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

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Thursday 15 July 2021

Notice of Meeting

Dear Member

Corporate Governance and Audit Committee

The **Corporate Governance and Audit Committee** will meet in the **Main Hall - Town Hall, Huddersfield** at **10.00 am** on **Friday 23 July 2021**.

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

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

Julie Muscroft

Service Director – Legal, Governance and Commissioning

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

The Corporate Governance and Audit Committee members are:-

Member

Councillor Yusra Hussain (Chair)
Councillor Paola Antonia Davies
Councillor Steve Hall
Councillor Susan Lee-Richards
Councillor Kath Pinnock
Councillor Melanie Stephen
Councillor John Taylor

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
A Gregg
V Lees-Hamilton
R Smith
M Thompson
D Hall

Green

K Allison

Independent

C Greaves
T Lyons

Labour

M Akhtar
E Firth
M Kaushik
J Ramsay
M Sokhal
S Ullah

Liberal Democrat

J Lawson
A Marchington
A Munro
A Pinnock

Ex Officio Members

Councillor Paul Davies - Cabinet Member (Resources)
Councillor Erin Hill - Chair of Standards Committee
Councillor Elizabeth Smaje – Chair of Overview and Scrutiny Management Committee

Agenda

Reports or Explanatory Notes Attached

Pages

1: Membership of the Committee

To receive any apologies for absence, or details of substitutions to the Committee membership.

2: Minutes of Previous Meeting

1 - 2

To approve the Minutes of the meeting of the Committee held on 25 June 2021.

3: Declarations of Interest

3 - 4

Committee Members will be asked to advise if there are any items on the Agenda in which they have a Disclosable Pecuniary Interest, which would prevent them from participating in any discussion or vote on an item, or any other interests.

4: Admission of the Public

Most agenda items will be considered in public session, however, it shall be advised whether Cabinet will consider any matters in private, by virtue of the reports containing information which falls within a category of exempt information as contained at Schedule 12A of the Local Government Act 1972.

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

The Committee will hear any questions from the general public.

7: Annual Report on Treasury Management 2020/21

5 - 22

To receive the report relating to Treasury Management activities for the previous financial year.

Officer: James Anderson – Head of Accountancy.

8: Update on the Redmond Review and the Council's final accounts for 2020/21

23 - 28

To consider the outcome of the Redmond Review and the final accounts and audit processes for 2020/21.

Officer: James Anderson – Head of Accountancy

10: Legal advice

To receive a verbal update.

Contact Julie Muscroft – Service Director, Legal Governance and Commissioning.

11: Nomination of Representative

59 - 62

To request the Committee approve the nomination of a representative to a Community Trust to be established by Thomas Crompton Demolitions Ltd.

Contact: Samantha Lawton – Head of Governance

12: Recommendations for the Council in ensuring its services to schools are provided appropriately and effectively 63 - 70

To receive information about recommendations made following a review commissioned by the Chief Executive.

Contact: Martin Dearnley – Head of Risk and Internal Audit

13: Quarterly report of Internal Audit Q1 2021/22 April 2021 to June 2021 71 - 74

To provide information about internal audit work in Q1 of 2021/22.

Contact: Martin Dearnley – Head of Risk and Internal Audit.

14: 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.

15: Quarterly report of Internal Audit Q1 2021/22 April 2021 to June 2021 75 - 86

Exempt appendix in relation to Agenda Item 13.

Contact: Martin Dearnley – Head of Risk and Internal Audit

16: Recommendations for the Council in ensuring its services to schools are provided appropriately and effectively 87 - 94

Exempt appendix in relation to Agenda Item 12.

Contact: Martin Dearnley – Head of Risk and Internal Audit

Contact Officer: Yolande Myers

KIRKLEES COUNCIL

CORPORATE GOVERNANCE AND AUDIT COMMITTEE

Friday 25th June 2021

Present: Councillor Yusra Hussain (Chair)
Councillor Paola Antonia Davies
Councillor Steve Hall
Councillor Melanie Stephen
Councillor John Taylor

Observers: Councillor Elizabeth Smaje (Ex-Officio) – Chair of
Overview and Scrutiny Committee
Councillor Erin Hill (Ex-Officio) – Chair of Standards
Committee

Apologies: Councillor Susan Lee-Richards
Councillor Kath Pinnock
Councillor Paul Davies (ex-Officio)

1 Minutes of Previous Meeting

RESOLVED – That subject to the following amendments, the minutes of the Meeting held on 22 April 2021 be approved as a correct record:

Annual Report of Internal Audit 2020/21 and Issues for 2021/22

1. That the 2021/22 Internal Audit Strategy and Charter be approved.
2. That the Committee notes that it is content with (i) the effectiveness of the internal audit function and its conformance with Public Sector Internal Audit Standards and Code of Ethics (ii) the effectiveness of the Council's overall system of internal control (iii) the effectiveness of the broader control environment, risk management and governance arrangements of the Council and (iv) proposed audit plans.
3. That the internal audit plan for 2021/22 be approved and that the Committee give authority to the Head of Internal Audit to vary the proposed audit plan as considered necessary, subject to reporting back as part of the quarterly review process.

2 Membership of the Committee

Apologies for absence were received from Cllrs K Pinnock, Lee-Richards and P Davies.

3 Declarations of Interest

There were no declarations of interest.

4 Admission of the Public

Corporate Governance and Audit Committee - 25 June 2021

It was noted that there were no matters listed for consideration in exempt session.

5 Deputations/Petitions

No deputations or petitions were received.

6 Public Question Time

No questions were received.

7 Proposed amendments to Council Procedure Rule 35

The Committee received a report relating to an amendment to Council Procedure Rule 35, pursuant to the submission of a Motion to the meeting of Annual Council on 19 May 2021. The report explained that the effect of the amendment, if adopted, would be to exclude Members of the Cabinet from being appointed to Strategic Planning Committee, or a Planning Sub-Committee.

The report outlined the proposed amendment, applicable to Council Procedure Rule 35 (2) (iii) (as shown in italics);

(2) The Council subject to any statutory provision:-

(iii) shall not appoint the Leader, the Deputy Leader of the Council or any Members of the Cabinet as members of the Overview and Scrutiny Committee or its Panels *or the Strategic Planning Committee or Sub-Committee thereof.*

The Committee was advised that, in debating the Motion at Council, it had been proposed that it was not appropriate for Councillors who have involvement in executive and strategic decision making, by virtue of being a Cabinet Member, to then participate in decision making processes at Strategic Planning Committee or either of the Sub Committees.

Discussion took place as to the implications of the proposed amendment and the Committee were asked to make a recommendation to Council as to whether the amendment to Council Procedure Rule 35 should be adopted.

RESOLVED – That a report be submitted to the next meeting of Council with a recommendation that the proposed amendment be adopted.

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 and Audit Committee

Date: 23 July 2021

Title of report: Annual Report on Treasury Management 2020-21

Purpose of report

Financial Procedure Rules (Section 9.5) require that the Council receives an annual report on Treasury Management activities for the previous financial year. The report to this committee reviews borrowing and investment performance before it gets considered by Cabinet and Council.

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 13 July 2021
Is it also signed off by the Service Director for Finance, IT and Transactional Services?	As above
Is it also signed off by the Service Director for Governance and Commissioning Support?	Julie Muscroft 13 July 2021
Cabinet member portfolio	Cllr Paul Davies

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 12 February 2020. Investments averaged £63.6 million and were largely deposited in instant access accounts earning an average interest rate of 0.13%.

- 1.2 Total external borrowing at 31st March 2021 decreased by £1.1 million to £425.8 million (£426.9 million as at 31st March 2020). The main highlight is that the Council has taken out a new £10 million Government long loan from the Public Works Loan Board (PWLB) in March 2021 (see paragraph 2.6.2 for more detail). Temporary borrowing increased for the year by £0.6 million to £41.5 million (£40.9 million 31st March 2020). The majority of borrowing is on fixed rate terms and the average long-term borrowing rate for 2020-21 was 4.46%. Short-term borrowing rates averaged 0.20%.
- 1.3 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.
- 1.4 In updating the approach the Council effectively over-provided in previous years the re-payment of debt to the sum of £91.1 million. Within the Treasury Management Strategy 2018-19 the Council set out its approach to unwind this over-provision at £9.1 million each year over the next 10 years, starting from 2017-18 onwards.
- 1.5 Following approval within the 2018-19 Treasury Management Strategy there was a further increase in the un-winding in the General Fund MRP for 2020-21. 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 £13.5 million. The actual MRP calculation for 2020-21 was £14.3 and hence the maximum unwind allowable. However in 2020-21 the unwind increased by only a further £0.2 million to £13.7 million.
- 1.6 Treasury management costs incurred in the year include £9.0 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 Treasury Management in the Public Services: Code of Practice 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 2020-21 performance, reference will be made to the Treasury Management Strategy Report approved by Budget Council on 12 February 2020.

2.2 Borrowing and Investment Strategy 2020-21

- 2.2.1 The Council's overall Treasury Management Strategy prioritises security, liquidity and risk management which was adhered to in 2020-21. 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, Money Market Funds, Local Authorities and Central Government.
- 2.2.2 Covid-19 had a significant impact on treasury management during the year. 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.
- 2.2.3 Lower official interest rates have lowered the cost of short-term, temporary loans and investment returns from cash assets that can be used in lieu of borrowing. The Council pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.

2.3 The Economy and Interest Rates

Below paragraphs 2.3.1-2.3.7 are a commentary from our external treasury management advisors, Arlingclose.

