

# Audit Progress Report and Sector Update

Kirklees Metropolitan Council  
Year ending 31 March 2019

14 January 2019



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# Introduction



**Robin Baker**

**Engagement Lead**

T 0162 214 6399  
M 07880 456 159  
E robin.j.baker@uk.gt.com



**Marianne Dixon**

**Engagement Manager**

T 0113 200 2699  
M 07880 456 157  
E marianne.dixon@uk.gt.com

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

The paper also includes:

- an outline external audit plan for 2018/19
- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Corporate Governance and Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications. Click on the Grant Thornton logo to be directed to the website [www.grant-thornton.co.uk](http://www.grant-thornton.co.uk).

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

# Progress at 14 January 2019

## Financial Statements Audit

Our audit planning process is reaching completion and we have set out an initial outline audit plan in this document.

We are developing our detailed Audit Plan setting out our proposed approach to the audit of the Council's 2018/19 financial statements. We will discuss and agree the detailed Audit Plan with officers shortly before presenting it to the Corporate Governance and Audit Committee at its meeting on 8 March 2019.

We will complete our audit work in two phases

- Interim audit work
- Financial statements audit work

Our interim audit work will include:

- gaining an understanding of financial systems
- reviewing Internal Audit work and reports on core financial systems
- early work on emerging accounting issues
- controls testing and early substantive testing where possible

Any matters arising from our interim work will be reported to the March 2019 meeting of the Committee.

We will work with your finance team to ensure we can make a prompt start to the financial statements audit from 1 June 2019 and deliver an audit opinion in advance of the deadline of 31 July 2019.

## Value for Money

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

The overall criterion is: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

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

Our initial draft risk assessment is set out on page 9 and will be reported in more detail in our detailed Audit Plan in March 2019.

We will report the results of our work in the Audit Findings Report and give our Value For Money Conclusion by the deadline in July 2019.

## Other areas

### Meetings

Since the previous committee meeting we have continued to hold regular meetings with Chief Executive and Chief Financial Officer.

We have also met with your internal audit managers and senior finance managers to gain more detailed information of your financial systems and fraud risks. We have also worked with the finance team to schedule our visits to avoid their peak workload periods..

We will continue to hold regular meetings with the finance team aim to discuss any emerging issues promptly to ensure the audit process is smooth and effective.

### Events

We provide a range of workshops, including 'update events' on financial reporting issues and invite the Council's key finance staff to attend. The next event is being held in our Leeds office on 5 February 2019.

### Certification of claims and returns

Certification work for the 2018/19 Housing Benefit claim will be concluded in advance of the DWP deadline of 29 November 2019.

Other certification work will be carried out within the deadlines required by the relevant government department / agency.

# Audit Deliverables

2018/19 Deliverables	Planned Date	Status
<b>Fee Letter</b> Confirming audit fee for 2018/19.	April 2018	Complete
<b>Outline Audit Plan</b> Outline of key areas of work and timetable	January 2019	Complete
<b>Detailed Accounts Audit Plan</b> We are required to issue a detailed accounts audit plan to the Corporate Governance & Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2018-19 financial statements.	March 2019	Not yet due
<b>Interim Audit Findings</b> We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2019	Not yet due
<b>Audit Findings Report</b> The Audit Findings Report will be reported to the July Corporate Governance and Audit Committee.	July 2019	Not yet due
<b>Auditors Report</b> This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2019	Not yet due
<b>Annual Audit Letter</b> This letter communicates the key issues arising from our work.	August 2019	Not yet due
<b>Annual Certification Letter</b> This letter reports any matters arising from our certification work carried out under the PSAA contract	December 2019	Not yet due

