd (a wholly owned subsidiary of the council) has been fully integrated into the planning and audit delivery and reporting structures of the Council. There is still a requirement to carry out a small amount of work necessary to provide assurance to the board of the company as a legal entity, but beyond that all Internal Audit work is fully in line with council reporting and governance.
- 3.12 Work continues to be performed for Kirklees Active Leisure. Outcomes are reported to KAL's own Audit Committee. Audit work is also carried out for West Yorkshire Fire & Rescue Service (WYFRS), who make substantial use of Kirklees financial systems., WYFRS has its own Audit Committee.
- 3.13 There was only very limited working with Calderdale Council's Internal Audit team during the year.
- 3.14 The intention had been to complete 101 planned audit tasks this year. The number of planned tasks achieved was 76, in addition to which 22 formal and initially unplanned tasks were completed making a total of 98 completed tasks. (97%). (last year, 89 planned and unplanned). Not all of these attracted an audit opinion. There were 6 planned pieces of work in progress at the year-end which will be reported in 2020/21 once complete. Under achievement was a consequence of several factors including one very time-consuming investigation, and other work taking longer than envisaged.
- 3.15 Staffing in the team was fairly stable. No employees left, and a trainee auditor was recruited. An additional member of staff -who is a trainee accountant- has joined the team temporarily from the Accountancy function. There are 10 substantive staff (8.4 full time equivalents), one placement student, and the secondee from accountancy added c 0.4 fte capacity, making a total of 9.7 fte of staff in 2019/20, about 1.25 fte was devoted to services for other clients.(3.12)
- 3.16 As noted in 2.1, the Financial Procedure Rules and the Audit 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. There was an attempt to influence by a member of a school governing body. This appears to have resulted from a misunderstanding about the nature of the work commissioned and did not detract from the achievement of the objective. The conclusions reached in all of the work presented are those of Internal Audit.
- 3.17 Internal Audit operates within the Public Sector Internal Audit Standards (PSIAS), which is a derived form of the international internal auditing standards.

Internal compliance testing indicates that the operation was in accordance with PSIAS standard during 2019/20. The function was subject to an external assessment at the end of the financial year 2017/18. The assessment concluded that the activity operated at the highest standard – “generally conforms” to the PSIAS and Code of Ethics. Issues raised related to the time devoted by the head of internal audit, the post holder’s role in relation to risk management, training and skills, and performance indicators, including customer feedback. A further external assessment will be required during 2022/23. Appendix B provides additional information.

- 3.18 During 2019/20 the Head of Risk carried out some wider organisational duties that might be considered to conflict with the purely independent role of the Head of Audit. These relate to roles in relation to council corporate risk management processes, supervision of the insurance function, and project advice relating to council investments. Any conflicts are handled by independent reporting, and the conflict is stated in any internal audit reports- such as the quarterly reports.
- 3.19 From work during 2019/20 many of the assessments of the Council’s governance, risk management, financial and business controls that were examined were sound and effective. However, reflecting resource availability, coverage remains quite limited. Nevertheless, 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. Comparison of staffing numbers locally suggest that taking account of Council (and other) activity, the Kirklees IA team is somewhat smaller than others, some of which have recently looked to strengthen their internal audit coverage.

4.2 The main performance statistics for the year are:

	Target 19/20	Actual 19/20	Actual 18/19	Actual 17/18	Actual 16/17
Work completed within time allowed	63%	80%	50%	77%	87%
Draft reports issued within 10 days	90%	85%	92%	93%	90%

The proportion of work completed within the allocated time was disappointing. This may reflect tasks becoming more complicated, unrealistic time expectations for tasks, a lack of cooperation from some clients, or the need for better time management by team members.

There were two other performance targets:

Target - 90% of the Audit Plan achieved. Actual was 75% (97% if unplanned and substitute audits included).

Target - 90% customer satisfaction. A new online/email-based system was trialled in the hope of improving customer feedback. The outcome from this changed process was not a substantial improvement on earlier arrangements, with a reasonable rate of responses from schools, and limited engagement otherwise. The limited engagement did produce largely positive feedback.

A sample of work is quality 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 (6% sample) during 2019/20 met the overall 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 utilise the opinion of the Head of Internal Audit on the internal control environment as a key source of evidence in the Annual Governance Statement. As noted previously, the systems of assurance about internal control come from a wider source than just internal audit, although it is a primary source of assurance.
- 5.2 Financial Procedure Rule 5.6 requires the Head of Audit & 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 B) 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 Members can gain assurance from a number of routes including their assessment of this and other reports (particularly the four quarterly reports). They can also gain assurance using factors such as performance indicators, quality assurance and consultation with senior management, although it is acknowledged that for 2019/20, again, this information is quite limited.

6. Internal Audit in 2020/21

- 6.1 Every activity will still be in view for internal audit, albeit this will be over a timescale of longer than 5 years. Strategic priorities for internal audit will continue be to:
 - a) Look at high value or high-risk activity and core systems and basic financial operations
 - b) Identify and document the wider assurance environment that operates across the organisation and determine if additional processes are needed to achieve a full set of entity control and assurance.

- c) Complete and (hopefully) embed the new approach to risk management
- d) Ensure basic compliance with processes.
- e) Carry out work contributing to the organisational objective of understanding and improving value for money.

Audit work will be performed in accordance with the Audit Strategy and Charter, the 2020 version is shown at Appendix 1 for consideration and approval.

Appendix 2 contains the key financial, operational and business control systems within the organisation, that particularly need to be subject to routine assessment.

- 6.2 From the beginning of the financial year 2020/21, the Council was operating in a fundamentally different way, as a result of the coronavirus epidemic. This meant that it was not possible to undertake routine internal audit work. During this time internal audit staff continued to work to ensure control arrangements were maintained, particularly in relation to the governments substantial business rate grant scheme, and a subsequent discretionary scheme. From June it was possible to recommence some routine work, although depending exclusively on the assessment of electronic records. (This is now most transactions. There are some paper original records, and the point at which they are translated into electronic form represents a risk).

Appendix 3 contains a draft audit plan that would have been presented, based on anticipated resource availability in a normal year. However, the disruption to much of quarter 1, and the ongoing practical limits of operations- which seem likely to apply at least until the end of quarter 2, mean that a revised, and reduced, audit plan has been produced – Appendix 3A. This seeks to comply with CIPFA/PSIAS recommended practice with an emphasis on at least achieving coverage of core areas of business control.

When a degree of normality returns, there may also be some need to review, assess and possibly investigate issues that have arisen during the emergency period, with a view for example to supporting /evidencing costs and grant claims from government.

Accordingly, there is likely to be a need to further re-prioritise the proposed work and tasks based on need. Nevertheless, at some stage it should be possible to carry out a proportion of the agreed plan (based on resources and skills available).

- 6.3 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 plan includes some work designed to enable the Kirklees Neighbourhood Housing Ltd board to discharge their statutory responsibilities.

The performance targets for Internal Audit are at Appendix 4.

- 6.4 During 2002/21 it is also intended to look at the council's arrangements in respect of fraud awareness, prevention, and investigation, which may involve some internal restructuring. It is also necessary to look at the council's arrangements for assessing value for money in its broad operation, an area of activity that it has been acknowledged it has somewhat under-resourced in recent years.
- 6.5 It is intended that a number of reports will thus be presented during the year in relation to;
- (a) overall assurance provision and risk from current internal audit arrangements, and alternative options,
 - (b) overall arrangements for fraud management, and alternatives
 - (c) overall arrangements for quantifying and analysing value for money

Prior to the recent national crisis, the council's senior management have been receptive to proposals for additional resources, in relation to (a) and (c) in particular, recognising that the council has not been investing sufficiently on some aspects of corporate support, although it is unclear how local or more importantly national finances will be compromised from the very high costs of addressing the current national emergency.

- 6.6 Within the current resource availability, whilst the scope will still exist to carry out some significant investigations and consultancy tasks, there is an overriding need to achieve enough assurance-based coverage, as is a requirement of the Public Sector Internal Audit Standards. This may mean that there needs to be discussion about additional resources in the event of serious multiple demands for activity, although the ability to effectively achieve and deliver this is likely to be difficult.
- 6.7 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), in 2020/21.
- 6.8 There were some minor changes to the Public Sector Internal Audit Standards for 2019, and the CIPFA (Chartered Institute of Public Finance & Accountancy) recommended assessment criteria were revised, although they were neither simplified nor improved.
- 6.9 CIPFA produced a new statement on the Role of the Head of Internal Audit in spring 2019. Nothing in this requires alterations in the Council and Internal Audit's current practices, but it emphasises that the responsibility for an effective audit function is a shared responsibility between the organisation, and its Head of Internal Audit, with the organisation recognising the importance of adequate and effective arrangements for governance, risk management and internal control, and the head of internal audit ensuring an independent function looking to achieve best practice, that effectively engages with the organisation and the Audit Committee.

7. **Conclusions**

- 7.1 This report has summarised the activities of Internal Audit during 2019/20. 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) 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 82%. The remaining 18% consists of 18% "limited assurance", with no (0%) "no assurance" 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 the Committee. These include the broader assurance framework, control arrangements for creditor payments, and matters related to corporate safety and Kirklees Neighbourhood Housing Ltd.