- 2.3.1 The coronavirus pandemic dominated 2020-21, leading to almost the entire planet being in some form of lockdown during the year. The start of the financial year saw many central banks cutting interest rates as lockdowns caused economic activity to grind to a halt. Some good news came in December 2020 as two Covid-19 vaccines were given approval by the UK Medicines and Healthcare products Regulatory Agency (MHRA). The UK vaccine rollout started in earnest; over 31 million people had received their first dose by 31st March 2021.
- 2.3.2 A Brexit trade deal was agreed with only days to spare before the 11pm 31st December 2020 deadline having been agreed with the European Union on Christmas Eve.
- 2.3.3 The Bank of England (BoE) held the Bank Rate at 0.1% throughout the year but extended its Quantitative Easing programme by £150 billion to £895 billion at its November 2020 meeting. In its March 2021 interest rate announcement, the BoE noted that while GDP would remain low in the near-term due to Covid-19 lockdown restrictions, the easing of these measures means growth is expected to recover strongly later in the year. Inflation is forecast to increase in the near-term and while the economic outlook has improved there are downside risks to the forecast, including from unemployment which is still predicted to rise when the furlough scheme is eventually withdrawn. Despite the furlough scheme, unemployment still rose. Labour market data showed that in the three months to January 2021 the unemployment rate was 5.0%, in contrast to 3.9% recorded for the same period 12 months ago. Wages rose 4.8% for total pay in nominal terms

(4.2% for regular pay) and was up 3.9% in real terms (3.4% for regular pay). Unemployment is still expected to increase once the various government job support schemes come to an end.

- 2.3.4 Inflation has remained low over the 12 month period. Latest figures showed the annual headline rate of UK Consumer Price Inflation (CPI) fell to 0.4% year on year in February, below expectations (0.8%) and still well below the Bank of England's 2% target.
- 2.3.5 After contracting sharply in Quarter 2 (Apr-Jun) 2020 by 19.8% quarter on quarter, growth in Quarter 3 and Quarter 4 bounced back by 15.5% and 1.3% respectively. The easing of some lockdown measures in the last quarter of the calendar year enabled construction output to continue, albeit at a much slower pace than the 41.7% rise in the prior quarter. When released, figures for Quarter 1 (Jan-Mar) 2021 are expected to show a decline given the national lockdown.
- 2.3.6 Ultra-low interest rates prevailed throughout most of the period, with yields generally falling between April and December 2020. From early in 2021 the improved economic outlook due to the new various stimulus packages (particularly in the US), together with the approval and successful rollout of vaccines, caused government bonds to sell off sharply on the back of expected higher inflation and increased uncertainty, pushing yields higher more quickly than had been anticipated.
- 2.3.7 Credit rating developments include Moody's downgrading the UK sovereign rating to Aa3 with a stable outlook which then impacted a number of other UK institutions, banks and local government. The vaccine approval and subsequent rollout programme are both credit positive for the financial services sector in general, but there remains much uncertainty around the extent of the losses banks and building societies will suffer due to the economic slowdown which has resulted due to pandemic-related lockdowns and restrictions. The institutions and durations on the Authority's counterparty list recommended by treasury management advisors Arlingclose remain under constant review, but at the end of the period no changes had been made to the names on the list or the recommended maximum duration of 35 days.

2.4 Investment Activity

- 2.4.1 The Council's treasury management investments totalled £37.1 million as at 31 March 2021 (£52.0 million 31 March 2020). The Council invested an average balance of £63.6 million externally during the year (£32.7 million 2019-20). Interest income of £0.071 million was generated through these investments (£0.204 million 2019-20) and £0.366 million dividend income from the CCLA Property Fund (£0.183 million 2019-20). Appendix 1 shows where investments were held at the beginning of April 2020, the end of September 2020 and the end of March 2021, by counterparty, by sector and by country. The Council's average lending rate for the year was 0.13% (0.73% 2019-20).
- 2.4.2 The high cash levels during the year were a result of the Council receiving central government funding to support small and medium businesses during the coronavirus pandemic through grant schemes. A total of £113 million was received in April 2020 and further significant amounts throughout the year. The Council also received financial support to fund the additional spend and lost income in response to the national emergency.
- 2.4.2 The majority of investments were placed in liquid instruments such as instant

access bank deposit accounts, DMO (Debt Management Office) and Money Market Funds (MMFs). MMFs offer greater diversification of counterparties, thus lowering risk as well as instant access. Continued downward pressure on short-dated cash rates brought net returns on MMFs close to zero. Fund management companies have temporarily lowered or waived fees to avoid negative net returns. Deposit rates with the Debt Management Account Deposit Facility (DMADF) have continued to fall and are now also largely around zero.

- 2.4.3 The Council still has £10 million invested in the CCLA Property Fund as part of the 2019-20 Treasury Management Strategy (see paragraph 2.11.5).

2.5 Borrowing Update

- 2.5.1 In November 2020 the PWLB published its response to the consultation on 'Future Lending Terms'. From 26th November the margin on PWLB loans above gilt yields was reduced from 1.8% to 0.8% providing that the borrowing authority can confirm that it is not planning to purchase 'investment assets primarily for yield' in the current or next two financial years. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing. As part of the borrowing process authorities will now be required to submit more detailed capital expenditure plans with confirmation of the purpose of capital expenditure from the Section 151 Officer. The PWLB can now also restrict local authorities from borrowing in unusual or large amounts.
- 2.5.2 The acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, re-financing and treasury management. Misuse of PWLB borrowing could result in the PWLB requesting that Authority unwinds problematic transactions, suspending access to the PWLB and repayment of loans with penalties. The Council is not planning to purchase any investment assets primarily for yield within the next three years and so is able to take advantage of the reduction in the PWLB borrowing rate.
- 2.5.3 Competitive market alternatives may be available for authorities with or without access to the PWLB. However, the financial strength of the individual authority and borrowing purpose will be scrutinised by commercial lenders.
- 2.5.4 PWLB funding margins have lurched quite substantially and there remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below gilt yields + 0.80%. The Authority will evaluate and consider these lower cost solutions and opportunities with its advisor Arlingclose.
- 2.5.5 In the March 2021 budget the Chancellor confirmed that a UK Infrastructure Bank will be set up with £4bn in lending earmarked for local authorities from the summer of 2021. Loans will be available at gilt yield plus 0.60%, 0.20% lower than the PWLB certainty rate. A bidding process to access these loans is likely with a preference to projects likely to help the government meet its Net Zero emissions target. However other "high value and complex economic infrastructure projects" may also be considered.

2.6 Borrowing Requirement and Debt Management

- 2.6.1 In terms of borrowing, long-term loans maturing greater than one year totalled £375.8 million and short-term loans maturing within 12 months (excluding interest accrued) totalled £50.0 million (£373.7 million and £53.2 million 31 March 2020),

an overall decrease of £1.1 million. Appendix 2 details repayments of long-term loans during the year and short-term loans outstanding as at 31 March 2021.

- 2.6.2 The Council has an increasing Capital Financing Requirement (CFR) due to the capital programme and an estimated borrowing requirement as determined by the Liability Benchmark which also takes into account usable reserves and working capital. The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. Having considered the appropriate duration and structure of the borrowing need based on realistic projections, it was decided to take a combination of short-term borrowing and longer-term repayment loans. The Authority borrowed £10 million of new long-term borrowing from the PWLB in March 2021. This is the first loan from the PWLB to fund capital expenditure since 2007 and is a 20 year Equal Instalment of Principal (EIP) loan at a rate of 1.64%. An EIP pays back principal over the life of the loan, and the interest associated with the loan goes down as the principal outstanding reduces.
- 2.6.3 Fixed rate loans account for 83.63% 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 8.64% 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.
- 2.6.4 The primary source of the Council's borrowing is from the Governments PWLB representing 70.64% of total external borrowing.
- 2.6.5 The Council continues to hold £61.5 million of LOBO (Lender's Option Borrower's Option) loans which represents 16.01% of total external borrowing. LOBO loans are where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option to propose an increase in the interest rates during the year.
- 2.6.6 The table below sets out the actual external borrowing requirement against estimated requirements;

	2019-20 £m actual	2020-21 £m forecast	2020-21 £m actual
General Fund CFR - Non PFI	461.6	504.4	500.1
PFI	45.8	42.5	42.5
HRA CFR - Non PFI	175.3	171.6	170.3
PFI	50.5	48.1	48.1
Total CFR	733.2	766.6	761.0
Less: PFI debt liabilities	96.3	90.6	90.6
Borrowing CFR	636.9	676.0	670.4
Other deferred liabilities	3.9	3.7	3.7
Internal borrowing	206.1	206.2	240.9
External borrowing:			
PWLB Loans	273.3	263.3	271.5
LOBOs	61.6	60.0	61.5
Loan Stock (Fixed Rate)	7.0	7.0	7.0
Other Loans (Fixed Rate)	44.1	43.6	44.3
Temporary borrowing	40.9	92.2	41.5
Total External borrowing	426.9	466.1	425.8
Total Funding	636.9	676.0	670.4
Investments	52.0	30.0	37.1

2.6.7 In terms of debt rescheduling, the premium charge for early repayment of PWLB debt remained relatively expensive for the loans in the Council's portfolio and therefore unattractive for debt rescheduling activity in 2020-21.

2.6.8 The average long term borrowing rate for 2020-21 for the Council's long-term loans outstanding was 4.46% (4.67% 2019-20).

2.7 Trends in treasury management activity

2.7.1 Appendix 4 shows the Council's borrowing and investment trends over the last 6 years. The trend has been to re-pay long term debt at maturity and where required borrow over the short term to take advantage of short term rates. Going forward the need to borrow long term will be reviewed using the liability benchmark as mentioned above.

2.8 Risk and Compliance Issues

2.8.1 The Council reports that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy, including the prudential indicators. 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 £0.1 million. The maximum daily amount deposited in this account overnight as a result of unexpected late payments was £1.8 million. Whilst this is not an ideal situation, the Council is still within investment limits as per the Treasury Management Strategy which is set at £10 million 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 2020-21. Training was provided to Members on the 20 January 2021.