# Outline Audit Plan – Logistics



## Robin Baker, Engagement Lead

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

## Marianne Dixon, Engagement Manager

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

## Andrew McNeil, Engagement In-charge

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

# Outline Audit Plan

## Significant risks

Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration because they have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<b>The revenue cycle includes fraudulent transactions</b>	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue 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.	As we do not consider this to be a significant risk for the Council, we will not be undertaking any specific work in this area other than our normal audit procedures, including validating total revenues to council tax, non domestic rates and central government grants income.
<b>Management over-ride of controls</b>	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 Council continues to face financial pressures and this could potentially place management under undue pressure in terms of how they report performance.	We will design a programme of work concentrating on the controls over journals, use of journals, accounting estimates, critical judgements, any significant unusual transactions and changes in accounting policies
<b>Valuation of Land and building</b>	<p>The Council revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>Additionally, the Council needs to ensure the carrying value of land and buildings in the Council's financial statements is not materially different from the current value or the fair value at the financial statements date, where a rolling programme is used.</p> <p>Council Dwelling valuations are based on Existing Use Value, discounted by a factor to reflect that the assets are used for Social Housing. The Social Housing adjustment factor is prescribed in DCLG guidance, but this guidance indicates that where a valuer has evidence that this factor is different in the Council's area they can use their more accurate local factor. There is a risk that the Council's application of the valuer's assumptions is not in line with the statutory requirements and that the valuation is not supported by detailed evidence indicating that the standard social housing factor is not appropriate to use.</p> <p>The Council also has a number of PFI financed property assets, where there are material associated liabilities arising from accounting models</p> <p>We have therefore identified valuation of land and buildings, particularly revaluations, impairments and for dwelling the use of the social housing factor, as a significant risk,</p>	<p>We will design a programme of work concentrating on the work of the valuer and the information provided to the valuer, the reasonableness of assumptions and completeness of the asset register. We will also review any material additions or disposals</p> <p>We will review the accounting models of PFI schemes to confirm the appropriateness of accounting transaction arising from the model.</p>
<b>Valuation of the Pension Fund Net Liability</b>	<p>The pension pension fund net liability, as reflected in the group balance sheet as the retirement benefit obligations, represents a significant estimate in the financial statements and group accounts.</p> <p>The group's pension fund net liability is considered a significant estimate</p> <p>We therefore identified valuation of the group and Council's pension fund net liability as a significant risk.</p>	We will design a programme of work concentrating on the work of the Pension Fund actuary and information provided to it by KMC and KNH, the reasonableness of assumptions and place reliance on the work of the West Yorkshire Pension Fund auditor.

# Outline Audit Plan

## Group audit scope

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

Component	Individually Significant?	Audit Scope	Planned audit approach
<b>Kirklees Metropolitan Council (KMC)</b>	Yes	Full audit of the KMC accounts as the significant component within the group.	Full statutory audit of the single entity BMBC accounts to be performed by the Grant Thornton group audit engagement team, to be concluded by 31 July 2019.
<b>Kirklees Neighbourhood Housing</b>	No	Audit of the specific area of the company's net pension fund liability and related disclosures. This relates to the significant risk of material misstatement at the group financial statements level.	Audit of the specific area of the net pension fund liability and related disclosures.  This will be performed by Grant Thornton group audit engagement team, to be concluded by 31 July 2019.

## Going concern

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

## Other material balances and transaction

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 the previous sections but will include:

- Heritage asset
- Cash and cash equivalents
- Trade and other receivables
- Borrowings and other liabilities (long and short term)
- Investments (long and short term)
- Provisions
- Useable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Welfare benefit payments
- Taxation and non-specific grants
- Other revenue
- Schools balances and transactions
- Expenditure Fund Analysis note and supporting additional notes
- Officers' remuneration note
- Leases note
- PFI Schemes
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note
- Housing Revenue Account and associated notes
- Collection Fund and associated notes



# Outline Audit Plan

## Value for money

Our initial draft risk assessment is now reaching completion and those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Council to deliver value for money are summarised below

Risk	Response
<p><b>Financial resilience</b> – delivery of 2018-19 budget and savings plan and achievement of Medium Term Financial Plan (MTFP)</p> <p>The Council, in line with other local authorities, continues to operate under significant financial pressures.</p> <p>For 2018-19, the Council is planning to deliver a balanced outturn position but to achieve this, needs to deliver savings, whilst managing cost pressures within Child Protection and Family Support and Adult Social Care at a time of reduced funding. The Council's latest financial projections indicate it is expecting to deliver on budget.</p>	<p>We will review the controls the Council has in place to ensure financial resilience, specifically that the Medium Term Financial Plan and saving plans appropriately recognises the financial risks and pressures facing the Council, assumptions are realistic and planned mitigations are robust.</p>
<p><b>Children's services</b></p> <p>On 25 November 2016 Ofsted published its report from its Inspection of services for children in need of help and protection children looked after and care leavers, and its review of the effectiveness of the Local Safeguarding Children Board. The report rated Children's Services overall in Kirklees as Inadequate. Following the issue of a statutory direction in January 2018, the Council formalised its developing partnership arrangements with Leeds City Council in a strategic partnership agreement in March 2018. The Action Plan in response to Ofsted's recommendations is monitored by the Kirklees Safeguarding Children's Board and Ofsted's monitoring reports have acknowledged that improvements continue to be made.</p>	<p>We will consider the range of reports and information published and available from third parties including Ofsted.</p> <p>We will review the up-to-date responses to the Action Plan to gain assurance that progress continues to be made and improvements embedded.</p> <p>We note the publication of the latest monitoring visit assessment which highlighted the 'significant progress' that has been made in improving the Council's initial response to children and young people who need help and protection.</p>