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Appendix A

DETAILED PERFORMANCE STATISTICS FOR 5 YEARS

	2019/20	2018/19	2017/18	2016/17	2015/16
Number of days spent on planned and unplanned audit work	1,376	894	976	1,372	1,745
Number of financial processes and systems examined	32	11	16	42	55
Percentage offering limited assurance/ *unsatisfactory.	16%	27%	44%	19%	20%
Number of location/ establishment audits undertaken.	0	0	3	14	23
Percentage offering limited assurance/ *unsatisfactory.	n/a	n/a	0%	21%	13%
Number of school audits undertaken	29	34	35	34	32
Percentage offering limited assurance/ *unsatisfactory.	10%	6%	3%	18%	28%
Follow up audit work carried out	13	9	18	19	18
Percentage offering limited assurance/ *unsatisfactory.	31%	55%	44%	21%	33%
Number of business control audits undertaken	15	14	12	12	25
Percentage offering limited assurance/ *unsatisfactory.	27%	36%	18%	17%	28%
Number of investigations into irregularity	7	2	5	5	6
Number of management governance or value for money studies	3	0	4	26	2
Number of grant audits, consultancy, projects	13	19	11		8
Completed formal tasks	112	89	104	152	169
Overall percentage of reported audits providing only limited assurance/ *unsatisfactory (corporate target 20%)	18%	22%	22%	19%	24%

Appendix B

Quality Assessments and Reviews

Recommendations from the External Assessment of Internal Audit 2018

Actions linked to these matters were reported to Corporate Governance & Audit Committee on 25th January 2019

	Recommendations	Progress
1	Time devoted by the head of internal audit to the strategic and operational management of the function.	The 2019/20 outcome is similar to that in 2018/19 See table that follows
2	Promoting a split between the creation and management of risk information, and the separate roles of internal audit in challenging entity risk identification and assessment and supporting this Committee in its role in overseeing risk arrangements.	Head of Risk continues to have role in risk management. There is a clearer set of other factors in Risk Management, such as the risk panel. Further follow up provided positive assurance in relation to risk management
3	Accessing the skills necessary to address speciality work areas (e.g. cyber IT) and more generally to secure a sustainable workforce. (2.1).	Recognition that super speciality skills not practically available, but as a recognition of workforce development trainee auditor/accountant recruited in 2019, and a further post (shared with accountancy) in 2020
4	Increasing the number of performance measures that are used to assess the effectiveness of internal audit (3.1)	Some additional information provided for those charged with governance
5	The need to improve feedback/ client engagement information (4.2)	New survey arrangements were no more successful than previous arrangements. More direct engagement will be attempted in 2020/21
6	Making sure that process documentation is fully completed (8.1)	Ongoing supervisions and quality checking

Time spent analysis by Head of Audit & Risk		2019/20	2018/19
		% all year	% all year
Specific IA projects and investigations		15	17
General Advice	Childrens	1	3
	Adults & Public Health	2	3
	Place	17	12
	Corporate	4	3
	KNH	8	4
Procurement & FPRs & CPRs		11	7
Risk Management		7	8
Trust Funds		9	11
CGAC advice		5	5
Management & Supervision		21	27

Annual Review of Internal Audit – 2019-Update of Progress

	Recommendations	Actions	Date	Progress
1	Need to be sure that the Audit Plan (for 19/20) is acknowledged and contributed to by Senior Management	Draft plan to be shared with Executive Team	April 2019	Draft plan shared with Executive Team, and plan modified as a consequence
2	Ensure all internal audit staff are familiar with the obligations contained within the Public Sector Internal Audit Standards, particularly in relation to ethical standards	Training of all staff	April 2019	Training carried out. Will be replicated for new employees, and refreshed appropriately

Annual Review of Internal Audit – 2020

	Recommendations	Actions	Date
1	The Covid 19 national emergency has caused some IA staff to be deployed into assisting with the processing of grant payments. (4 Ethics)	Ensure sufficient separation to be sure that there is no unreasonable conflict when independent post payment audit checking is required	Summer 20
2	The level of resource available for internal audit may be insufficient (3; Principles). There may be some skill gaps- e.g. re IT ((2010 planning)	Review IA resource and determine if it is inadequate, or the organisation otherwise understands the extent of risk	Summer 20
3	Explore potential for more rotation of assignments to avoid over familiarity (1130 Impairment)	To be considered on a personal basis based on skill and knowledge	Summer 20
4	Explore further options to obtain customer feedback (1311 assessment)	Recent changes not totally successful. Consider other options	Summer/ Autumn 20
5	Coordinate work with external auditor (2050 coordination)	To discuss with external auditor	Summer / Autumn 20
6	Is there an adequate audit brief for each audit? (6.3/2200 Engagement Planning)	To consider if client and auditor are clear about objectives, scope etc of each audit	Autumn 20

KIRKLEES COUNCIL

INTERNAL AUDIT

STRATEGY & CHARTER

2020-21

EXECUTIVE SUMMARY- INTERNAL AUDIT STRATEGY & CHARTER

1. Internal Audit supports the organisation, and its management in achieving its objectives. Its work will involve
 - a) Assurance about the internal financial and (other) business controls, and the council's broader assurance framework.
 - b) 'Consultancy' work, as commissioned, relating to business, financial and process controls and value for money, efficiency and effectiveness.
 - c) Development of anti-fraud, anti-corruption and anti-bribery measures and investigation of any suspicions of inappropriate behaviour.
 - d) Information, advice, advocacy and training in respect of best practice in achieving a high level of internal control, including Financial and Contract Procedure Rules.
 - e) Contributing to corporate/high impact projects, particularly those involving partnership and procurement.

Internal Audit coverage will apply to all of the Council's direct operations, all wholly owned or controlled organisations or subsidiaries, including limited companies, and other partnership bodies (where the Council so determines).

2. Internal Audit work will address all of the business controls of the organisation, prioritised on the basis of risk. This involves a full coverage of all aspect of the Council's operation, including financial systems, processes and activities, risk management, governance arrangements, information management and appropriate use of technology-
3. Internal Audit activity will be planned, carried out and reported within a general philosophy of providing evidence-based analysis and helpful advice to all levels of management and achieving positive consequential progress.
4. Except where otherwise agreed, written reports will provide summary information, detail on any findings of note, conclusions and recommendations to advise and inform managers of all levels.
5. Establishing effective systems of operation and implementation of audit recommendations is the responsibility of management. It is not the role of Internal Audit to act as a proxy for appropriate performance management of, or by, senior management.
6. Internal Audit will follow up the implementation of accepted recommendations in all cases where there were concerns about a system, process or activity, or where recommendations arose as a result of an

investigation. Other agreed recommendations may be followed up on a sample basis

7. Internal Audit will co-ordinate the overall corporate assessment of business controls and risk management. It will help develop and monitor the Risk Management Strategy.
8. Internal Audit will operate in accordance with the (mandatory) Public Sector Internal Audit Standards (PSIAS) and the supplementary CIPFA guidance. In particular internal audit officers will act with independence, objectivity and integrity and respect the confidentiality of organisational information.

CONTENTS

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2. Objectives of Internal Audit
3. Independence, Responsibilities and Authority
4. Performance Management and Quality Control
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6. Internal Audit Delivery
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Appendix 1 Control Environment (definition)

Appendix 2 Financial Procedure Rules (extract)

Appendix 3 Role of the Audit Committee

Appendix 4 Audit Planning, Resourcing & Reporting (detail)

Appendix 5 Public Sector Internal Audit Standards

Appendix 6 Statement of the Responsibilities of Management

1. INTRODUCTION

- 1.1 Local Authorities are required under the Local Government Acts and the Accounts and Audit Regulations 2015 to have a continuous internal audit of their financial and other business controls. It will be delivered in compliance with the Public Sector Internal Audit Standards (PSIAS). This is mandatory guidance which states the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of Internal Audit's performance. These standards in local authorities are supplemented by additional guidance from CIPFA that has regulatory authority for local government in the UK.
- 1.2 The PSIAS require that there is a formal Internal Audit Charter defining the purpose, authority and responsibilities of Internal Audit, which must be consistent with the PSIAS definition of internal audit, code of ethics and professional standards.
- 1.3 The main purpose of Internal Audit is to support the organisation in achieving its objectives, and particularly to play a key role in the Council's Corporate Governance arrangements in ensuring Members and Corporate Managers have adequate assurance that they are meeting their responsibilities.
- 1.4 This document has been prepared to set out:
- The objectives of Internal Audit
 - The scope of its operation
 - Its rights and responsibilities
 - The responsibility of others
 - The Audit planning process
 - The Audit reporting process
- 1.5 This Strategy and Charter will be regularly presented to senior management and reviewed regularly by the Corporate Governance & Audit Committee. Its purpose is to set out the purpose, nature, objectives, outcomes and responsibilities of the internal audit service.

2. OBJECTIVES OF INTERNAL AUDIT

- 2.1 Internal Audit's objectives can be defined as:

"Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes" (PSIAS)

This definition goes beyond basic compliance by evaluating and improving the effectiveness of the entire risk, control and governance arrangements

(including financial and non-financial control systems). As an independent appraisal function Internal Audit can offer assurance on the effectiveness of internal control arrangements, contributing to the efficient use of resources and generally helping management to monitor performance, improve operational efficiency and target objectives. These actions will add value by supporting the organisation in achievement of the Council's objectives.

2.2 Specifically the role is to provide:

- *Assurance, principally by a review of the control environment* - The 'control environment' comprises the business systems which are operated to implement the Council's statutory obligations and its policies and objectives. This includes systems and processes, governance and decision making, and risk identification and management. It involves the review of all the major financial and accounting systems and practices, and also controls of other kinds (such as purchasing and human resources). For financial controls it involves a more detailed review of information, records, assets and other resources to identify appropriate financial stewardship. (See Appendix 1). It also includes matters relating to organisational ethics, use of technology and matters such as management of data and information .
- *Consultancy* - Undertake, when commissioned, other reviews and projects which use investigative, analytical and consultancy skills. This work can be specific or involve on-going advice and may include value for money related activity. Where this advice is provided it is given notwithstanding the responsibility to provide assurance as above. Any work performed will be accepted only within the competencies of staffing.
- *Assurance and Investigation into suspected Fraud, Corruption and Bribery* - It is essential that Internal Audit has awareness of issues of fraud, bribery and corruption, as a part of gaining assurance about the control environment (as above). In some circumstances it may be appropriate for Internal Audit to undertake investigations into suspected irregularity, fraud, or corruption. Internal Audit also prepares and maintains the Corporate Anti-Fraud, Anti-Corruption and Anti-Bribery Strategy, and provides guidance for managers and Members and thus helps promote good corporate governance and the highest ethical standards. It also coordinates the Council's approach to the mandatory national fraud initiative. (NFI)
- *Advice* - Provide operational advice on the development of processes and systems and on the interpretation of the Council's rules (principally Financial Procedure Rules and Contract Procedure Rules).

2.3 Audit advice and recommendations are given in all cases without prejudice to the right of Internal Audit to review the relevant policies, procedures and operations at a later date.

2.4 The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal Audit advises the Council on whether effective and efficient arrangements exist, cumulating in the annual opinion

of the Head of Internal Audit, which informs the Annual Governance Statement. Optimum benefit to the Council should arise when Internal Audit work in partnership with management to;

- improve the control environment
- achieving organisational objectives.