Looking ahead – Treasury Management developments in 2021-22

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

- 2.9.1 As outlined within the Council approved Treasury Management Strategy 2021-22, 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 £6.8 million interest free loans to part fund the £13.4 million 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 2021-22 continues to place emphasis on the security of the Council's balances.
- 2.11.2 The Council is invested in the Local Authorities Pooled Investment Fund (LAPF). The Local Authorities Property Fund was established in 1972 and is managed by CCLA Fund Managers. As at March 2021 there are assets under management of £1,203 million. 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.
- 2.11.3 The fund returned a gross dividend yield of 4.3% in 2020-21 (4.4% 2019-20), which compares with average 0.13% on other short-term investments (see paragraph 2.4.1 above). Net income of £0.366 million was received by the Council in 2020-21 (£0.183 million in 2019-20 which reflects a part-year effect as the £10 million was invested in two £5 million tranches in May 2019 and February 2020).
- 2.11.4 During the initial phase of the pandemic in March 2020, the sharp falls in corporate bond and equity markets had a negative impact on the value of the Council's pooled fund holdings and was reflected in the 31st March 2020 fund valuations with the fund registering negative capital returns over a 12-month period. Since March 2020 there has been improvement in market sentiment, although the recovery in the UK markets has lagged those of US and European markets. The value of the fund at 31st March 2021 has remained at a similar level.
- 2.11.5 Similar to many other property funds, dealing (i.e. buying or selling units) in the CCLA LAPF was suspended by the fund in March 2020 and lifted in September. There was also a change to redemption terms for the CCLA LAPF; from September 2020 investors are required to give at least 90 calendar days' notice for redemptions.
- 2.11.6 Unrealised cumulative capital losses of £1.0m 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.
- 2.11.7 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.

2.12 New Borrowing

- 2.12.1 As mentioned previously the Council has an increasing CFR due to the capital programme. The Council's current approach is to continue to borrow short term, however the Council will look to fund the capital plan with a combination of short and long-term borrowing. Having considered the appropriate duration and structure of the borrowing need based on realistic projections, and with ongoing consultation with Arlingclose.

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
- 3.4 **Climate Change and Air Quality** – no impact
- 3.4 **Improving outcomes for children** - no impact
- 3.5 **Other (e.g. Legal/Financial or Human Resources)** – Any changes in assumed borrowing and investment requirements, balances and interest rates will be reflected in revenue budget monitoring reports during the year.

4. **Consultees and their opinions**

None.

5. **Next steps and timelines**

- 5.1 Comments and feedback from CGAC will be incorporated into this report which will be subsequently considered at Cabinet in July and Council in September 2021 as part of the overall financial outturn and rollover report 2020-21.

6. **Officer recommendations and reasons**

- 6.1 CGAC are asked to note the treasury management performance in 2020-21 as set out in this report, prior to its submission to Cabinet and Council;

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

To follow

8. **Contact officer**

James Anderson	Head of Accountancy
Rachel Firth	Finance Manager

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

CIPFA's and Accountancy's Code of Practice on Treasury Management in the Public Services.

CIPFA's Prudential Code for Capital Finance in Local Authorities.

Public Works Loan Board Website.

Treasury Management 19-20 Strategy Report approved by Council on 13 February 2019.

COVID-19 - Impact upon Council Finances Report approved by Cabinet on 21 May 2020.

10. **Service Director responsible**

Eamonn Croston

01484 221000

APPENDIX 1

Kirklees Council Investments 2020/21											
Counterparty	Credit Rating Mar 2021*	1 April 2020				30 September 2020			31 March 2021		
		£m	Interest Rate	Type of Investment	£m	Interest Rate	Type of Investment	£m	Interest Rate	Type of Investment	
Specified Investments											
Santander	Bank	F1/A+	0.0	0.85%	35 Day Notice	8.0	0.47%	35 Day Notice	5.0	0.30%	35 Day Notice
Barclays	Bank	F1/A+	0.0	0.01%	Instant Access	0.0	0.01%	Instant Access	0.6	0.01%	Instant Access
Aberdeen Standard	MMF**	AAAmf	10.0	0.48%	Instant Access	9.5	0.08%	Instant Access	8.6	0.01%	Instant Access
Aviva	MMF**	Aaa-mf	6.6	0.45%	Instant Access	10.0	0.06%	Instant Access	7.0	0.01%	Instant Access
Deutsche	MMF**	AAAmf	2.9	0.41%	Instant Access	9.4	0.06%	Instant Access	5.9	0.01%	Instant Access
Goldman Sachs	MMF**	AAAmf	7.5	0.28%	Instant Access	5.0	0.01%	Instant Access	0.0	0.00%	Instant Access
Thurrock Council	Local Authority		10.0	2.50%	Local Authority	0.0	N/A	Local Authority	0.0	N/A	Local Authority
Surrey County Council	Local Authority		5.0	1.25%	Local Authority	0.0	N/A	Local Authority	0.0	N/A	Local Authority
CCLA	Property Fund		10.0	N/A	Property Fund	10.0	N/A	Property Fund	10.0	N/A	Property Fund
			52.0			51.9			37.1		
Sector Analysis											
			£m	%age		£m	%age		£m	%age	
Bank			0.0	0%		8.0	16%		5.6	15%	
MMF**			27.0	52%		33.9	65%		21.5	58%	
Local Authorities/Cent Govt			15.0	29%		0.0	0%		0.0	0%	
Property Fund			10.0	19%		10.0	19%		10.0	27%	
			52.0	100%		51.9	100%		37.1	100%	
Country analysis											
			£m	%age		£m	%age		£m	%age	
UK			25.0	48%		18.0	35%		15.6	42%	
MMF**			27.0	52%		33.9	65%		21.5	58%	
			52.0	100%		51.9	100%		37.1	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+	
		Very Strong		AA+
				AA
	Strong	AA-		
		A+		F1
		A		
	Adequate	A-		F2
		BBB+		
		BBB		F3
Speculative Grade	Speculative	BBB-	B	
		BB+		
		BB		
	Very Speculative	BB-		C
		B+		
		B		
	Vulnerable	B-		D
		CCC+		
		CCC		
CCC-				
Defaulting	CC	D		
	C			
		D		

Appendix 2

Long-term loans repaid and short-term loans outstanding 31 March 2021

Long-term loans repaid during 2020-21

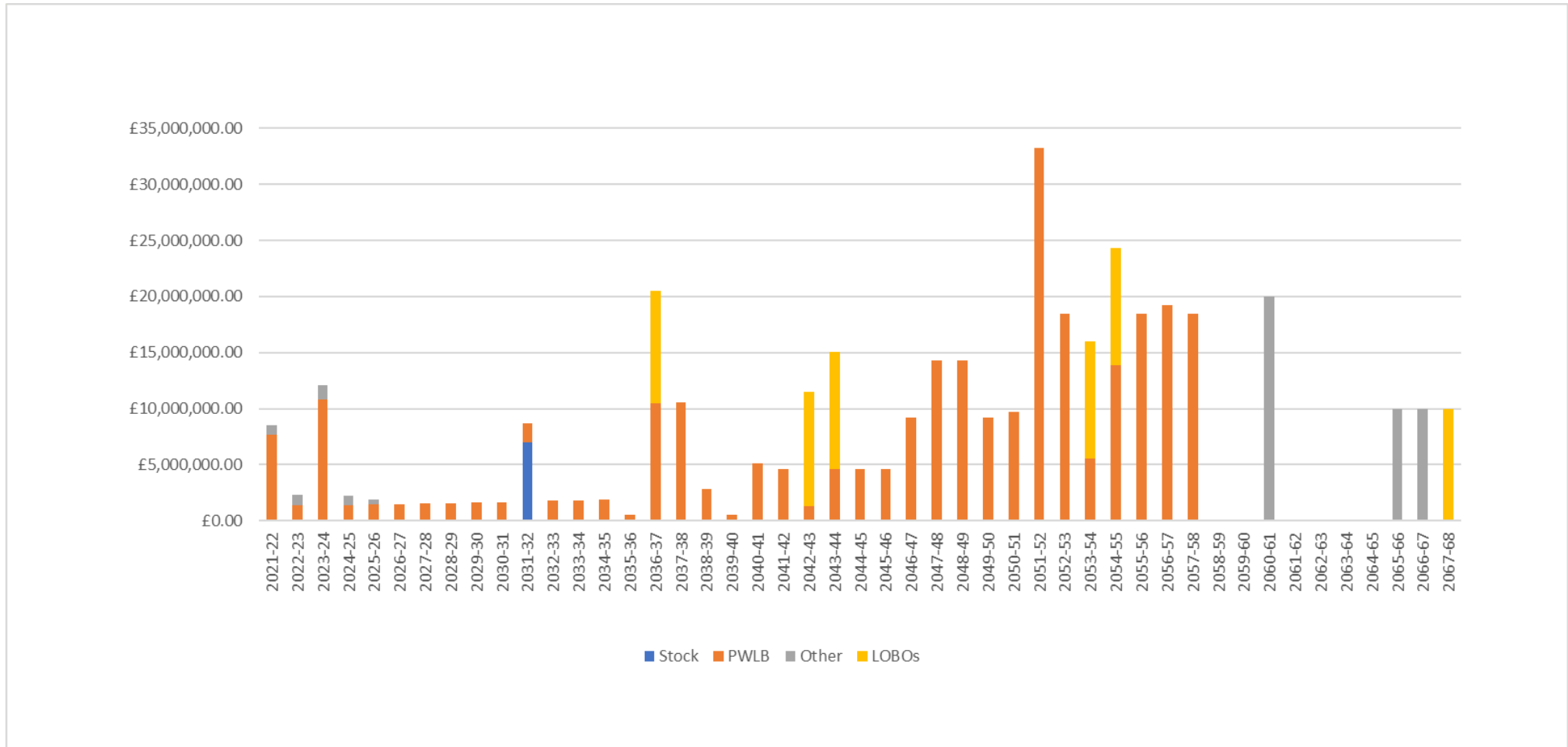
	Amount £000s	Rate %	Date repaid
Repayments on maturity			
PWLB (474647)	4,613	8.50	10 Aug 20
PWLB (475155)	6,458	8.625	15 Feb 21
Repayments on annuity loans			
PWLB (496956)	369	4.58	29 Sep 20
PWLB (496956)	377	4.58	29 Mar 21
Total	11,817		