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# Sector Update

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Local government finances are at a tipping point. Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

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

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

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website

# A Caring Society – bringing together innovative thinking, people and practice

The Adult Social Care sector is at a crossroads. We have yet to find a sustainable system of care that is truly fit for purpose and for people. Our Caring Society programme takes a step back and creates a space to think, explore new ideas and draw on the most powerful and fresh influences we can find, as well as accelerate the innovative social care work already taking place.

We are bringing together a community of influencers, academics, investors, private care providers, charities and social housing providers and individuals who are committed to shaping the future of adult social care.

At the heart of the community are adult social care directors and this programme aims to provide them with space to think about, and design, a care system that meets the needs of the 21st Century, taking into account ethics, technology, governance and funding.

We are doing this by:

- hosting a 'scoping sprint' to determine the specific themes we should focus on
- running three sprints focused on the themes affecting the future of care provision
- publishing a series of articles drawing on opinion, innovative best practices and research to stimulate fresh thinking.

Our aim is to reach a consensus, that transcends party politics, about what future care should be for the good of society and for the individual. This will be presented to directors of adult social care in Spring 2019, to decide how to take forward the resulting recommendations and policy changes.

## Scoping Sprint

This took place in October. Following opening remarks by Hilary Cottam (social entrepreneur and author of Radical Help) and Cllr Georgia Gould (Leader of Camden Council), the subsequent discussion brought many perspectives but there was a strong agreement about the need to do things differently that would create and support a caring society. Grant Thornton will now take forward further discussions around three particular themes:

1. Ethics and philosophy: What is meant by care? Should the state love?
2. Care in a place: Where should the power lie? How are local power relationships different in a local place?
3. Promoting and upscaling effective programmes and innovation

## Sprint 1 – What do we really mean by 'care'?

This will take place on 4 December. Julia Unwin, Chair of the Civil Societies Futures Project, former CEO of the Joseph Rowntree Association and author on kindness will provide her insight to spark the debate on what we really mean by 'care'

## Find out more and get involved

- To read the sprint write-ups and opinion pieces visit: [grantthornton.co.uk/acaringsociety](http://grantthornton.co.uk/acaringsociety)
- Join the conversation at #acaringsociety



# In good company: Latest trends in local authority trading companies

Our recent report looks at trends in LATC's (Local Government Authority Trading Companies). These deliver a wide range of services across the country and range from wholly owned companies to joint ventures, all within the public and private sector.

## Outsourcing versus local authority trading companies

The rise of trading companies is, in part, due to the decline in popularity of outsourcing. The majority of outsourced contracts operate successfully, and continue to deliver significant savings. But recent high profile failures, problems with inflexible contracts and poor contract management mean that outsourcing has fallen out of favour. The days of large scale outsourcing of council services has gone.

## Advantages of local authority trading companies

- Authorities can keep direct control over their providers
- Opportunities for any profits to be returned to the council
- Provides suitable opportunity to change the local authority terms and conditions, particularly with regard to pensions, can also bring significant reductions in the cost base of the service
- Having a separate company allows the authority to move away from the constraints of the councils decision making processes, becoming more agile and responsive to changes in demand or funding
- Wider powers to trade through the Localism act provide the company with the opportunity to win contracts elsewhere

## Choosing the right company model

The most common company models adopted by councils are:

Wholly  
owned

Joint  
Ventures

Social  
Enterprise

Wholly owned companies are common because they allow local authorities to retain the risk and reward. And governance is less complicated. Direct labour organisations such as Cormac and Oxford Direct Services have both transferred out in this way.

JVs have become increasingly popular as a means of leveraging growth. Pioneered by Norse, Corserv and Vertas organisations are developing the model. Alternatively, if there is a social motive rather than a profit one, the social enterprise model is the best option, as it can enable access to grant funding to drive growth.