3. INDEPENDENCE, RESPONSIBILITIES AND AUTHORITY

An effective internal audit function must be independent, objective and unbiased.

3.1 Authority

Internal Audit has authority to:

- Enter at all times any Council premises, land or location from which Council services are provided;(including those of partners and contractors)
- Have access to all property, records, documents, correspondence, data (in all forms) relating to all activities of the Council
- Require and receive explanations in respect of any matter and
- Require any employee of the Council, without prior notice, to produce cash, stores or any other property for which they are responsible.

The rights and responsibilities of Internal Audit are set out in Financial Procedure Rules (an extract is included at Appendix 2)

3.2 Responsibilities of the Head of Internal Audit

(The Head of Internal Audit has the formal title in the Council's structure of Head of Risk)

The Head of Internal Audit-

- Reports functionally to the Corporate Governance & Audit Committee which operates as the Audit Committee of the Council, and issues reports under his own name.
- Reports managerially to the Chief Executive, Service Director for Finance and Service Director, Legal Governance & Commissioning (Monitoring Officer) and for supervisory purposes to the Service Director, Legal Governance & Commissioning.
- Has the right to communicate directly with any Strategic or Service Director, or any other Council officer. The Head of Internal Audit may also communicate with any Cabinet Member or Councillor, or other person.
- Has the right to communicate confidentially with the Chair of the Corporate Governance & Audit Committee on any matters.
- Must advise the Corporate Governance & Audit Committee on any matter where any significant risk or threat to the organisation, identified through audit assurance work, has not been adequately addressed by management.

- Is responsible for the delivery of the internal audit function and achievement of the standards described within this document.

The Head of Internal Audit has responsibility for ensuring compliance with statutory requirements, in particular of the Data Protection and Freedom of Information Acts, and Council Policy concerning records management in operation of the internal audit activity. All audit work will be done in accordance with the principles of this legislation, unless certain exemptions apply to individual circumstances, so that, for example, personal data will be kept securely and disposed of correctly when it is no longer required for audit purposes. Information collected by way of audit work will be stored on paper and or electronically. Permanent file data, such as system notes will be kept until it is no longer valid. Reports, correspondence working papers and supporting evidence will be kept up to 6 years, but normally until after the next audit of the activity is completed, (or longer where an Audit Manager considers that this is necessary to facilitate service provision).

The Head of Internal Audit will ensure that audit work is shared with Strategic Directors, Service Directors and other senior managers and their appointees, and commissioning officers for investigations and reviews. Additionally, summaries will be provided to the Corporate Governance & Audit Committee, individual Members or others (e.g. whistle-blowers) who refer matters to Internal Audit, the external auditor and to other authorities and agencies to facilitate joint and partnership working as appropriate. Audit work will (except when otherwise agreed) be treated as confidential, but in certain circumstances may be wholly or partially subject to disclosure under the Freedom of Information Act.

Operationally, Internal Audit reports to the Chief Executive, statutory Chief Financial Officer and Monitoring Officer.

Internal audit work at Kirklees Neighbourhood Housing Ltd (KNH), a wholly owned and controlled (teckal) subsidiary of the Council, is carried out in the same way as a Council service, and is under the direction of the Council Corporate Governance & Audit Committee, with management input by officers of the company, as with a Council service, and some involvement by the Board of KNH, as necessary to enable them to discharge their responsibilities as Directors.

3.3 **Responsibilities of Internal Audit**

The responsibilities and objectives of Internal Audit are as follows:

- To provide soundly based assurances to management on the adequacy and effectiveness of their internal control, risk and governance arrangements, including ethics, information management and technology.
- To review, appraise and report on the extent to which the assets and interests of the Authority are accounted for and safeguarded from loss.

- To review, appraise and report on the suitability and reliability of financial and other management data and information.
- To assess the adequacy and effectiveness of the Authority's procurement, contract and partnership arrangements.
- To support schools in achieving high standards of control and governance.
- To assess the corporate risk management processes.
- To evaluate the risk of fraud and how it is managed and controlled. To provide corporate fraud and irregularity prevention, detection and investigation services in accordance with the Anti-Fraud, Anti-Corruption and Anti-Bribery Strategy.
- To reach conclusions about the effectiveness of the Council's control environment, and to recommend improvements to management.
- To contribute to assurances in relation to the robustness and reliability of internal controls and governance to support the Annual Governance Statement (AGS).
- To support the achievement of efficiency, value for money and effective change management.
- To provide advisory and consultancy services intended to add value and improve value for money, governance, risk management and control processes.
- To provide advice in respect of the development of new or significant changes to existing programmes and processes including the design of appropriate controls. This is usually through membership of groups, boards or working parties as well as direct contact with officers within Services.
- To support effective procurement.
- To support activities of the Corporate Governance & Audit Committee to discharge its responsibilities.
- To support the Service Director of Finance as the Council's Chief Financial (s151) Officer and all senior management in meeting their corporate responsibilities.
- To monitor the implementation of agreed recommendations
- To plan, manage and operate the internal audit function in an efficient and effective manner.

3.4 Responsibilities and expectations of Internal Auditors

Internal Auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined, working with honesty, diligence and responsibility. They must at all times observe the law and respect and contribute to the legitimate and ethical objectives of the Council.

Objectivity:

Internal Auditors must make a balanced assessment of all the relevant circumstances and not be, or appear to be, unduly influenced
This means

- Not taking part in any activity or relationship that may impair or be presumed to impair their unbiased assessment
- Declaring any real or perceived interests on an annual basis, or at any time that they recognise any impairment to the objectivity
- Not accepting anything that may impair or be presumed to impair their professional judgement such as gifts, hospitality, inducements or other benefits from employees, clients, suppliers or other third parties
- Disclosing all material facts known to them that, if not disclosed, may distort the reporting of activities under review
- Not using information obtained during the course of duties for personal gain and
- Complying with the Bribery Act 2010.

Confidentiality:

Internal Auditors must

- Act prudently when using information acquired in the course of their duties and protecting that information and
- Not use information (derived or obtained through their official role) for any personal gain.

All records, documentation and information accessed in the course of undertaking internal audit activities are to be used solely for the conduct of these activities. The Head of Internal Audit and all internal audit staff are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work.

Integrity:

In the conduct of audit work, Internal Audit staff will:

- Comply with relevant professional standards of conduct and perform their work with honesty, diligence and responsibility.

Competency:

Internal Auditors are expected to be competent in their role by:

- Possessing the knowledge, skills and technical proficiency relevant to the performance of their duties
- Being skilled in dealing with people and communicating audit, risk management and related issues effectively
- Maintaining their technical competence through a programme of continuous professional development
- Exercising due professional care in performing their duties; and
- Complying with all requirements of the PSIAS.

Awareness:

- Being alert to the issue of fraud and corruption.

Internal Audit staff must declare any conflict of interest, or potential conflicts of interest, actual or perceived, to their Manager.

3.5 Statement of pre-existing areas of conflict in current audit activity

The Head of Internal Audit – as “Head of Risk” has direct operational responsibility for the Insurance, Risk Management and Corporate Customer Standards (complaints) functions and provides input into certain procurement functions. When audits are required of these areas, the Audit Manager reports direct to the Service Director Legal, Governance & Commissioning. This arrangement helps maintain independence and avoid any conflicts of interest.

On a Consultancy basis, but as a matter of routine, Internal Audit staff provide advice about the methods of financial evaluation of contracts and contractors and carry out on a task specific basis financial evaluation of prospective suppliers to the Council.

Except for these activities, the Internal Audit function has no responsibility for developing or implementing procedures or systems and does not prepare records or engage in processing functions or business activities.

Otherwise, Internal Auditors are not involved in undertaking non audit activities and an Auditor will not be involved in the audit of any system or process for which they had previous operational responsibility (or advised in a consultancy capacity) for a period of two years.

Audit responsibilities are periodically rotated to avoid over-familiarity and complacency and also to provide for service continuity and resilience.

4. PERFORMANCE MANAGEMENT AND QUALITY CONTROL

4.1 Performance Management

The Corporate Governance & Audit Committee will establish performance measures for the Council, in respect of the control environment, and for the Internal Audit function and consider performance against those measures in reviewing the activity of Internal Audit.

4.2 Quality Control

The PSIAS requires the operation of quality assessment and review mechanisms, which must be assessed internally at least annually, and by an external assessor at least every 5 years.

The Head of internal Audit is responsible for advising the Committee on the appropriateness of measures and targets, and on collecting this information.

The Head of Internal Audit will establish internal quality control and review practices consistent with the requirements of the PSIAS, and report on the

outcome of this review work to the Corporate Governance & Audit Committee as a part of the Annual Report.

Quality control will include direction and supervision of work performed, the retention of appropriate reliable and relevant evidence to justify findings and conclusions and recommendations, and the internal review and assessment of work, including its preparation in accordance with detailed standards, and compliance with the requirements of PSIAS and CIPFA.

The Head of Internal Audit is responsible for arranging for the external assessment, providing the necessary information, and acting on any outcomes from the assessment. This will be done under the oversight of the Chair of the Corporate Governance & Audit Committee.

The external auditor and other external review agencies may evaluate the work of Internal Audit as part of their assessment of Council activity.

5. REPORTING

The Head of Audit and Risk will report to the Corporate Governance & Audit Committee

- Quarterly on each piece of work completed in the period, the opinion arising from that work and performance of internal audit (achievement of the annual audit plan (as revised when required), client satisfaction and quality assessment).
- Annually on the overall achievement and assessment of the Council's internal audit work programme, including an opinion on the control system, risk management and governance arrangements, and performance information, such as issuing reports on time, completing work within time allocated.
- Annually on the overall risk environment and the overall planned work on assurance in the forthcoming year, plus any investigative and consultancy tasks. This will include an assessment on the availability of resources, and any impact this may have on the ability to assess the control environment.
- As necessary on any matter impacting on the overall integrity of the Council's control environment, typically indicated by a "no assurance" audit opinion or on any operational matter that seriously impacts on the delivery of the audit plan, or resourcing of the internal audit function.

Internal Audit reports to all levels of management, with reporting of detailed operational work usually being to Service-Directors. The Chief Executive and Strategic Directors receive the full Council wide summary of activity.