Short-term loans outstanding 31 March 2021

	Amount £000s	Rate %	Length (days)
Temporary borrowing from the Money Market			
West Yorkshire Combined Authority	5,000	0.10	182
London Borough of Islington	5,000	0.10	141
London Borough of Islington	5,000	0.10	120
London Borough of Islington	5,000	0.10	114
Wealden District Council	5,000	0.10	115
Northern Ireland Housing Executive	5,000	0.10	123
North of Tyne Combined Authority	5,000	0.07	90
Crawley Borough Council	5,000	0.08	112
Local lenders/Trust Funds	1,476		
Total Temporary borrowing	41,476		
Long-term loans due to mature in the next twelve months	8,549		
Total	50,025		

Kirklees Council Loan Maturity Profile (All Debt)

Appendix 3



Appendix 4

Kirklees Council - Borrowing and Investment Trends

At 31 March	2021	2020	2019	2018	2017	2016
<u>Investments</u>	37.1m	52.0m	39.1m	36.1m	31.3m	38.3m
ST Borrowing (excl interest accrued)	50.0m	53.2m	11.8m	20.8m	37.7m	16.0m
LT Borrowing	375.8m	373.7m	384.1m	392.4m	400.5m	408.4m
Total Borrowing	425.8m	426.9m	395.9m	413.2m	438.2m	424.4m
Deferred liabilities (non PFI)	3.6m	3.7m	3.9m	4.1m	4.1m	4.3m
Net debt position	392.3m	378.6m	360.7m	381.2m	411.0m	390.4m
<u>Capital Financing Requirement (excl PFI)</u>						
General Fund	500.1	461.6m	436.6m	420.3m	412.8m	411.3m
HRA	170.3	175.3m	175.3m	182.8m	186.2m	192.4m
Total CFR	670.4	636.9m	611.9m	603.2m	599.0m	603.7m
Balances "internally invested"	240.9m	206.1m	212.1m	185.9m	156.7m	175.0m
Ave Kirklees' investment rate for financial year	0.1%	0.7%	0.7%	0.3%	0.4%	0.5%
Ave Base rate (Bank of England)	0.1%	0.7%	0.7%	0.3%	0.3%	0.5%
Ave LT Borrowing rate (1)	2.3%	2.4%	2.5%	2.5%	2.5%	3.2%

(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 2020-21	Actual 2020-21
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.

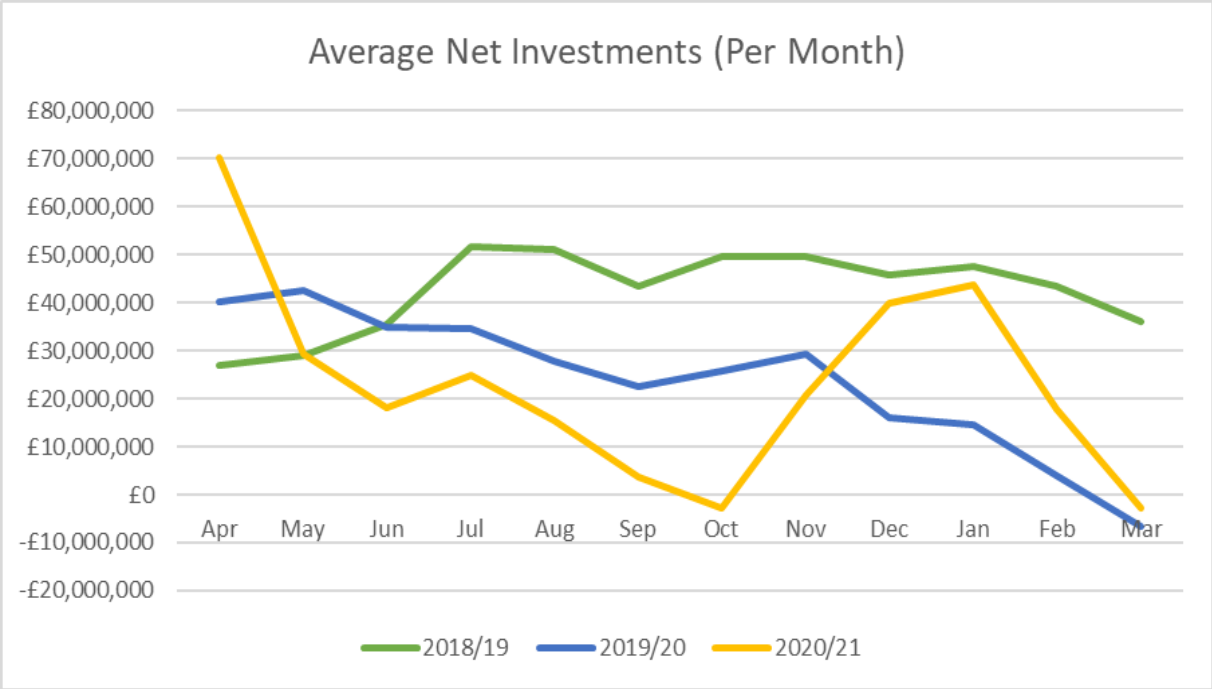
Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate	Limit Set 2020-21	Actual Levels 2020-21
Under 12 months	0% - 20%	3%
12 months to 2 years	0% - 20%	1%
2 years to 5 years	0% - 60%	5%
5 years to 10 years	0% - 80%	2%
More than 10 years	20% - 100%	89%

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
23 July 2021

Title of report: Update on the Redmond Review and the Council's final accounts for 2020/21

Purpose of report

The report updates Members on the outcome of the Redmond Review and the final accounts and audit processes for 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) ?	No
The Decision - Is it eligible for "call in" by Scrutiny?	No
Date signed off by Strategic Director & name	
Is it also signed off by the Service Director for Finance?	Eamonn Croston 12/7/2021
Is it also signed off by the Service Director – Legal, Governance & Commissioning?	Julie Muscroft 12/7/2021
Cabinet member portfolio- Corporate	Cllr Shabir Pandor Cllr Paul Davies

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 outcome of the Redmond Review and on the final accounts and audit processes for 2020/21.

Redmond Review:

Sir Tony Redmond was commissioned to undertake an independent review by the Ministry of Housing, Communities and Local Government to assess the effectiveness of Local Audit and the Transparency of Local Authority Financial Reporting. Sir Tony Redmond was an experienced Finance Professional and a former Chairman of the Chartered Institute of Public Finance and Accountancy (CIPFA). The review recognised the various issues that had materialised within the local government audit sector and proposed a number of remedial actions. For context, as at 31 March 2021 116 local authorities had not received an opinion on their 2019/20 accounts.

Final Accounts and Audit Processes for 2020/21:

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 noting the recommendations from the Redmond Review, the statutory deadline for the production of the Unaudited Statement of Accounts for 2020-21 was revised. For the Council the revised deadline is 31 July. The accompanying deadline for the completion of the audit was also amended to 30 September.

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 have been completed and signed by the Council's Service Director - Finance on 9 July 2021.

The six week public inspection period for the draft accounts 2020/21 commenced on 9 July and runs for 6 weeks up to 19 August. The audit of the 2020/21 Statement of Accounts has now commenced.

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.

2. Information required to take a decision

Redmond Review:

- 2.1 The Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting, reported back to the Secretary of State for Housing, Communities and Local Government in September 2020. In total 23 recommendations covering the following areas were made for the Secretary of State to consider:

- External Audit Regulation
- Small Authorities Audit Regulation
- Financial Resilience of local authorities
- Transparency of Financial Reporting

2.2 Following on from this a number of measures were announced in May 2021 namely:

- The Audit, Reporting and Governance Authority (ARGA) – the new regulator being established in 2023 to replace the Financial Reporting Council (FRC) – will be strengthened with new powers over local government audit, protecting public funds and ensuring councils are best serving taxpayers.
- The new regulator, which will contain a standalone local audit unit, will bring all regulatory functions into one place, to better coordinate a new, simplified local audit framework.
- ARGA will continue to act as regulator and carry out audit quality reviews as the FRC does now. It will now also provide annual reports on the state of local audit and take over responsibility for the updated Code of Local Audit Practice – the guidelines councils are required to follow.
- The Public Sector Audit Appointments (PSAA) will continue as the appointing body for local audit, in charge of procurement and contract management for local government auditors.
- In the immediate term, MHCLG will set up and chair a Liaison Committee, which will comprise senior stakeholders across the sector that will oversee the governance of the new audit arrangements and ensure they are operating effectively.

Final Accounts and Audit Processes for 2020/21:

2.3 The Council's draft Annual Governance Statement is to be presented separately on this meeting's agenda and will be incorporated into the Audited Statement of Accounts.

2.4 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, with 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 have been completed and signed by the Council's Service Director - Finance on 9 July, ahead of this years' revised statutory sign off deadline of 31 July 2021 (previously 31 May 2021).

- 2.5 The six week public inspection period for the draft accounts 2020/21 runs from 9 July to 19 August. The audit of the 2020/21 Statement of Accounts is currently in progress.
- 2.6 It is intended that the audited Statement of Accounts are presented to this Committee for approval on 23 September, prior to the 30 September 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 September statutory deadline.