## Getting it right through effective governance

While there are pitfalls in establishing these companies, those that have got it right are: seizing the advantages of a more commercial mind-set, generating revenue, driving efficiencies and improving the quality of services. By developing effective governance they can be more flexible and grow business without micromanagement from the council.

## LATC's need to adapt for the future

- LATC's must adapt to developments in the external environment
  - These include possible changes to the public procurement rules after Brexit and new local authority structures. Also responding to an increasingly crowded and competitive market where there could be more mergers and insolvencies.
- Authorities need to be open to different ways of doing things, driving further developments of new trading companies. Relieving pressures on councils to find the most efficient ways of doing more with less in today's austere climate.

Overall, joint ventures can be a viable alternative delivery model for local authorities. Our research indicates that the numbers of joint ventures will continue to rise, and in particular we expect to see others follow examples of successful public-public partnerships.



[Download the report here](#)

# ICAEW Report: expectations gap

The Institute of Chartered Accountants in England and Wales (ICAEW) recently published a paper on the 'expectation gap' in the external audit of public bodies.

## Context:

The expectation gap is the difference between what an auditor actually does, and what stakeholders and commentators think the auditors obligations might be and what they might do. Greater debate being whether greater education and communication between auditors and stakeholders should occur rather than substantial changes in role and remit of audit.

## What's the problem?

- **Short-term solvency vs. Longer-term value:**
  - LG & NHS: Facing financial pressures, oversight & governance pressures
- **Limited usefulness of auditors reports:** 'The VFM conclusion is helpful, but it is more about the system/arrangements in place rather than the actual effectiveness of value for money'
- **Other powers and duties:** implementing public interest reports in addition to VFM
- **Restricted role of questions and objections:** Misunderstanding over any objections/and or question should be resolved by the local public auditor. Lack of understanding that auditors have discretion in the use of their powers.
- **Audit qualification not always acted on by those charged with governance:** 'if independent public audit is to have the impact that it needs, it has to be taken seriously by those charged with governance'
- **Audit committees not consistently effective:** Local government struggles to recruit external members for their audit committees, they do not always have the required competencies and independence.
- **Decreased audit fees:** firms choose not to participate because considered that the margins were too tight to enable them to carry out a sufficient amount of work within the fee scales.

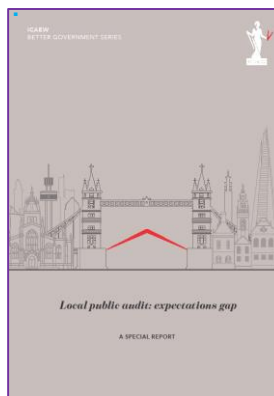
- **Impact of audit independence rules:** new independence rules don't allow for external auditors to take on additional work that could compromise their external audit role (revised Audit Guidance Note 01 (AGN 01) goes beyond FRC's ethical standards))
- **Other stakeholders expectations not aligned with audit standards**
- **Increased auditor liability:** an auditor considering reporting outside of the main audit engagement would need to bill their client separately and expect the client to pay.

## Solutions:

Solution a) CFO's want additional advisory work, rather than just the audit, they can separately hire consultants (either accountancy firms not providing the statutory audit or other business advisory organisations with the required competencies) to work alongside them in their financial resilience work and challenging budget assumptions.

Solution b) Wider profession (IFAC, IAASB, accountancy bodies) should consider whether audit, in its current form, is sustainable and fit for purpose. Stakeholders want greater assurance, through greater depth of testing, analysis and more detailed reporting of financial matters. It is perhaps, time to look at the wider scope of audit. For example, could there be more value in auditors providing assurance reports on key risk indicators which have a greater future-looking focus, albeit focused on historic data?

More information can be found in the link below (click on the cover page)



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# Links

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## Grant Thornton website links

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

<https://www.grantthornton.co.uk/en/insights/a-caring-society/>

<https://www.grantthornton.co.uk/en/insights/care-homes-where-are-we-now/>

<https://www.grantthornton.co.uk/en/insights/the-rise-of-local-authority-trading-companies/>

## National Audit Office link

<https://www.nao.org.uk/report/the-health-and-social-care-interface/>

## Ministry of Housing, Communities and Local Government links

<https://www.gov.uk/government/news/social-housing-green-paper-a-new-deal-for-social-housing>

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/728722/BRR\\_Pilots\\_19-20\\_Prospectus.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/728722/BRR_Pilots_19-20_Prospectus.pdf)

## Institute for Fiscal Studies

<https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>



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