6. INTERNAL AUDIT DELIVERY.

- 6.1 The Head of Internal Audit is responsible for the effective use of resources to deliver the Audit Plan.

- 6.2 Delivery is by direct employees of the Council, including trainees and secondees and where necessary temporary and casual employees. The use of specialist consultancy and contractors will be considered, if necessary, to deliver specific elements of the workload.
- 6.3 At least annually, the Head of Internal Audit will submit to the Corporate Governance and Audit Committee a risk based Internal Audit Plan for review and approval. The plan will consist of a schedule of planned assurance and consultancy work (including some contingency) which will establish resource requirements for the next financial year. This will be balanced between resource requirement and capacity. The standard requires the Head of Internal Audit to advise the Corporate Governance & Audit Committee if the amount of resources available compromises the ability to offer appropriate levels of assurance.
- 6.4 The internal audit plan is based on a risk-based assessment. The current standard -for 2020/21- is to potentially cover all areas of activity from the most significant to the most minor, although prioritisation is to ensuring that assurance coverage concentrates on those areas of highest risk in terms of potential exposure or likelihood of failure, covering both financial and other business controls (where assurance work utilise the responsibilities and processes for control effected by other teams such as Health & Safety).
- 6.5 Necessary material variations from the approved Internal Audit Plan are reported to and approved by the Corporate Governance & Audit Committee.

7. PARTNERSHIP, OBTAINING & PROVIDING ASSURANCE TO OTHERS

- 7.1 In respect of operations through partnership and semi-independent organisations:
- (i) Usually, the Council will require its internal auditors to have access to property, records, documents and correspondence, in respect of any activity operated or controlled by the organisation working for the Council, and for its auditors to be provided with explanations by officers of the organisation. Contracts and agreement documents will set out these rights where it is appropriate.
 - (ii) The Council (through agreement by the Head of Internal Audit) may agree that alternative review arrangements operated by or on behalf of the organisation, or independently, will provide sufficient evidence to enable the Council to secure assurance conclusions about the aspects of the effectiveness of the Council's control environment to which the partnership relates, although the Council will retain an ultimate right to review any activity dependent on the Council's funding. In this context the Head of Internal Audit will seek to develop relationships, formalised where practical, with other internal auditors and other review agencies to

facilitate this. This may include obtaining all or some elements of assurance from the internal auditors employed by the organisation, and or participating with other internal auditors (e.g. employed by local authorities in the sub region) to evaluate the procedures operated by shared partners (such as a regional wide public body) and using such assurance instead of obtaining direct assurance.

- (iii) The Council will, when requested and appropriate, provide assurance (based on work performed) to other partner organisations.

- 7.2 The Council's external auditor has full and free access to any records and work performed by Internal Audit. Action will be taken to coordinate work to avoid any duplication, and to ensure effective mutual working.
- 7.3 The Council provides Internal Audit services to the wholly owned Kirklees Neighbourhood Housing Ltd, for which the council's Corporate Governance & Audit Committee acts as Audit Committee.
- 7.4 The Council provides Internal Audit services to
 - Kirklees Active Leisure, which is a charitable trust under a service level agreement. Although the Council is the main partner of KAL, audit accountability and reporting is to Kirklees Active Leisure only.
 - The West Yorkshire Fire & Rescue Authority, which is a separate public body. This organisation makes significant use of the Council's financial systems. Audit accountability and reporting is to West Yorkshire Fire & Rescue Service only.

Appendix 1

CONTROL ENVIRONMENT - AUDIT WORK

The Control Environment comprises the Council's policies, procedures and operations in place to:

- i) Establish, and monitor the achievement of the organisation's objectives
- ii) Identify, assess and manage the risks to achieving organisational objectives
- iii) Facilitate policy and decision making
- iv) Ensure the economical, effective and efficient use of resources
- v) Ensure compliance with established policies (including behavioural and ethical expectation), procedures, laws and regulations
- vi) Safeguard assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption; and
- v) Ensure the integrity and reliability of information, accounts and data, including internal and external reporting and accountability processes. This encompasses elements of corporate governance and risk management.

Control Environment audit work utilises a risk based, systematic approach for all control environment work to:

- i) Identify and record the objectives, controls and risks of the system or process
- ii) Establish the congruence of operational objectives with higher-level corporate objectives
- iii) Evaluate and review the application of risk management processes and documentation
- iv) Evaluate the controls in principle to decide whether, or not, they are appropriate and can be reasonably relied upon to achieve their purpose
- v) Identify any instances of over-control
- vi) Determine and undertake appropriate tests of the effectiveness of controls, i.e. through compliance or substantive testing
- vii) Arrive at conclusions and recommendations and
- viii) Provide a written opinion on the effectiveness of the control environment.

Appendix 2

EXTRACT OF FINANCIAL PROCEDURE RULES

5. INTERNAL AUDIT

Responsibility & Authority

- 5.1 *The Chief Executive (in consultation with the Chief Finance Officer and Monitoring Officer) must arrange and direct a continuous internal audit, which is an independent review of the accounting, financial and other operations of the Council.*
- 5.2 *The Head of Risk will report directly to the Chief Executive, the Chair of the Corporate Governance & Audit Committee or the External Auditor in any circumstance where the functions and responsibilities of the chief finance officer are being reviewed.(other than routine reporting of work carried out)*
- 5.3 *The Head of Risk has authority to:-*
- (a) *Enter at all times any Council premises or land or location from which Council services are provided;*
 - (b) *have access to all property, records, documents and correspondence relating to all activities of the Council;*
 - (c) *require and receive explanations concerning any matter; and*
 - (d) *Require any employee of the Council, without prior notice, to produce cash, stores or any other property for which they are responsible.*

The chief finance officer has the same authority for any accounting or associated purpose.

Planning & Reporting

5.4 *The Head of Risk must plan and report (in accordance with the approved Audit Strategy and Charter , Public Sector Internal Audit Standards and any instructions from the Councils Corporate Governance & Audit Committee) upon:-*

- a) *The risks inherent in and associated with each system;*
- b) *The soundness, adequacy and application of the financial and other management controls and systems within each Service;*
- c) *The extent of compliance with, and the financial effects of, established policies, plans and procedures;*
- d) *The extent to which the organisation's Assets and interests are accounted for and safeguarded from losses of all kinds arising from fraud, other offences, waste, extravagance and inefficient administration, poor value for money and other cause;*
- e) *The suitability, accuracy and reliability of financial and other*

management data within the organisation; and

f) Value for money aspects of service provision.

5.5 In respect of any audit report or communication issued, the Director must reply within 4 weeks indicating the action proposed or taken, by whom and including target dates. Where a draft report is issued for initial comments a reply must be made within 2 weeks of issue.

5.6 The Head of Risk will provide a written summary of the activities of the Internal Audit function to the Cabinet and Corporate Governance & Audit Committee at least four times per year and an Annual Report produced for consideration by Management Board, Cabinet and Corporate Governance & Audit Committee, including an audit opinion on the adequacy and effectiveness of the Council's risk management systems and internal control environment.

The Head of Risk will review the system of internal audit on an annual basis and report the outcome to the Corporate Governance & Audit Committee.

Investigations and Suspected Fraud, Corruption or Bribery.

5.7 The Chief Executive and Directors must ensure that all Members and employees are:-

- a) Aware of the Council's Anti-Fraud, Anti-Corruption and Anti Bribery Strategy;*
- b) Aware of the Whistleblowing Strategy; and*
- c) Operating in a way that maximises internal check against inappropriate behaviour.*

The Head of Risk is responsible for the development and maintenance of the Anti-Fraud, Anti-Corruption and Anti Bribery Strategy and Whistleblowing Strategy and for directing the Council's efforts in fraud investigation.

5.8 It is the duty of any officer who suspects or becomes aware of any matter which may involve loss or irregularity concerning cash, stores or other property of the Council or any suspected irregularity in the operations or exercise of the functions of the Council to immediately advise the Director. The Director concerned must immediately notify the Head of Risk who may take action by way of investigation and report.

5.9 Where, following investigation, the Head of Risk considers that there are reasonable grounds for suspecting that a loss has occurred as a result of misappropriation, irregular expenditure or fraud, consultations will be held with the Director on the relevant courses of action, including the possibility of police involvement and the invoking of any internal disciplinary procedure in accordance with the relevant conditions of service. (Claimant fraud in respect of Housing Benefit and Council Tax Reduction and Discounts (where the claimant is not an employee or Member of the Council) is investigated by the Revenue & Benefits Service).

Appendix 3

ROLE OF THE “AUDIT COMMITTEE”

Extract from Terms of Reference of Corporate Governance & Audit Committee (May 2018) from the Council Constitution

6. To consider the council's arrangements relating to internal audit requirements including:
 - (a) considering the Annual Internal Audit report, reviewing and making recommendations on issues contained therein
 - (b) monitoring the performance of internal audit
 - (c) agreeing and reviewing the nature and scope of the Annual Audit Plan
7. To review the adequacy of the council's Corporate Governance arrangements (including matters such as internal control and risk management) and including to review and approve the annual statement of Corporate Governance.
8. To agree and update regularly the council's Code of Corporate Governance, monitoring its operation and compliance with it, and using it as a benchmark against performance for the annual Statement of Corporate Governance.

Monitoring the performance of Internal Audit might include:-

- i) Reviewing the scope, effectiveness and resourcing of the Internal Audit function;(including ensuring its budget is enough to achieve the work programme that the Committee considers to be necessary)
- ii) Assessing the balance between routine/unplanned/investigative work and systems /process/probity/unit/investigations/vfm studies/best value review/other work.
- iii) Appraising the accuracy and coverage of the work carried out.
- iv) Reviewing issues arising out of Internal Audit work.
- v) Reviewing management commitment to implementing audit recommendations.
- vi) Performance Management of Internal Audit work.

The Corporate Governance & Audit Committee can in support of its role:

- i) Call for Internal Audit reports to be submitted to it for consideration.
- ii) Commission specific pieces of Internal Audit work; and
- iii) Summon officers, members or other persons to explain their actions, or inactions, in relation to Internal Audit work.