6. Officer recommendations and reasons

For Corporate Governance and Audit Committee to:

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Kirklees Council Audit Plan

Year ended 31 March 2021

14 July 2021



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 Council 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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Key matters

Factors

Council developments

Local Government funding continues to be stretched with the Council facing increasing cost pressures and demand from residents. The Council confirmed the 2021-22 budget alongside indicative budgets for 2022-26 on 10 February 2021 that supports the vision for Kirklees Council that is set out in the "Our Council Plan". Integral to this plan is the delivery of desired outcomes from within available resources with the Council recognising the need to ensure that a financially sustainable position is achieved.

Impact of Covid 19 pandemic

The outbreak of the COVID-19 coronavirus pandemic has had a significant impact on the normal operations of the Council during 2020/21, including the administration of grants to businesses, closure of schools and car parks with additional challenges of reopening services under new government guidelines.

The Council implemented governance arrangements at the start of the pandemic to ensure tight controls were in place around the use of additional grant funding and expenditure. The Council's latest review of 2020-21 performance in June 2021 forecast a £1.9m overspend against a net revenue budget of £306.2m. Overall, in-year Covid related additional spend is forecast at £20.4m, with service income losses of £15.2m. This is offset by matching Government Covid funding of £35.6m.

The COVID-19 pandemic has had a significant impact on the valuation of property, plant and equipment and investments. This led to the Council's valuer reporting a material uncertainty in relation to the valuation of properties as at 31 March 2020, and the West Yorkshire Pension Fund disclosing a similar material uncertainty relating the valuation of investment property.

We included Key Audit Matter paragraphs in our 2019/20 audit opinion drawing attention to these material uncertainty disclosures in the financial statements. Property valuation and Net Pension Fund liability remain as significant risks within this Audit Plan. However, now that there is greater certainty in these markets, we do not anticipate a similar 'material valuation uncertainty' to recur as at 31 March 2021.

Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, has been agreed with the Service Director - Finance.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.
- We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. We have identified a significant risk with regard to management override of control.
- The Council's valuer reported a material uncertainty in regards to the valuation of properties in 2019/20 due to the COVID 19 pandemic and we expect uncertainty will continue in 2020/21 and beyond. We have identified a significant risk with regard to the valuation of properties.
- The 2019/20 financial statements for the West Yorkshire Pension Fund also included a material uncertainty disclosure in relation to the valuation of investment property, and we expect uncertainty will continue in 2020/21 and beyond. We have identified a significant risk with regard to the valuation of the pension scheme net liability.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Kirklees Council ('the Council') 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 agreed Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Kirklees Council. We draw your attention to both of these documents.

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:

- Council 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 Council 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 Council 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 Council is fulfilling these responsibilities.

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

Group Audit

The Council is required to prepare group financial statements that consolidate the financial information of Kirklees Neighbourhood Housing Ltd and Kirklees Stadium Development Ltd.

Significant risks

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

- Management override of controls
- Valuation of net pension fund liability
- Valuation of land, buildings, council dwellings and investment property

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 (ISA 260) Report.

Materiality

We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £13.5m (PY £13.4m) for the group and £13.4m (PY £13.3m) for the Council, which equates to 1.35% of your forecast gross expenditure for the year. 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 £0.7m (PY £0.663m).

Value for Money arrangements

Our initial risk assessment regarding your arrangements to secure value for money has identified a risk of significant weakness regarding the level of Dedicated Schools Grant overspend. This is detailed on page 21. We will continue to assess the Council's arrangements and will provide a commentary against all key lines of enquiry in the Auditor's Annual Report. Should we identify any further areas of significant weakness as part of our further work we will bring them to your attention.

Introduction and headlines cont.



Audit logistics

Audit Planning has taken place during March to April 2021 and our final visit will take place in July to September 2021. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report. Our audit approach is detailed in Appendix A.

Our fee for the audit will be £195,721 (PY: £175,555) for the Council, subject to the Council delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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.

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?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
Kirklees Council	Yes		Please see the significant risks detailed on pages 7 to 10.	Full scope audit performed by Grant Thornton UK LLP
Kirklees Neighbourhood Housing Ltd (Subsidiary)	Yes		Incomplete or incorrect consolidation of the material KNH net pension fund liability.	Specific scope procedures on the subsidiary's net pension fund liability and relevant disclosures to be performed by the KNH auditor (Beever and Struthers) and reviewed by Grant Thornton UK LLP. The nature, time and extent of our involvement in the work of Beever and Struthers will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the Beever and Struthers audit documentation and meeting with appropriate members of management.
Kirklees Stadium Development Ltd (Joint Venture)	No		None	As part of the Group Audit, analytical review performed by Grant Thornton UK LLP. We will review the consolidation of KSDL into the Group Accounts, including the consolidation adjustments. We will also review the valuation of KSDL stadium.

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
- Analytical procedures at group level

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
Management over-ride of controls	Council	<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. This 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
ISA240 revenue and expenditure recognition risk	Council	<p><u>Revenue</u></p> <p>ISA (UK) 240 includes a rebuttable presumed risk that revenue recognition may be misstated due to the improper recognition of revenue. 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 ISA 240 and the nature of the revenue streams at the Council, 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 and opportunities to manipulate revenue recognition are very limited the culture and ethical frameworks of local authorities, including Kirklees Council, mean that all forms of fraud are seen as unacceptable <p>Although the risk of fraud is rebutted, we recognise the risk of error in revenue recognition and this is addressed through the responses to risk detailed across.</p> <p><u>Expenditure</u></p> <p>In the public sector, whilst it is not a presumed significant risk, in line with the requirements of Practice Note (PN) 10: Audit of financial statements of public sector bodies in the United Kingdom - we also consider the risk of whether expenditure may be misstated due to the improper recognition of expenditure.</p> <p>This risk is rebuttable if the auditor concludes that there is no risk of material misstatement due to fraud relating to expenditure recognition.</p> <p>Based on our assessment we consider that we are able to rebut the significant risk in relation to expenditure, but will nevertheless, and in line with PN10, recognise the heightened inherent risk of 'other service expenditure' in our audit scoping and testing assessment.</p>	<p>N/A as rebutted.</p> <p>Despite revenue and expenditure recognition not being a significant risk we will still undertake the following procedures to ensure that revenue and expenditure included within the accounts is materially correct:</p> <ul style="list-style-type: none"> evaluate the Council's accounting policy for income and expenditure recognition for appropriateness and compliance with the Code update our understanding of the Council's system for accounting for income and expenditure and evaluating the design of relevant controls undertake detailed substantive testing on the income and expenditure streams in 2020/21 document our understanding of the full nature of additional Covid-19 related income and expenditure review the accounting treatment of all new income and expenditure streams to confirm that they have been accounted for appropriately in line with the Code and accounting standards

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land, buildings, Council Dwellings and investment property	Council	<p>Revaluation of land, buildings, Council Dwellings and investment property should be performed with sufficient regularity to ensure that carrying amounts are not materially different from those that would be determined at the end of the reporting period. Investment property and Council Dwellings should be revalued annually.</p> <p>Additionally, valuations are significant estimates made by management in the accounts.</p> <p>Our 2019/20 opinion included a Key Audit matter paragraph drawing attention to disclosures included in the financial statements of a material uncertainty attached to property valuations as at 31 March 2020 due to the ongoing nature of the Covid-19 pandemic. This paragraph did not represent a modification of our audit opinion. We are not expecting material valuation uncertainty at 31 March 2021 although will revisit the position as part of the 2020/21 fieldwork audit.</p> <p>We have identified the valuation of land, buildings, Council Dwellings and investment property as a significant risk.</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 the 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 valuations were carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • engage an independent auditor's expert valuer to provide a further review of the reasonableness of the assumptions and approach taken by the Council's valuer • test a sample of valuations at 31 March 2021 to understand the information and assumptions used in arriving at any revised valuations • test revaluations made during the year to see if they had been input correctly into the Council's asset register • review the social housing discount factor as applied to Council Dwellings • review whether the expert valuer has reported any material uncertainty in relation to property valuations as at 31 March 2021 and, if so, assess the impact on disclosures in the financial statements and on our audit opinion.

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	Council and group	<p>The Council'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.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p> <p>Our 2019/20 opinion included a key audit matter drawing attention to disclosures included in the financial statements which reported that, due to the impact of Covid-19 on the global financial markets, the valuation of the Pension Funds' investment properties were reported on the basis of material valuation uncertainty. This paragraph did not represent a modification of our audit opinion. We do not anticipate this uncertainty at 31 March 2021, however will revisit once the actuarial report is provided by management.</p> <p>We therefore identified valuation of the Council's pension fund net liability 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"> • 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 • review whether the pension fund has reported any material uncertainty in relation to investment property valuations as at 31 March 2021 and, if so, assess the impact on disclosures in the financial statements and on our audit opinion • obtain assurances from the auditor of the 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.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Corporate Governance and Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings, council dwellings and investment properties
- Depreciation
- Year end provisions and accruals, specifically for demand led services such as Adult's and Children's services
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainty is unresolved.

Planning enquiries

As part of our planning risk assessment procedures we have, as a separate exercise made enquiries of management regarding their accounting estimate process. Management responses have been agreed by Members of the Corporate Governance and Audit Committee at their meeting on 21 April 2021.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540_Revised-December-2018_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

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 our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set 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 legislation and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
 - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
 - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
 - 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 regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the Council's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report (see page 20). We will also need to identify whether any material uncertainties in respect of going concern have been reported for the Council's subsidiary and joint venture. If such a situation arises, we will consider our audit response for the group.