Appendix 4

AUDIT PLANNING, RESOURCING AND REPORTING (Detail) 1

Corporate Audit Planning

- 1.1 The Head of Internal Audit is responsible for appropriate planning and deployment of Internal Audit resources by production of:
- i) A Strategic Statement of Areas of Auditable Activities and risk.
 - ii) A detailed Annual Audit Plan setting out the specific assignments planned for the year, reflecting risk and priorities and matched to the available resources.
- 1.2 The Annual Audit Plan will identify the work which is necessary to fulfil the following obligations: Assurance on effectiveness of internal controls to deliver efficient operations, safeguard the Council's assets and ensure compliance with relevant legislation, regulations, policies and procedures
Including:
- i) Assurance on key internal controls
 - ii) Assurance on financial processes and systems
 - iii) General assurance on other business systems and processes.
 - iv) Opinion on Risk Management
 - v) Opinion on Governance Arrangements
- 1.3 The level of resources allocated, and work planned need to be balanced, to provide the levels of assurance, and other activities, that are expected as outcomes.

2 Risk Assessment

- 2.1 Both of the Strategic and Annual Plans are prepared based on an assessment of risk. Although this can be made ostensibly scientific, at its heart is professional judgement about the-
- i) Importance of a risk area
 - ii) Existing level of internal control and risk management.
 - iii) Materiality
 - iv) Significance in terms of organisational impact, sensitivity and accountability
 - v) Previous coverage and experience and knowledge gained by Internal Audit; and
 - vi) Coverage by other review agencies.
- 2.2 The key financial systems will usually be subject to triennial review. The frequency of review of other business, governance and major and medium risk financial systems and processes will typically be between 3 and 5 years.-Some operational units and minor financial and business processes will be subject to audit work less frequently than every 5 years.
- 2.3 Any consultancy work will be separate from the control environment work and be based against specific objectives agreed with the Director responsible before the work commences.

3 Other Audit Work

- 3.1 Internal Audit will have the opportunity to determine if they wish to investigate any suspected irregularity or inappropriate behaviour by officers of the Council, its partners, suppliers or Service users which involves the potential misuse or loss of the Council's resources, including cash, stores, or other amounts. The Anti-Fraud,

Anti- Corruption & Anti-Bribery Strategy and the Financial Procedure Rules set down a procedure for investigation, reporting and decision making. The exceptions to this are the investigation of customer claims for Council Tax Reduction, Housing Benefit, Blue Badges, Right to Buy and other means tested care provision (which are at April 2020 the responsibility of the Investigation Team, Revenue & Benefits Service, although arrangements for the management of this team may change during 2020/21) and investigations into the misuse of Council paid time (e.g. inappropriate absence from work) which, along with non-resource based disciplinary matters, are the responsibility of Service management.

3.2 In order to test compliance by management in implementing agreed recommendations Internal Audit will follow up all cases where planned audit work identified that a system or process was considered to offer only limited assurance or no assurance (see tables 6.3 and 6.4) and in a sample of other cases. In the case of investigations, or consultancy, any outcome which results in agreed recommendations for improvements to process will also be subject to further review

4 Audit Resources

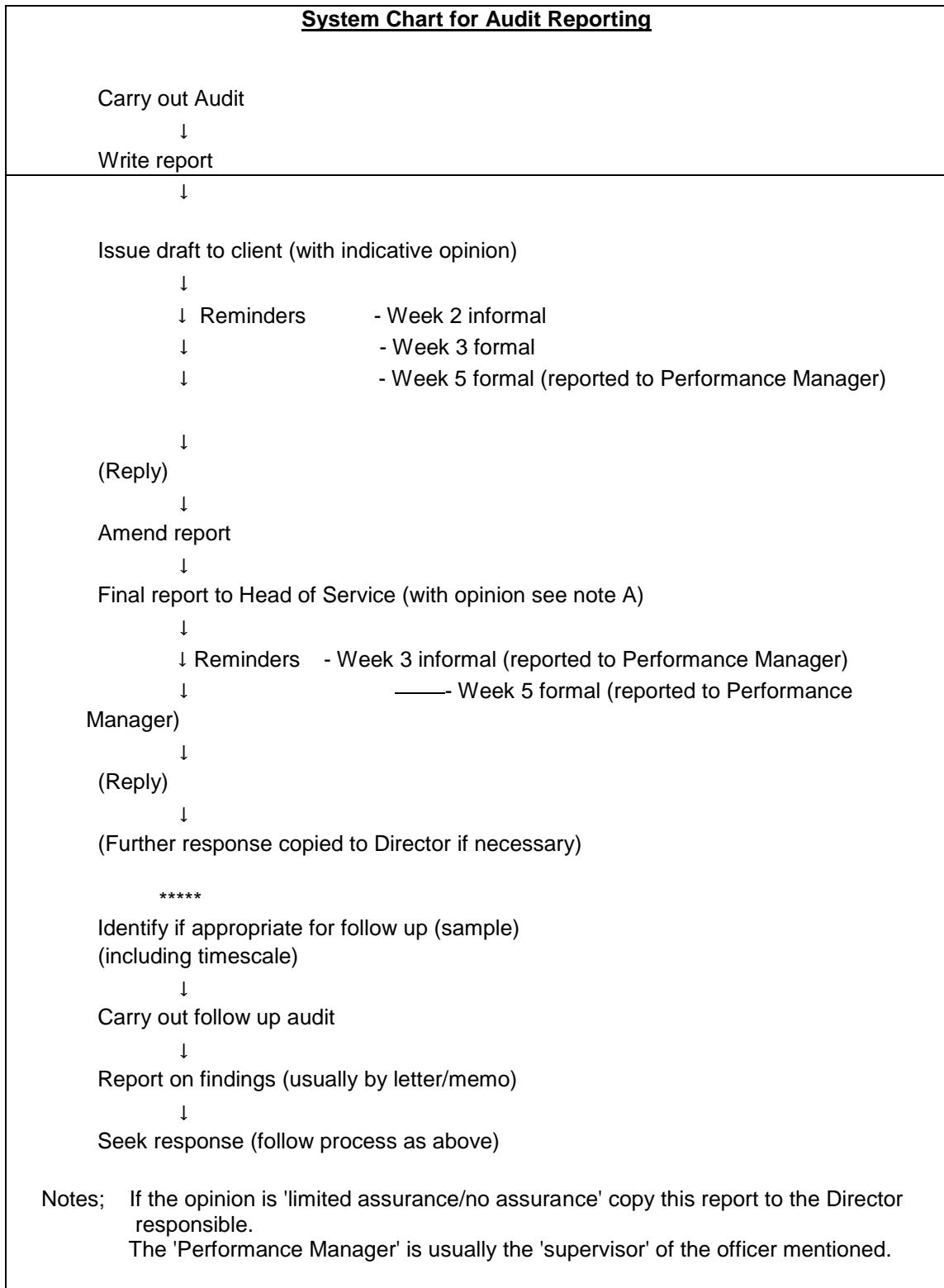
- 4.1 The Strategic Audit Plan includes a schedule of risks areas with an assessment of their nature and potential severity in terms of probability and impact.
- 4.2 At the start of each year, an annual plan will be prepared that looks at the degree of risk, based on the extent of assessed severity, and the date and findings of the previous work.
- 4.3 The Annual Plan needs to be interactively monitored against emerging risks, with the Plan being amended to reflect need, to ensure that resources are deployed on a priority basis.
- 4.4 The Head of Internal Audit will have the authority to change the plan to achieve this objective, and report back as a part of quarterly reporting of any significant changes made.
- 4.5 The Head of Internal Audit must monitor to ensure that there is sufficient resource to enable adequate coverage, and report at least annually on this.
- 4.6 The Annual Plan (IA control version) will include an allocation of days for each assignment (based on an expectation of an adequate arrangement)
- 4.7 In addition to the programmed audit work there needs to be time allowed:
 - i) As a contingency for dealing with unexpected issues/delays in planned work.
 - ii) To allow for un-programmed work and investigations.

5 Audit Assignments

- 5.1 Each specific Internal Audit assignment will identify its objectives and a time allocation and be either:
 - i) Subject to a routine audit programme developed in relation to the activity; or
 - iii) Subject to a specific audit brief developed for the specific task and agreed with the client. (This can be either an infrequent piece of assurance work, or a unique piece of consultancy).
- 5.2 Prior to the commencement of routine audits, Internal Audit will usually inform the manager responsible for the Service area under review about the purpose, scope and expected timing of the work. However, for some types of audit, such as special investigations, advance warning of the audit visit may not be appropriate, and this is at the discretion of the Head of Internal Audit.
- 5.3 Internal audit work will look to assess and provide information on the:

- i) Soundness, adequacy and application of the financial and other management controls and systems within each Service
 - ii) Extent of compliance with, and the financial effects of, established policies, plans and procedures
 - iii) Extent to which the organisation's assets and interests are accounted for and safeguarded from losses of all kinds arising from fraud, other offences, waste, extravagance, and inefficient administration, poor value for money and other cause
 - iv) Suitability, accuracy and reliability of financial and other management data within the organisation; and (where applicable)
 - v) Value for money aspects of service provision
- 5.4 During the conduct of reviews, Internal Audit staff will consult, orally and/or in writing, with relevant officers to:
- i) Ensure information gathered is accurate and properly interpreted.
 - ii) Allow management to put their case to ensure that a balanced assessment is made.
 - iii) Keep management informed on the progress of the audit.
 - iv) Ensure recommendations are cost effective and practicable; and
 - v) Ensure that all recommendations agreed are followed up and that action has been taken leading to implementation.
- 5.5 Whatever the source of the evidence, Internal Audit must be satisfied as to its nature, reliability, completeness and relevance before drawing conclusions.
- 5.6 Internal Audit "working papers" (paper and electronic) will contain the principal evidence to support reports and they also provide the basis for review of work by documenting: -
- i) Planning
 - ii) Examination and evaluation of the adequacy and effectiveness of internal controls
 - iii) The audit procedures employed, the information obtained, and the conclusions reached
 - iv) The management reviews
 - v) The report; and (as applicable, if any)
 - vi) Follow up.
- 5.7. The Auditor and Audit Manager will use their best endeavours to deliver the completed assignment within the time allocated and the timescale determined. This may not be possible due to inability to access key staff, other programming difficulties, the state of the records and information presented.

6 Audit Reporting



6.1 Internal Audit Reports

In respect of each assignment Internal Audit will produce a written report. This will usually set out summary information about the objectives and the work performed, providing detail of any adverse findings on an "exception only basis" setting out the

extent to which operations fail to conform to the established standard , and other important matters identified, stating the conclusions reached and recommendations, with an Action Plan to address these recommendations.