Progress against prior year audit recommendations

We identified the following issues in our 2019/20 audit of the group's financial statements, which resulted in six recommendations being reported in our 2019/20 Audit Findings Report.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
R1	complete	<p>Going Concern</p> <p>Management do not prepare a paper for Those Charged With Governance to support the going concern basis of accounts preparation. Such a paper is considered to be good practice and would provide assurance on how the Council will meet its financial liabilities, future financial challenges and manage cash flow over the next 12 months.</p> <p>R1. Prepare a paper annually for Corporate Governance and Audit Committee setting out the basis for the going concern preparation of the financial statements and provide this with the audit working papers.</p>	<p>Practice Note 10 (revised 2020) issued by the Public Audit Forum has revised the expectations for demonstrating that going concern is appropriate for public bodies. It is no longer necessary for management to prepare a going concern paper unless indications exist that going concern is not appropriate.</p>
R2	TBC	<p>Supplier bank mandate changes</p> <p>Internal Audit have identified a discrepancy regarding the processing of bank mandate changes for suppliers. Although no evidence of bank mandate fraud was identified by officers at the Council, during 2019/20 Management had not fully implemented the monitoring and reporting of bank mandate changes to the Corporate Governance and Audit Committee, as recommended by Internal Audit.</p> <p>R2. Monitoring and oversight of supplier bank mandate changes should take place and be reported to the Corporate Governance and Audit Committee.</p>	TBC
R3	TBC	<p>GRNI accruals</p> <p>Audit testing identified three GRNI accruals which had been settled during 2019/20 and should not be reported as creditors. The error extrapolation was £788k.</p> <p>R3. Review GRNI accruals to payments made to avoid overstating the GRNI creditor balance.</p>	TBC

Progress against prior year audit recommendations

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
R4	TBC	<p>Improvements to control over administrator access for the Northgate application and database</p> <p>During our audit, we were informed that administrator access on the Northgate application and database is restricted to users within IT that require it as part of their job roles / duties.</p> <p>However, based on our audit procedures it was noted that one user, who is part of the functional Business Support/CTR Team had this level of access assigned. This breaches good practice to manage risk through segregation of business users and those with administrator access assignments. While we understand a review of access by team is underway a risk currently exists due to this user's access.</p> <p>In addition, it was also noted that a number of shared generic accounts existed within both the application and database that also have administrator access assigned. Whilst we understood these accounts are required for specific tasks (i.e. updates and year end processes) and access is limited to relevant teams (i.e. application support or database admins) the controls over the accounts are not formalised / documented.</p> <p>R4. We recommend that management should review users assigned privileged access within the Northgate application to ensure all have an appropriate requirement and do not create any segregation of duties threats.</p> <p>Where risks exist and access cannot be removed for operational reasons management should consider implementing formal monitoring of user activities to gain assurance activity is appropriate / in line with job roles and as relevant formal requests.</p> <p>In addition, we recommend management should review controls around the use of any shared accounts to ensure that it is possible for them to gain assurance these are used only for approved tasks and by members of the appropriate teams.</p> <p>Management may also wish to consider if tasks performed by shared accounts could be undertaken through individual user accounts with delegated permissions. This would ensure accountability can be maintained and decrease the risk created through use of shared accounts.</p>	TBC

Progress against prior year audit recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
R5 TBC	<p>Evidence not available of access reviews being periodically conducted on Active Directory</p> <p>During our audit, we were informed that user access and permissions reviews are performed on a periodic basis to reconfirm the requirement for individual users assigned access based on their current job role / duties. However, evidence of these reviews occurring was not provided for review.</p> <p>Where evidence of a control operating is not provided the risk is created that the control is not operating effectively. This then creates / increases the following risks:</p> <ul style="list-style-type: none"> a) Gaps in user administration processes and controls may not be identified and dealt with in a timely manner; b) Access to information resources and system functionality may not be restricted on the basis of legitimate business need; c) Enabled, no-longer-needed user accounts may be misused by valid system users to circumvent internal controls; d) No-longer-needed permissions granted to end-users may lead to segregation of duties conflicts; and e) Access privileges may become disproportionate with respect to end users' roles. <p>We understood that management have initiated a project to review all Northgate access and security logging processes but have not been provided with evidence for review and have been informed new processes have not yet been implemented.</p> <p>R5. It is our experience that access privileges tend to accumulate over time. As such, we recommend that management implement a process to perform periodic, formal reviews of the user accounts and permissions within Active Directory</p> <p>These reviews should take place at a pre-defined, risk-based frequency (annually at a minimum) and should create an audit trail such that a third-party could determine when the reviews were performed, who was involved, and what access changed as a result.</p> <p>These reviews should evaluate both the necessity of existing user ID's as well as the appropriateness of user-to-group assignments (with due consideration being given to adequate segregation of duties).</p>	TBC

Progress against prior year audit recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
R6 TBC	<p>Audit log monitoring is not fully enabled on Active Directory</p> <p>During our audit, we reviewed the current audit logging output for Active Directory. This has been enabled through the use of a Security Information and Event Management product (SIEM) by McAfee with various events and activity logged, reported and reviewed.</p> <p>However, audit logging is currently not fully enabled across all relevant activities and events. Specifically, we noted that the current provision does not cover:</p> <ul style="list-style-type: none"> Active Directory Office 365 Supported Applications <p>While the system is not fully enabled the following risks still exist:</p> <p>a) Without appropriate logging and review of user account activities, it is difficult for management to monitor and detect unauthorised actions and / or identify potential external attacks in a timely manner.</p> <p>We understand that IT services are proposing to widen the scope of the processes and reporting / implement a new SIEM tool to ensure that this is completed and followed up in the future.</p> <p>R6. We recommend that management should ensure that audit logging / reporting processes covers all activities that could risk the security of the systems in use.</p> <p>Specifically logging should ensure use and / or activities of user accounts are configured to capture transactional level and configuration changes using a risk-based process, for example focusing on those accounts with elevated permissions.</p> <p>Logs should be reviewed periodically by someone other than the system administrators themselves. These reviews and, as relevant, follow up activity should be formally documented.</p>	TBC

Materiality

The concept of materiality

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 Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £13.5m (PY £13.4m) for the group and £13.4m (PY £13.3m) for the Council, which equates to 1.35% of your forecast gross expenditure for the year. We will revisit materiality upon receipt of the 2020/21 draft financial statements. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £20,000 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 Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.700m (PY £0.663m).

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.

Prior year gross expenditure

£1,001m group
(PY: £990m)
£998m Council
(PY: £993m)



■ Prior year gross expenditure
■ Materiality

Materiality



Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness,
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary qualified / unqualified approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria as set out opposite.



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information



Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

Risks of significant weakness

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



Improving Economy, Efficiency and Effectiveness -Dedicated Schools Grant overspend.

The Special Educational Needs (SEND) expenditure within the Dedicated Schools Grant budget was a major contributor to the £14.4m overspent DSG reserve during 2019/20, and the overspend is set to increase during 2020/21

We will review and assess the arrangements in place by the Council to understand, contain and find a solution to the overspend.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

Audit logistics and team



Jon Roberts, Key Audit Partner

Key contact for senior management and Corporate Governance and Audit Committee.

Jon will oversee the implementation and delivery of the audit and will be the audit signatory. He will meet with senior management to help identify risks for the audit and provide advice and assistance as required.

Stephen Nixon, Senior Audit Manager

Stephen will work with senior members of the finance team ensuring testing is delivered and any accounting issues are addressed on a timely basis. He will also lead completion of the VFM assessment. He will attend Corporate Governance and Audit Committee with Jon, and will undertake reviews of the team's work and draft clear, concise and understandable reports.

Aaron Gouldman, Audit In-charge (Assistant Manager)

Aaron will be responsible for planning and coordinating the audit fieldwork and overseeing the work of the audit team, as well as liaising with the finance team regarding audit working papers and raising audit queries.

Audited body responsibilities

Where audited bodies 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 audits. 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 agreed timetable 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 for testing
- 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.

Audit fees

In 2018, PSAA awarded a contract of audit for Kirklees Council to begin with effect from 2018/19. The fee agreed in the contract was £122,221. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020/21 audit.

As referred to on page 20, the 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years. Our estimate is that for your audit, this will result in an increased fee of £20,166 (11%). This is in line with increases we are proposing at all our local audits.

Additionally, 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, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. We have engaged an audit expert to improve the level of assurance we require for property valuations estimates, which has been included in our proposed audit fee. Our proposed work and fee for 2020/21, as set out below, is detailed overleaf and has been agreed with the Service Director - Finance.

	Actual Fee 2018/19	Actual Fee 2019/20	Proposed fee 2020/21
Kirklees Council Audit and Group	£137,721	£175,555	£195,721

Assumptions

In setting the above fees, we have assumed that the Council 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 \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

	Fee * TBC
Final 2019/20 fee	£175,555
Less non-recurring variations (Covid-19 impact of remote working and financial statement impact)	-£25,834
<i>Recurring scale fee and variations</i>	£149,721
<i>Being:</i>	
<i>Scale fee</i>	£122,721
Raising the bar/regulatory factors	£9,000
Enhanced audit procedures for Property, Plant and Equipment	£11,000
Enhanced audit procedures for Pensions	£3,000
Enhanced reporting requirements for Public Interest Entity (PIE)	£4,000
Recurring scale fee and variations	£149,721
<i>New issues for 2020/21</i>	
Additional work on Value for Money (VfM) under new NAO Code	£26,000
Increased audit requirements of revised ISAs	£17,000
Additional work required on housing benefit related expenditure	£3,000
Total audit fees (excluding VAT)	£195,721

Independence and 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 (Revised 2019) 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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies. We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Other services

The following other service is provided by Grant Thornton during 2020/21:

Service	£	Threats	Safeguards
Non-audit related:			
CFO Insights licence fee (April to December 2020)	8,625	Self-Interest (because this is a recurring fee)	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. 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.
Total	8,625		

This services is consistent with the Council's policy on the allotment of non-audit work to your auditors. 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.

No other services provided by Grant Thornton were identified relating to 2020/21.

Work has been undertaken during 2020/21 which related to 2019/20 grant certification as reported previously. The 2020/21 certification work has transferred to another auditor.

Appendix 1: Revised Auditor Standards and application guidance

FRC revisions to Auditor Standards and associated application guidance




The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	
ISA (UK) 230 – Audit Documentation	January 2020	
ISA (UK) 240 – The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	
ISA (UK) 250 Section B – The Auditor’s Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	
ISA (UK) 500 – Audit Evidence	January 2020	
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	
ISA (UK) 570 – Going Concern	September 2019	
ISA (UK) 580 – Written Representations	January 2020	
ISA (UK) 600 – Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	
ISA (UK) 620 – Using the Work of an Auditor’s Expert	November 2019	
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor’s Report	January 2020	
ISA (UK) 720 – The Auditor’s Responsibilities Relating to Other Information	November 2019	
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	



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Name of meeting: Corporate Governance and Audit Committee

Date: 23 July 2021

Title of report: Nomination of Representative

Purpose of report: To seek approval for the nomination of a representative to a Community Trust, to be established by Thomas Crompton Demolitions Ltd.

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> ?	No
The Decision - Is it eligible for call in by Scrutiny?	No
Date signed off by <u>Strategic Director</u> & name Is it also signed off by the Service Director for Finance? Is it also signed off by the Service Director for Legal Governance and Commissioning?	Not applicable No financial implications Julie Muscroft
Cabinet member <u>portfolio</u>	Not applicable

Electoral wards affected: Mirfield

Ward councillors consulted: No

Public or private: Public

Has GDPR been considered? No GDPR implications

1. Summary

The Committee is asked to approve the nomination of a representative to a Community Trust, to be established by Thomas Crompton Demolitions Ltd, and for the body to be added to the schedule of organisations as agreed at Annual Council.

2. Information required to take a decision

A request has been received from the agent of the new operator of Laneside Landfill, Thomas Crompton Demolitions Ltd, for a representative to be nominated to a Community Trust, which is to be established as a requirement of a Section 106 Agreement for the site.

The planning permission for the site was accompanied by a Section 106 Agreement, between the Council and the operator (formerly Park Pit) and the landowner (formerly Elliotts). The Agreement required the operator to establish a Community Trust, which would operate as a Liaison Group for the local community. The Committee is asked to give approval for the Trust to be included within the Council's schedule of outside bodies in order to enable the appointment of a Councillor and an Officer Representative from (Planning, Environmental Health and/or Highways) to the membership of the Community Trust.

Under Section F of Part 3 of the Constitution, Scheme of Delegation to Officers, the Service Director - Legal, Governance and Commissioning has delegated authority in respect of the determination (in consultation with Group Business Managers) of nominations to outside bodies in circumstances where the Council or, in default, the Corporate Governance & Audit Committee have agreed in principle to nominate representatives and the political ratios.

3. Implications for the Council

3.1 Working with People

No implications

3.2 Working with Partners

No implications

3.3 Place Based Working

No implications

3.4 Climate Change and Air Quality

No implications

3.5 Improving outcomes for children

No implications

3.6 Other (eg Legal/Financial or Human Resources) Consultees and their opinions

Not applicable

4. Next steps and timelines

Subject to approval (i) the Community Trust will be added to the schedule of appointments to outside bodies and (ii) nominations to the Trust will be sought.

5. Officer recommendations and reasons

That the Committee agree to the appointment of nominations to the Trust.

6. Cabinet Portfolio Holder's recommendations

Not applicable

7. Contact officer

Samantha Lawton, Head of Governance

8. Background Papers and History of Decisions

Not applicable

9. Service Director responsible

Julie Muscroft, Legal, Governance and Commissioning

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Name of meeting: CORPORATE GOVERNANCE & AUDIT COMMITTEE
Date: 23rd JULY 2021
Title of report: RECOMMENDATIONS FOR THE COUNCIL IN RELATION TO ENSURING ITS SERVICES TO SCHOOLS ARE PROVIDED APPROPRIATELY AND EFFECTIVELY

Purpose of report.

To provide information about recommendations made following a review commissioned by the Chief Executive

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) and information which is likely to reveal the identity of an individual. 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 recommendations from an investigation into matters about the involvement of the council in the operation and management of a school.
- 1.2 Following a long running set of complaints being raised about the councils involvement in the operation of a particular school, the Chief Executive requested the Head of Internal Audit and Risk to carry out an investigation to identify aspects in relation to the quality of services that had been provided to that school, and to identify learning points for future service provision to all schools, with a view to ensuring that services and interventions provided were appropriate for the needs of governing bodies, school employees and to meet the local authorities role as supervisor of community and certain other categories of public sector school provision. The issues that related to the complaint were much wider than this and related principally to issues that were outside of the local authorities control or responsibility.
- 1.3 The objective of the work was to identify areas where the council services, activities and interventions could have been improved, and to make recommendations.
- 1.4 The investigation related principally to events at one school, during a period from 2013, although matters identified in the case study school had elements of applicability to other schools.
- 1.5 The councils ability to be involved in a school depends on its status; The case study school was not a community school (where the councils powers of intervention are highest), but that does not detract from the applicability of many of the recommendations in the councils dealings with any type of school.
- 1.6 The report found scope for improving services to schools in a number of areas. The recommendations are set out in the appendix to this report. In some cases, they apply to a number of schools, beyond the “case study” example. A number of these relate generally to the council operations as well. In summary they relate to
 - A. Being clear that School Governing Bodies are responsible for the direct governance of schools,
 - B. The council provides advice, support, and challenge.
 - C. The council does not agree to “investigate” matters that relate to the areas of responsibility of the governing body (other than with their specific agreement)
 - D. Being clear about the legal status of each school (e.g., the council is only the employer of staff in community schools)
 - E. Being sure, when giving HR advice that head teachers and school governing bodies realise the importance of their role and responsibilities, such as meeting timescales as a part of disciplinary processes.
 - F. Ensuring governing bodies constructively challenge operations and proposals for change.
 - G. Ensuring sound governance processes within schools, such as proper written reports, and minutes of meetings.
 - H. Keeping records of council officer involvements and interventions, in relation for example to monitoring of school performance.
 - I. Have a clear process for recommending advisors, or temporary employees,
 - J. Making sure that schools set and operate budgets appropriately and address any deficits by way of recovery plans.
 - K. Be clear about all real and potentially perceivable conflicts of interest – particularly in relation to recruitment and selection and disciplinary processes
 - L. Using a restorative approach in complaints handling, but do not overtly or inadvertently assume responsibilities which relate to the governing body (see A above).

- M. Being proportionate in investigating complaints and determining the sought outcome.
- N. Being sure that any consultant or investigator is employed on the basis of a clear project/task description
- O. Challenge inappropriate behaviours

- 1.7 The Chief Executive has accepted all the recommendations.
- 1.8 The Directors of Learning, Finance, Legal and Governance, and the Head of HR (alongside a number of other heads of service) are responsible for the implementation of recommendations.

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

- 2.1 This report is for information.

3. **Implications for the Council**

- 3.1 **Working with People** – Some contents about how to behave with clients, customers and employees
- 3.2 **Working with Partners** – the report relates to how the council, as education authority, and a service provider, relates to all schools, and their governing bodies
- 3.3 **Place Based Working** – None directly
- 3.4 **Improving outcomes for children**– ultimately strong leadership and effective governance of schools, and good quality services to schools, will improve outcomes for children and their parents
- 3.5 **Climate change and air quality**- None directly
- 3.6 **Other (e.g., Legal/Financial or Human Resources)**- Some of the recommendations relate to improving schools financial management oversight and the HR advisory and business processing activities.

4. **Consultees and their opinions**

The recommendations have been discussed through the investigation process with various stakeholders, and senior officers. Senior managers have committed to implementing all of the recommendations.

5. **Next steps and timelines**

- 5.1 To consider if the committee wishes to request follow up on the implementation of the recommendations.

6. **Officer recommendations and reasons**

- 6.1 Members are asked to note the recommendations
- 6.2 Members are asked to determine if any further action is sought on any matter identified.

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**
A confidential appendix.
10. **Service Director responsible**
Not applicable

ENSURING SERVICES TO SCHOOLS ARE PROVIDED APPROPRIATELY AND EFFECTIVELY

No	Recommendations
1	The Council should reconfirm that <ul style="list-style-type: none"> - School Governing Bodies are responsible for the direct governance of schools, and - the council provides advice, support, and challenge.
2	The Council should reconfirm that it <ul style="list-style-type: none"> - expects that School Governing Bodies will address any matters of public concern, and account for their actions, and - encourages them to seek appropriate professional advice (being mindful of the Councils powers of intervention under Education Act 2006).]
3	All Councillors, and Council officers, should be reminded that they should not agree to investigation about things that have happened within a specific school, other than with the specific agreement of the scope and objectives with the Governing Body- who should be offered the opportunity to secure appropriate investigators who are demonstrably independent.
4A	The council should specifically reconfirm that it is not the employer of any person employed within a Trust school (or any other school which is not formally a voluntary controlled or community school) and should be clear in its dealings with employees at such schools that the Council is not their employer.
4B	Where the Council provides HR services to the school there should be a clear understanding of the employer relationships and contractual documentation issued by HR on behalf of the Governing Body should accurately reflect this. The council should ensure that HR /payroll process information (e.g. contracts of employment) correctly recognises the status of trust schools.
4C	The Council should create a record of School Status that can be used by all Council staff supporting schools, which indicates the nature of the school,(e.g. Community, Aided, Trust, Academy) its employees, premises etc, to enable them to provide appropriate , compliant advice.
5	Council officers should be reminded that they should be clear about the implications for schools that are not community schools, when giving legal advice to the school and its Governing Body (for example about the appropriateness of data sharing and dealing with complaints/ grievances).
6	The Councils HR services (and related services) should <ul style="list-style-type: none"> (a) When acting as advisers to a Governing Body, act with diligence, and timeliness, (b) be clear to the Governing Body of the need for them to also act with diligence and timeliness (c) Establish clear lines of communication, responsibility, and accountability between the Council, and the Governing Body). (d) Ensure that all processes and procedures align with the appropriate (Council or school) employee conditions of employment.