Where a report is issued, generally this will initially be in the form of a draft report, issued to the auditee and line manager, for comment on factual accuracy and the potential practicality of draft recommendations. Services can indicate at this stage if they agree with the recommendations and how they intend to action them. This will be usually issued by email

In respect of investigative work, the draft report (when produced) will be discussed with the responsible Director (or nominee). For consultancy work, the draft will be discussed with the commissioning manager.

On occasions where there are no adverse findings or recommendations, a report may progress to final stage without a draft being necessary.

The final Internal Audit report will be issued to the Service Director (or where agreed, the Strategic Director). An accompanying letter or email will indicate the Internal Audit opinion on the state of the system / process at the time the audit was undertaken, (and if the report is to feature in detail in subsequent reporting, a summary text).

6.2 Management Response

A formal written reply is required. This should indicate specifically:

- i) That the recommendations are accepted, and actions are to be taken, including timescale and the names of individual officers who are specifically responsible for their implementation.
- ii) That specific recommendations are not accepted. The reason should be provided, and any alternative actions should be listed.

A reply is not required where there are no recommendations, or when a detailed response was made at draft stage.

At this stage the matter will be considered to be finalised, except where the actions / inactions proposed under (ii) appear unjustified or unclear whereupon if the Head of Internal Audit believes the rejection or alternatives are unreasonable, further discussions will take place, and if necessary the matter will be reported to the relevant Strategic Director, or through the Internal Audit reporting process to the Corporate Governance & Audit Committee.

Management should respond to Internal Audit reports as quickly as possible, and within the following maximum timescales established in FPRs.

Draft Reports: Within 2 weeks of issue

Final Reports: Within 4 weeks of issue

Failure to adhere to the above timescales will be reported to Corporate Governance & Audit Committee on a quarterly basis.

6.3 Audit Opinion

The report will express an opinion on the level of assurance that is offered by the system/ process at the time the audit work was undertaken.

In respect of any audit work where the specific objective is to assess value for money, the opinion will reflect the assurance of the extent that current arrangements do or are likely to deliver value for money. Where value for money is one of a number of objectives, a separate opinion will be stated (on the grounds that a system may be highly effective in respect of the controls that it provides, but does not do so in a way that is efficient) ;

Assurance level	Control Adequacy	Control Application
Substantial Assurance	A robust framework of all key controls exist that is likely to ensure that objective will be achieved	Controls are applied continuously or with only minor lapses
Adequate Assurance	A sufficient framework of all key controls exist that is likely to result in objectives being achieved, but the overall control framework could be stronger	Controls are applied but with some lapses
Limited Assurance	Risk exists of objectives not being achieved due to the absence of a number of key controls in the system	Significant breakdown in the application of a number of key and/or other controls
No Assurance	Significant risk exists of objectives not being achieved due to the absence of key controls in the system	Serious breakdown in the application of key controls

6.4 The assurance is calculated as follows.

Assurance Level	Fundamental	Significant	Merits Attention
Substantial Assurance	There are no fundamental recommendations	There is no more than 1 significant recommendation	There are no more than 5 merits attention recommendations
Adequate Assurance	There are no fundamental recommendations	There are 2 to 4 significant recommendations	There are 6 to 10 merits attention recommendations
Limited Assurance	There are 1 or more fundamental recommendations	There are more than 4 significant recommendations	There are more than 10 merits attention recommendations
No Assurance	The number of fundamental recommendations made reflects an unacceptable control environment	Not applicable	Not applicable

Although the above is a general assessment model, there will be an element of discretion, as a single fundamental failing can, in certain circumstances, mean that an entire operation offers no assurance.

6.5 Prioritisation of Recommendations

Audit recommendations are allocated a priority rating to signify the risk, or level of internal control weaknesses, associated with the issue identified. The ratings used are: -

Priority Rating	Guidance
Fundamental	A recommendation, often requiring immediate action that is key to maintaining an appropriate control environment and thereby avoiding exposure to a significant risk to the achievement of the objectives of the system, process or location under review.
Significant	A recommendation requiring action that is necessary to improve the control environment and thereby avoid exposure to a risk to the achievement of the objectives of the system, process or location under review.
Merits Attention	A recommendation where action is advised to enhance control or improve operational efficiency.

6.6 Taking action on Audit Reports

The responsibility for implementation of audit recommendations - and the right to reject Internal Audit advice - lies with the Service Director.

Where audit work identifies that a system or process is unsatisfactory (or the management actions proposed to a system which is generally satisfactory are considered inappropriate) Internal Audit will advise the relevant Director.

6.7 Consolidating Information to form Overall Opinions and Advice

In respect of key financial systems, the overall opinion on the system will often be informed by a number of discrete pieces of work.

In addition, Internal Audit will also analyse various discrete audit assignments to ascertain if information or advice of benefit to a wider audience of managers can be obtained and distributed.

6.8 Corporate Management Reporting

Internal Audit will produce

- i) A Quarterly Report on Internal Audit activity
- ii) An Annual Report on Internal Audit activity expressing an opinion on the integrity and appropriateness of all significant financial systems and business control systems.

The Quarterly Report will contain details of work which has been finalised and agreed in the period, including

 - i) Specific details of all investigations, special studies and reviews and non-standard work.
 - ii) Summary information on systems and processes reviewed, and key reasons or findings when the system is considered to be providing only 'limited assurance' or 'no assurance'.
 - iii) Information about all follow up work; and
 - iv) Information about any senior managers who have failed to comply with their obligations.

The report will indicate if

 - i) At the time of the audit, the system or process reviewed provided "substantial", "adequate", "limited" or "no" assurance
 - ii) Management have not agreed the recommendations; and
 - iii) In the case of follow up work if agreed recommendations have not been implemented.

The report will be presented to the Chief Executive and Strategic Directors and formally to the Corporate Governance & Audit Committee.

The Annual Report will use information from the Quarterly Reports, and analyse this against systems and across Service areas to provide an opinion in respect of those systems and arrangements that have been subject to review during the year of.

- i) All major financial and business systems.
- ii) Other business control systems.
- iii) The overall quality of the operation of control systems in individual Service areas; and
- iv) An overall assessment of risk, and governance.

The report will be presented to the Chief Executive and Strategic Directors and formally to the Corporate Governance & Audit Committee.

7. Management responsibilities

- 7.1 It is the responsibility of operational managers, Heads of Service, Service Directors, Strategic Directors and Cabinet Members to implement and operate control systems which accord with statute, Council policy and organisation rules (e.g. Financial Procedure Rules).
- 7.2 They must ensure that appropriate records are kept and maintained as necessary to comply, and demonstrate compliance with their requirements, and ensure that staff employed are suitably skilled and trained.
- 7.3 Managers must ensure that appropriate access is granted for Internal Audit - to employees, premises, and records.
- 7.5 Accountability for the responses to the advice and recommendations of Internal Audit lies with management, who must either accept and implement the advice, offer an alternative action that addresses the deficiency identified (which is acceptable to Internal Audit), or formally reject it.
- 7.5 It is the responsibility of managers to establish systems and procedures to deter, prevent and detect fraud, corruption and bribery and suspected fraud, corruption and bribery.

Appendix 5

The Public Sector Internal Audit Standards (PSIAS)

The Public Sector Internal Audit Standards took effect from 1 April 2013 and apply to almost all public organisations in the UK. They are based on a development of international standards for internal auditing, largely developed by the Institute of Internal Auditors. The document produced is mandatory guidance which states the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of Internal Audit's performance.

These standards in local authorities are supplemented by additional guidance from CIPFA that has regulatory authority for local government in the UK. This includes substantial checklists of process and procedure.

The Public Sector Internal Audit Standards use a number of specific terms. These include terms which in the Council are considered to be as shown below in preparing this charter.

Term in the Public Sector Internal Audit Standards	Interpretation in this Charter Document
Chief Audit Executive	Head of Audit & Risk
Board	Corporate Governance & Audit Committee
Senior Management	Chief Executive and Strategic Directors

The Public Sector Internal Audit Standards document makes a number of statements as regards employment arrangements of the Chief Audit Executive. Whilst the UK standard and CIPFA identifies that some of the stated practices are not relevant to local government, these rules do look to transfer some employment related matters away from purely the executive arm of the organisation, by involving requirement of the Board.

Appendix 6

Statement of the responsibilities of management

1. It is the responsibility of management to establish sound and adequate operational systems and processes designed to achieve the organisation's objectives efficiently and effectively. It is their responsibility to organise operations efficiently in a way that achieves required outcomes, statutory compliance and adequate levels of internal control, including as appropriate matters such as the correct management of information. Senior managers must ensure that operational managers understand their role, operate systems as designed and intended, train staff appropriately in the required systems and procedures, and keep and retain adequate records. It is the responsibility of managers to establish systems and procedures to deter, prevent and detect fraud, corruption and bribery
 2. In dealing with internal audit managers should;
 - Arrange appointments for planned audit work promptly.
 - Respond diligently and promptly to any unplanned visit or request for information.
 - Have appropriate records and accesses available as necessary to assist the audit work.
 - Have the appropriate staff available to describe any system or arrangement, and answer questions or resolve queries as the audit work progresses.
 - Be available to discuss the conclusions of audit work and any recommendations.
 - Reply promptly to any draft audit report.
 - Reply promptly to any final audit report.
 - Complete any necessary action plan indicating agreement or otherwise.
 - Implement agreed actions.
 3. In respect of assurance, consulting or other activity (such as investigations) it is the role of Internal Audit to assess and report independently on systems and process and the efficiency and effectiveness of an activity. Whilst management will be consulted, and their comments considered, and can seek to offer advice and opinion, the auditor is responsible for production of the report based on the evidence that they have available. Managers are not required to agree with the conclusions reached.
 4. Managers are not required to implement audit recommendations. Where they believe that a recommendation is inappropriate, they should say why. Where they would prefer an alternative action, they should propose this.
 5. Although internal auditors will always attempt to be helpful, their role is to provide assurance and specific consulting, and it is not their prime role to offer advisory services, although they can often be a useful final arbiter if there is a lack of clarity about appropriateness of a procedure, or interpretation of a rule or requirement.
 6. The Chief Executive, Chief Financial Officer (s 151 officer) and Monitoring Officer are ultimately responsible for the implementation of matters as required by their statutory responsibilities.
-

Appendix 2

KEY CORPORATE SYSTEMS 2020/21

Financial Systems & Controls

Payroll (SAP)
Debtors (SAP)
Procurement / Creditors (SAP)
Council Tax
Business Rates
Council Tax Reduction Scheme (residual Benefits)
Housing Rents
Treasury Management
Payments for Social Care
School Payments
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
Corporate Complaints
Whistleblowing

Appendix 3

ORIGINAL DRAFT INTERNAL AUDIT PLAN 2020/21 (116)

CORPORATE (4)

National Fraud Initiative 2020/21
Safeguarding
Climate Change Emergency
No Recourse to Public Funds follow-up

ADULTS, HOUSING & HEALTH

Adults Social Care Operation (11)

Safeguarding
Emergency Duty Team
Deprivation of Liberty Safeguards
Better Care Fund
Clients Benefit and Pensions Income
Community Partnership Grants
Risk Management #
Establishments x 4

Customers and Communities (1)

Grants/Support to Voluntary Organisations

HOUSING (HRA) AND KNH (9)

Leaseholder Service Charges
Plant & Equipment Hire
Procurement of Works (Sub-Contractors)
Rent System Control and Reconciliation
Tenancy Allocation
Debtors +
Creditors +
Payroll +
Rent Write Offs
[items marked + also supports assessment of financial processes of KNH Ltd]

CHILDREN AND FAMILIES

Child Protection and Family Support (6)

Adoption Allowances
Fostering Payments
Children's Homes x 2
Risk Management #
Associate Framework second follow-up

Learning and Early Support (39)

High Schools x 2
Special Schools x 2
Primary Schools x 30
Troubled Families Grant Claims
SEND
School Admissions
Risk Management #
Careers Partnership

CORPORATE STRATEGY, COMMISSIONING & PUBLIC HEALTH

Strategy and Innovation (7)

SAP Security #
IT Network Access Controls
Voice Network Contract
Communications Policy #
Digital Transformation #
IT Software Licensing follow up
Performance Management second follow-up #

Governance and Commissioning (5)

Modern Slavery
SAP Ordering and Category Management
Corporate Risk Management #
Code of Corporate Governance/Ethics #
Regulation of Investigatory Powers Act Compliance

Finance (4)

Council Tax
NNDR
Cash Income Reconciliation #
Bank Reconciliation

People Services (5)

Attendance Management
Mandatory Staff Training follow-up
SAP Creditors Key Controls follow-up
SAP Debtors Key Controls #
Direct Debit Income #

Public Health (3)

Adult Wellness Contract
Healthy Child Contract
Risk Management #

ECONOMY & INFRASTRUCTURE

Environment (13)

School Transport
Waste Management Contract #
Schools Facility Management Procurement
Grounds Maintenance Income
DRAM Centre with Cliffe House follow-up
Vehicle Maintenance
Cleaning Recruitment and Payroll
Highway Asset Management
Health & Safety
Street Lighting & Sign Maintenance & Energy
Watercourse & Flood Management
Garden Waste Collection
Risk Management #

Growth & Housing (3)

Housing Register
Temporary Accommodation
Risk Management #

Economy and Skills (6)

Capital Plan Delivery
Works Better Programme
Markets
Business Centres
Asbestos follow-up
Fire Safety follow-up

Notes

- The draft plan has been prepared in accordance with the Public Sector Internal Audit Standards
- Follow up audits relate to audits in 2019/20 which produced a *Limited Assurance* opinion
- Audits marked # relate to Significant Governance Issues in the 2019/20 AGS
- The audit planning process is risk based and attributes a score to each activity in the audit universe (using a 4x3 matrix). Audits are then undertaken on up to a 5-year cycle. Whilst most audits proposed above have a risk score of 9 or above, some lower risk audits have been scheduled to give a broader picture of the control environment across the organisation.
- Items marked + also supports assessment of financial processes of KNH Ltd

Appendix 3A
RECOMMENDED REVISED AUDIT PLAN
Draft Revised Internal Audit Plan 2020/21 (90 audits)

	Internal Control	Risk Management	Governance	Remove from Plan
<u>CORPORATE (4)</u>				
	National Fraud Initiative 2020/21	Safeguarding		Climate Change Emergency
	No Recourse to Public Funds follow-up			
<u>ADULTS, HOUSING & HEALTH</u>				
<u>Adults Social Care Operation (11)</u>	Deprivation of Liberty Safeguards	Safeguarding		Emergency Duty Team
	Better Care Fund	Risk Management#		Establishments x 4
	Clients Benefit and Pensions Income			
	Community Partnership Grants			
<u>Customers and Communities (1)</u>	Grants/Support to Voluntary Organisations			
<u>KNH (9)</u>	Plant & Equipment Hire			Leaseholder Service Charges
	Rent System Control and Reconciliation			Procurement of Works (Sub-Contractors)
	Debtors +			Tenancy Allocation
	Creditors +			
	Payroll +			
	Rent Write Offs			
<u>CHILDREN AND FAMILIES</u>				
<u>Child Protection and Family Support (7)</u>	Fostering Payments	Risk Management#		Adoption Allowances
	Emergency Duty Team			Children's Homes x 2
				Associate Framework second follow-up
<u>Learning and Early Support (40)</u>	High Schools x 2	SEND	School Exclusions	

	Special Schools x 2	Risk Management#		
	Primary Schools x 20			Primary Schools x 10
	Troubled Families Grant Claims			School Admissions
				Careers Partnership
<u>CORPORATE STRATEGY, COMMISSIONING & PUBLIC HEALTH</u>				
<u>Strategy and Innovation (8)</u>	SAP Security#	Digital Transformation #	Performance Management second follow-up#	Communications Policy#
	IT Network Access Controls			IT Software Licensing follow up
	Voice Network Contract			
	Cyber Security			
<u>Governance and Commissioning (5)</u>	SAP Ordering and Category Management	Corporate Risk Management#	Code of Corporate Governance/ Ethics#	Modern Slavery
			Regulation of Investigatory Powers Act Compliance	
<u>Finance (4)</u>	NNDR			Council Tax
	Cash Income Reconciliation#			
	Bank Reconciliation			
<u>People Services (7)</u>	Attendance Management	Mandatory Staff Training follow-up		
	SAP Creditors Key Controls follow-up			
	SAP Debtors Key Controls#			
	Direct Debit Income#			
	VAT			
	Employee Expenses			
<u>Public Health (3)</u>	Adult Wellness Contract	Risk Management#		
	Healthy Child Contract			

<u>ECONOMY & INFRASTRUCTURE</u>				
<u>Environment (13)</u>	School Transport	Vehicle Maintenance		Garden Waste Collection
	Waste Management Contract#	Street Lighting & Sign Maintenance & Energy		
	Schools Facility Management Procurement	Watercourse & Flood Management		
	Grounds Maintenance Income	Risk Management#		
	DRAM Centre with Cliffe House follow-up			
	Cleaning Recruitment and Payroll			
	Highway Asset Management			
	Health & Safety			
<u>Growth & Housing (5)</u>	Markets	Risk Management#	Taxi Licensing Appeals	Housing Register
				Temporary Accommodation
<u>Economy and Skills (6)</u>	Business Centres	Asbestos follow-up	Capital Plan Delivery	Works Better Programme
	Discretionary Grant Fund for Small Businesses	Fire Safety follow-up		
123	67	17	6	33

Items marked # are shown in the Annual Governance Statement
Those marked + also supports assessment of financial processes of KNH Ltd

Appendix 4

INTERNAL AUDIT PERFORMANCE TARGETS 2020/21

<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

(*) Based on a full year; achievement needs to be pro-rata to new normal operating period, adjusted for any impacts of changed working arrangements.



Name of meeting: Corporate Governance & Audit Committee

Date: 22 July 2020

Title of report: Joshua Wood Charity

Purpose of report: To consult with Corporate Governance & Audit Committee (CGAC) and to ascertain whether CGAC would wish the council to have a right to nominate a Trustee of the Joshua Wood Charity

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?	No
Key Decision - Is it in the <u>Council's Forward Plan (key decisions and private reports)</u> ?	Key Decision – No Private Report/Private Appendix – No
The Decision - Is it eligible for call in by Scrutiny?	No

Electoral wards affected: Heckmondwike

Ward councillors consulted: Cllr Viv Kendrick, Cllr Steve Hall, and Cllr Aafaq Butt

Public or private: Public

Has GDPR been considered? Yes

1. Summary

The purpose of this report is to consult with and ascertain from CGAC whether it considers that the council should have the right to nominate a trustee of the Joshua Wood Trust which is a charity that exists for the relief of poverty.

At present the council in its capacity as Corporate Trustee is one of the three trustees of the Joshua Wood Trust. It is the council's Cabinet that has the authority under the constitution to make the decisions of the council in its capacity as Corporate Trustee. It has though proved to be difficult to conduct trustee business as meetings of the trustees can only take place at the same time as when there are meetings of the council as Corporate Trustee. The council in its capacity as Corporate Trustee has therefore been requested by the other two trustees that it will cease to be trustee.

The council in its capacity as Corporate Trustee wishes to know though whether the council corporately would wish to have a continuing involvement with the charity through the ability of the council to nominate a Trustee. If the council corporately does wish to be able to nominate a trustee then the three existing Trustees (including the council as Corporate Trustee) will need to alter the governance of the Joshua Wood Trust to provide for the retirement of the council in its capacity as Corporate Trustee and to be replaced by instead by a nominee of the council.

2. Information required to take a decision

The Joshua Wood Trust

2.1 The Joshua Wood Charity is a charitable trust created by the Will of Joshua Wood that came into being on his death in 1734.

The terms of the will trust

2.2 The Will trust provided for a bequest of £30 to be used to purchase land in or near to Heckmondwike and for the rental income to be used for the twice purchase of bread and its distribution amongst the poor of Heckmondwike.

The Current Trustees

2.3 There are three trustees of the Joshua Wood Charity.

- (i) The Vicar of the Parish of Birstall
- (ii) The churchwarden of Heckmondwike
- (iii) Kirklees Council as the statutory successor to the Overseer of the poor.