	(e) Ensure that at all times, all correspondence prepared by HR advisers is in accordance with the instructions of the Governing Body, and correspondence should be signed by a person authorised by the Governing Body, or issued (by the Council) making clear it is issued on behalf of, and under the instruction of the Governing Body.
7	The Council should continue to ensure that there is checking and quality control in respect of all its dealings with schools to ensure compliance with appropriate regulations, and procedures, carrying out enforcement where appropriate.
8A	The Council should ensure that all chairs of Governing Bodies are appropriately supported to achieve sound governance and constructive challenge in the operation of each school.
8B	Where a change in ethos or operational practice is agreed by Governors, the Council should ensure that this is subject to appropriate consultation and communication.
8C	The Council should ensure that appropriate reports and minutes evidence and justify any changes that are approved by the governing body.
8D	The Council should reemphasise through training the need for Clerks to School Governing Bodies to ensure appropriate reports are considered, and detailed minutes are prepared and affirmed by the next meeting of the Governing Body.
9A	The Director of Learning should reemphasise the need for each local authority-maintained school, (including Trust and VA schools) to set a balanced budget and take steps to ensure the sustainability of the schools finances. Corporate finance officers. <ul style="list-style-type: none"> - Must make a legitimate assessment of the reasonableness of each schools budget proposals, and - If they believe that these are unsustainable, report this position to the Director for Learning.
9B	Where schools have a deficit, the Corporate Finance Officers and the Director of Learning must oversee the implementation of a plan, in accordance with the rules set out in the section addressing treatment of balances in the Kirklees Scheme for Financing Schools.(which is a statutory document).
9C	The wording of the Financing Scheme should be revised to make clear without ambiguity the obligations in relation to schools budget recovery plans.
10	In accordance with council policies, where local authority officers are involved in meetings with colleagues, or other stakeholders, and behaviour of individuals has the potential to suggest bullying, harassment or any actions that are inappropriate, those present should challenge such behaviours,
11	There should be better recording of monitoring and performance of schools, reflecting national guidance School Improvement Reports should be prepared in an open, systematic and consistent way, with particular emphasis on the setting of targets and the follow up of their achievement and continuity of appropriateness of each recommendations or actions, with clear reporting to Governing Bodies.
12A	Where the council wishes to support schools by recommending specialist advisors or consultants (including acting head teachers and acting executive head teachers or head teacher advisors) it should; <ul style="list-style-type: none"> - Have a clear and open way of selecting persons onto this approved or recommended list of suppliers, - Ensure credibility and competence for the task - Be clear what verification of the credentials of those included have been carried out by the council (e.g. references, DBS). - Be open about any issues or perception of conflict for any individuals - Discuss what other options for obtaining advisors may be appropriate

12B	The Council/ local education authority should avoid recommending other consultants (other than from other approved list), and where it does so, it should be clear to Governing bodies that responsibility for selection, understanding the approved list rules, and checking appropriate references/DBS lies with the Governing Body.
12C	When the need for a consultant to aid a school is identified, the consultant should be given a clear written brief of the requirements, which should be formulated directly by the Governing Body, or (if the brief is prepared by the local education authority) agreed by the Governing Body and clear records of the approval process.
13A	Officers should be reminded to avoid any situation where there may be a real or apparent conflict as regards their independence. All council officers should <ul style="list-style-type: none"> - be reminded of the need to be make up to date declarations of any interests they may have- which includes those that are commercial, financial, or based on relationships or friendship. - remind their own managers, and other parties such as Governing Bodies, if a conflict (or apparent conflict) may compromise their integrity.
13B	Any officer with close professional operational links to schools, should not be a member of the Governing Body, in any capacity, of any school in the Kirklees area, other than with the approval of the Strategic Director of Childrens Services.
13C	In recruitment and selection, when participating in interview panels- as a panel member or as an adviser- where one or more of the candidates are personal friends, relatives, colleagues, their current superiors or have some other relating factor they must give due consideration to if their participation is appropriate. This may be mitigated by not participating in the process, or full openness and awareness amongst the rest of the interviewing panel, with a formal declarations of interests (as required by council and school governance rules), and the mitigations considered included in the recruitment records,
13D	In any disciplinary or grievance matters where their past decisions or actions may have influenced the situation that led to the investigation, or hearing, not being involved- as investigators or panel members.
14	No officer should commission, oversee, or carry out any “independent” investigation into matters that was or should have been under their own supervision. There needs to be senior management oversight- given through a person at least one level in the hierarchy higher- but detailed work in relation to the investigation should be carried out by a competent person with no previous involvement (who may be within the organisational service structure).
15	Where the persons whose role is subject to review by any investigation are so senior, or for another reason the independent investigation within the Service might be compromised, the investigation should be carried out independently. In some cases, oversight by Service Director of Legal, Governance & Commissioning, Head of Risk & Internal Audit, or Chief Executive will be appropriate.
16	Where the council commissions an internal investigation, it should do so only with a written brief, setting out scope and anticipated outcomes/areas to be reviewed, and the methods of reporting. The reporting should always include a written report, even if this is not subject to publication.
17	Where the council choses to externalise the investigation, it should do only with <ol style="list-style-type: none"> (a) A clear route that shows the way in which the external investigator was chosen. (b) A written brief, setting out scope and areas to be reviewed, any restrictions or limitations to scope or context, and the methods of reporting There should be a written report, even if this is not subject to publication.

18	Where a “complaint” is handled through the council’s normal complaints procedure, a restorative approach should be adopted. Each ascent up the complaint hierarchy should incorporate an assessment that information has been collected accurately and the judgements used have been made with justification
19	As a part of a restorative approach, it must be clear to complainants that their approach with the council must also be clear about their expectations and what they are seeking to achieve, realistic, pragmatic, and not be vexatious Before the council commits to significant work it should enter discussions and consultation if these issues are not clear from the initial complaint. The council also needs to be clear with complainants when it considers that a matter has been resolved or closed.
20	In determining whether to progress complaints upwards the council needs to take account of the significance of the complaint, and the potential value of the expenditure on the costs of investigation.
21A	The Council should engage with head teachers and school Governing Bodies on the nature of learning support and other services that the council will provide and be clear about the responsibilities of the council as provider and the school and governing body as consumer of those services.
21B	The council needs to remind chairs of Governing Bodies about their responsibilities for ensuring sound governance, including the production of written reports, the keeping of minutes and other records of meetings of governing bodies, and in relation to staff selection, management, and disciplinary matters.



Name of meeting: CORPORATE GOVERNANCE & AUDIT COMMITTEE
Date: 23 JULY 2021
Title of report: QUARTERLY REPORT OF INTERNAL AUDIT Q1 2021/22
 APRIL 2021 to JUNE 2021

Purpose of report.

To provide information about internal audit work in quarter 1 of 2021/22

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 2021/22.

- 1.2 As reported previously, Internal Audit staff have continued to work throughout the pandemic, but a normal work pattern has not yet been fully resumed. Some resources have been and continue to be devoted to fraud prevention and investigation and the working patterns of the entire council (“working from home”), and an inability to visit sites (and conducting some such audits virtually) frustrates the ability to do internal audit work, and provide a strong level of assurance, and or requires substantial additional time for work to be completed (both from the auditor and the client).
- 1.3 It is usual that quarter 1 contains a relatively low amount of completed work. This year there were only 12 pieces, of which 5 were schools. One follow-up identified that no progress had been made but it was possible to ascertain that the service was in progress to address issues. 2 of the 11 had limited assurance, both of which were into activity areas which had been identified as inadequate circa 2 years ago, relating to elements of school meals and building control. All the schools reviewed had substantial assurance attribution, and there were adequate outcomes in areas such as data management and business rates.
- 1.4 Internal Audit also continued with its activity to support a number of corporate areas, including information governance, the stronger families and monthly pay projects, and in the preparation of information for the national fraud initiative.
- 1.5 Internal Audit routinely review work that is found to not provide adequate assurance- and reports this in detail. From time to time follow up of positive assurance reports takes place. The analysis has found that 13 audits had a full implementation, and 2 more a majority of recommendations implemented. Responses are still required from a number of services/schools.
- 1.6 Monitoring of the implementation of matters addressed in the Annual Governance Statement, both relating to 2019/20 and 2020/21 will take place and be reported to a future meeting.
- 1.7 Starting from quarter 2 the reports will also include performance monitoring for audit outputs (e.g. assurance ratings), the achievement of areas of assurance (as commenced last year) and audit team performance (e.g. work completed),
- 1.8 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.
- 1.9 At the April 2021 meeting, and Annual Council changes to Financial Procedure Rules and Contract Procedure Rules were agreed. Officers from Procurement and Internal Audit have been holding training sessions to communicate the core changes. At the April meeting, Members of this Committee asked for some clarification on matters related to the financial and other compliance aspects of suppliers who are on standing lists of contractors/ internal framework contracts. Regular evaluation of matters such as financial status are carried out by officers of internal audit, and the service area.

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 (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**

There are no consultees to this report although heads of service/directors are involved in and respond to 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 1 2021/22.

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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