2.4 The vicar of the parish of Birstall and the churchwarden of Heckmondwike are trustees by virtue of their office and are known as ex officio trustees.

Proposals for Change

2.5 The Vicar of the Parish of Birstall and the churchwarden of Heckmondwike have provisionally agreed that the ex officio trusteeship of the vicar of the parish of Birstall should be replaced with the ex officio trusteeship of the parish of Heckmondwike and they have requested that the council in its capacity as Corporate Trustee should cease to be shall cease a Trustee.

2.6 They have also asked whether the council would wish to have the right to nominate a Trustee. The nominee would not need to be a ward member for Heckmondwike (although it could be a ward member) but the nominee should have an affinity with Heckmondwike either because for example they are a ward member or they live in Heckmondwike or because they were brought up there. The nominee would in essence be a community representative.

- 2.7 If the council considers it appropriate that it should be able to nominate a Trustee then the current Trustees have indicated that they would be happy to alter the governance of the Trust to provide for this.

Assets

- 2.8 The charity has a cash asset of approximately £65,000. This currently constitutes permanent endowment. However, the Trustees intend to take the appropriate steps with the Charity Commission to ensure that this cash asset can be used as revenue funds as the current Trustees feel that this will enable the Trust to deliver a much greater impact in the community of Heckmondwike in respect of its charitable object of the relief of poverty in that area.

3. Implications for the Council

- **Working with People**

The ability of the Council to nominate a Trustee will mean that the council has an opportunity to work with the church community in Heckmondwike

- **Working with Partners**

The ability of the Council to nominate a Trustee will mean that that council has an opportunity to work with the Church in Heckmondwike

- **Place Based Working**

The ability of the council to nominate a Trustee with an affinity with Heckmondwike will promote the “Place Based Working” approach.

- **Climate Change and Air Quality**

The change to the governance arrangements of the Trust will not practically change carbon emissions.

- **Improving outcomes for children**

There will be no impact

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

There are no financial or human resource implications in the implementation of the officers' recommendations.

There are no legal implications in the council exercising its nomination rights. However, the nominee will need to be aware that they will need to discharge their duties of trusteeship.

4. Consultees and their opinions

The council in its capacity as Corporate Trustee has indicated that it is minded to agree with the other trustees of the Joshua Wood Trust to resolve to amend the charity's governance to provide for the council to corporately have a right to nominate a trustee – if this is a right that the council corporately would consider it to be appropriate to have.

Ward members have been consulted. Cllr Kendrick has indicated that a nomination right would be a useful to ensure that the council still had involvement with the Joshua Wood Trust.

5. Next steps and timelines

If the officer recommendation is accepted by Corporate Governance & Audit Committee then the following steps will be taken:

- (i) The Trustees of Joshua Wood Trust will resolve to change the governance of the Trust to provide that the three trustees of the Trust should be: The Vicar of St James' Church Heckmondwike; the Churchwarden of St James' Church Heckmondwike; A nominee of the Council of the Borough of Kirklees – the nominee having an affinity with the locality of Heckmondwike.
- (ii) The parties group business managers will then determine who should be nominated as by the council as Trustee of the Joshua Wood Trust and the duration of the nomination.

6. Officer recommendations and reasons

Officers recommend that Corporate Governance & Audit Committee endorse the proposed resolution of the Trustees of the Joshua Wood Trust to change the composition of the Trustees from the current composition (being the Vicar of Batley; the Churchwarden of St James Heckmondwike; and Kirklees Council as corporate trustee) to the Vicar of St James Heckmondwike, the Churchwarden of St James Heckmondwike and a nominee of Kirklees Council who has an affinity with the locality of Heckmondwike.

Officers make this recommendation because it will lead to improved governance of the Joshua Wood Trust in that decisions will be able to be made more quickly and it will have a more local focus.

7. Cabinet Portfolio Holder's recommendations

Not applicable

8. Contact officers

Martin Dearnley Head of Risk, Corporate Strategy & Public Health
martin.dearnley@kirklees.gov.uk 01484 221000

Mark Nicholson, Senior Legal Officer, Legal Governance & Commissioning,
mark.nicholson@kirklees.gov.uk 01484 221000

9. Background Papers and History of Decisions

None

10. Service Director responsible

Julie Muscroft, Services Director – Legal Governance & Commissioning 01484 221000



Name of meeting: CORPORATE GOVERNANCE & AUDIT COMMITTEE
Date: 22nd JULY 2020
Title of report: QUARTERLY REPORT OF INTERNAL AUDIT Q4 2019/20
 JANUARY 2020 to MARCH 2020

Purpose of report;
 To provide information about internal audit work in quarter 4 of 2019/20

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 Council's Forward Plan (key decisions and private reports?)	not applicable
The Decision - Is it eligible for call in by Scrutiny?	not applicable
Date signed off by Strategic Director & name	not applicable
Is it also signed off by the Service Director for Finance IT and Transactional Services?	not applicable
Is it also signed off by the Service Director for Legal Governance and Commissioning Support?	not applicable
Cabinet member portfolio	not applicable

Electoral wards affected: All

Ward councillors consulted: None

Public or private: Public with a private appendix

The appendix to this report is recommended for consideration in private because the information contained in it is 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.

Have you considered GDPR? Yes

1. Summary

- 1.1 This report sets out the activities of Internal Audit in the final quarter of 2019/20. This report contains information about 29 formal opinion-based pieces of work and various other projects or tasks. Work associated with Kirklees Neighbourhood Housing is now reported along with all other work.

- 1.2 Of the 29 reports that include assurance levels were four areas where the activity was rated as providing limited assurance; one relates to a key control in the payments system, one to arrangements for those with no recourse to public funds and two related to safety assurance. Area where arrangements were at least adequate include revenues and payroll controls, highways stores, purchasing cards and VAT, various aspects of social care and KNH materials procurement.
- 1.3 Seven schools were visited; all had adequate or substantial assurance in their business processes.
- 1.4 There were 3 follow-up audits, including risk management. All had made adequate progress.
- 1.5 Overall, 87% of new work in the period attracted a positive outcome, and the cumulative year outcome was 82% is positive assurance. The target is 80%; last year the outcome was 78%.
- 1.6 Time was also spent ensuring progress in relation to IT network access , monthly pay, highways grants, information governance and the annual governance statement.
- 1.7 The report contains information about 2 investigations, including one at KNH Ltd.
- 1.8 The coronavirus measures introduced during late March 2020 had only limited impact on IA work that was completed in 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. There are none this quarter.

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

- 2.1 The detail of the audit work performed this quarter is contained within the private Appendix.

3. **Implications for the Council**

- 3.1 **Working with People** – None directly
- 3.2 **Working with Partners** – None directly
- 3.3 **Place Based Working** – None directly
- 3.4 **Improving outcomes for children**– None directly
- 3.5 **Climate change and air quality**- None directly
- 3.6 **Other (eg Legal/Financial or Human Resources)**- 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. 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**

There are no consultees to this report although heads of service/directors are involved in and respond to on individual pieces of work

5. **Next steps and timelines**

- 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 quarter 4 2019/20.

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

Not applicable

8. **Contact officer**

Martin Dearnley, Head of Risk & Internal Audit (01484 221133 x73672)

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

Previous Quarterly reports, Audit Plan and confidential appendix.

10. **Service Director responsible**

Not applicable

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Name of meeting: CORPORATE GOVERNANCE & AUDIT COMMITTEE
Date: 22nd JULY 2020
Title of report: QUARTERLY REPORT OF INTERNAL AUDIT Q1 2020/21
 APRIL 2020 to JUNE 2020

Purpose of report;
 To provide information about internal audit work in quarter 1 of 2020/21

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 Council's Forward Plan (key decisions and private reports?)	not applicable
The Decision - Is it eligible for call in by Scrutiny?	not applicable
Date signed off by Strategic Director & name	not applicable
Is it also signed off by the Service Director for Finance IT and Transactional Services?	not applicable
Is it also signed off by the Service Director for Legal Governance and Commissioning Support?	not applicable
Cabinet member portfolio	not applicable

Electoral wards affected: All

Ward councillors consulted: None

Public or private: Public with a private appendix

The appendix to this report is recommended for consideration in private because the information contained in it is 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.

Have you considered GDPR? Yes

1. Summary

- 1.1 This report sets out the activities of Internal Audit in the first quarter of 2020/21.
- 1.2 This includes work in both Kirklees Council and its controlled subsidiary Kirklees Neighbourhood Housing Ltd.

- 1.3 The coronavirus emergency has meant that little routine work has been completed during the period.
- 1.4 The work has included two investigations into alleged irregularity, two pieces of work assessing risk and recording processes linked to coronavirus and, a small amount of routine work and support to ongoing business projects, such as the councils monthly pay project.
- 1.5 A substantial amount of time has been spent in supporting the implementation of the Business Rates grant scheme (where in excess of £92.5m has been distributed), and the local discretionary grant scheme. The processes have been particularly in support of control arrangements and the prevention of fraud.
- 1.6 There is a consequential affect on the ability to deliver the annual plan for 2020/21, and the need to prioritise resources, between advice and assurance, as the year progresses.(This matter is covered in the Annual Report 2019/20 which also includes the Audit Plan for 2020/21). There will need to be flexibility to achieve core assurance for the year 2020/21.
- 1.7 It was agreed at March 2018 Council that this committee consider any surveillance activities under the Regulation of Investigatory Powers Act 2000. There are none this quarter.

2. Information required to take a decision

- 2.1 The detail of the audit work performed this quarter is contained within the private Appendix.

3. Implications for the Council

- 3.1 **Working with People** – None directly
- 3.2 **Working with Partners** – None directly
- 3.3 **Place Based Working** – None directly
- 3.4 **Improving outcomes for children**– None directly
- 3.5 **Climate change and air quality**- None directly
- 3.6 **Other (eg Legal/Financial or Human Resources)**- 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. 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

There are no consultees to this report although heads of service/directors are involved in and respond to on individual pieces of work

5. Next steps and timelines

- 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 quarter 4 2019/20.
7. **Cabinet portfolio holder's recommendations**
Not applicable
8. **Contact officer**
Martin Dearnley, Head of Risk & Internal Audit (01484 221133 x73672)
9. **Background Papers and History of Decisions**
Previous Quarterly reports, Audit Plan and confidential appendix.
10. **Service Director responsible**
Not applicable

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