

Audit Progress Report and Sector Update

Leeds City Council

Year ending 31 March 2019

31 May 2019



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Introduction



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

The paper also includes:

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

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

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

PSAA Contract Monitoring

Leeds City Council opted into the Public Sector Audit Appointments (PSAA) Appointing Person scheme which starts with the 2018/19 audit. PSAA appointed Grant Thornton as auditors. PSAA is responsible under the Local Audit (Appointing Person) Regulations 2015 for monitoring compliance with the contract and is committed to ensuring good quality audit services are provided by its suppliers. Details of PSAA's audit quality monitoring arrangements are available from its website, www.psaa.co.uk.

Our contract with PSAA contains a method statement which sets out the firm's commitment to deliver quality audit services, our audit approach and what clients can expect from us. It will also be a benchmark for you to provide feedback on our performance to PSAA via its survey in Autumn 2019.

Progress as at 31 May 2019

Financial Statements Audit

We have started planning for the 2018/19 financial statements audit and have issued a detailed audit plan, setting out our proposed approach to the audit of the Council's 2018/19 financial statements.

We commenced our interim audit in February 2019 with a further visit in March. Our interim fieldwork included:

- Updating our review of the Council's control environment
- Updating our understanding of financial systems
- Reviewing of Internal Audit reports on core financial systems
- Early work on emerging accounting issues
- Early substantive testing.

The work completed and findings from our interim audit visit were reported to the Corporate Governance and Audit Committee on 22 March 2019. We have provided an update on page 6 relating to our work on Information Technology (IT) controls, journal entry controls and issues arising from the 'cold' review of the Council's 2017-18 accounts.

The statutory deadline for the issue of the 2018-19 opinion is 31 July 2019. We have discussed our audit plan and timetable with officers.

The final accounts audit is due to begin on the 3 June with findings reported to you in our Audit Findings (ISA260) Report. We will present our report at the July Corporate Governance and Audit Committee meeting and issue our audit opinion by the 31 July deadline.

Value for Money

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

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

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

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

Details of our initial risk assessment to determine our approach were included in our Audit Plan presented to the Corporate Governance and Audit Committee in January 2019.

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

Other areas

Meetings

We continue to meet with the Chief Executive, Chief Officer (Financial Services) and other senior officers as part of our regular liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

We plan to meet with the Chief Officer (Financial Services) and her senior finance team on 10 June to discuss the 2018-19 draft accounts and any early emerging issues from our final accounts audit.

Events

We provide a range of workshops, along with network events for officers and members in addition to publications to support the Council. Key finance staff attended our annual accounts workshop on 5 February.

A number of members from the Corporate Governance and Audit Committee attended a workshop on the roles and responsibilities of audit committees including governance issues, accounting developments and value for money arrangements on 26 February. We would like to thank Members who attended the event for their contribution to the day.

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Deliverables

2018-19 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2018-19.	April 2018	Complete
Accounts Audit Plan We are required to issue a detailed accounts Audit Plan to the Corporate Governance and Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2018-19 financial statements.	January 2019	Complete. This was presented to the Corporate Governance and Audit Committee on 28 January 2019.
Interim Audit Findings 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	Our findings were reported to the Corporate Governance and Audit Committee on 22 March 2019. A further update is included on page 6.
Audit Findings (ISA260) Report The Audit Findings Report will be reported to the July Audit Committee.	July 2019	Not yet due
Auditors Report This is the opinion on your financial statements, annual governance statement and value for money conclusion.	July 2019	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2019	Not yet due

Council responsibilities

In our Audit Plan presented to the Corporate Governance and Audit Committee in January 2019 we have communicated our expectations around the Council's responsibilities for timely production of the draft accounts supported by appropriate working papers. Should delays be experienced in the provision of these requirements or should additional work be required on our part due to complex technical issues, new arrangements and delays in response to queries additional costs will be incurred.

Any additional fees are subject to approval by PSAA.

Update on Interim Audit Work

The findings from our interim audit work were reported to the Corporate Governance and Audit Committee on 22 March 2019. We have provided an update below relating to our work on Information Technology (IT) controls, journal entry controls and issues arising from the 'cold' review of the Council's 2017/18 accounts

Audit area	Work performed	Update, conclusions and recommendations
Review of information technology controls	Our information systems specialist performed a high level review of the general IT control environment, as part of the overall review of the internal controls system. Our work confirmed that IT (information technology) controls were implemented in accordance with our documented understanding. However, one issue was identified in relation to the use of generic ID accounts. The Council uses generic ID accounts internally in one of its systems. Failure to take precautions against generic IDs may leave the Council exposed internally to unauthorised access. We understand the Council's officers are aware of this issue and are currently taking appropriate action to rename, disable or delete these accounts.	Recommendation The Council should avoid using generic ID accounts. Where they are used for system testing, the number of generic ID accounts should be minimised after which they should be permanently deleted. The use of generic ID accounts should be closely monitored and recorded. Management Response The Council has reviewed the use of generic ID accounts. Generic user accounts are maintained for system testing and are revoked (i.e. deactivated) in the live system. The number of generic user accounts is to be reduced and monitoring arrangements will be put in place to confirm that they are not reactivated.
Journal entry controls	We reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy. Our work has identified one area where existing arrangements could be further enhanced, there is no control within FMS that requires journals to be approved by another member of staff prior to posting, and no formal procedure outside FMS for journals to be reviewed prior to being posted. We understand the ability to post journals and which codes they can be posted to is limited via user access rights. Monitoring for journal entries is via monthly budget monitoring.	Recommendation We recommend the Council introduces a formal process to ensure that all journals over a predetermined amount are reviewed by another team member prior to the journal being posted. Documentation of this review should be maintained to provide an audit trail. Management Response The possibility of introducing a secondary authorisation process for journals has been considered in the past by the Council. It has been concluded that there is limited risk associated with journals and that the compensating controls which the Council already has in place mean that such additional checks would not be a worthwhile use of resources. The Council has reconsidered this view in the light of Grant Thornton's recommendation, but the recommendation does not identify any associated additional risks which would call into question the previous evaluation. This position will be kept under review.
'Cold' review of Council's 2017/18 financial statements	As part of our first year audit procedures, we reviewed the Council's published financial statements for last year, 2017/18, and considered these against the Code of Practice on Local Authority Accounting as well as CIPFA good practice. The aim of this exercise was to identify any possible improvement opportunities to further enhance the Council's financial statements as it drafts its 2018/19 accounts.	Our review identified a number of minor disclosure opportunities which we shared with Officers. Officers have now responded to the issues identified and we will consider how these have been actioned as part of our audit of the Council's 2018/19 financial statements. We will update the Committee on any significant findings in this area as part of our ISA260 Report in July.

Sector Update

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 Corporate Governance and Audit Committee members, as well as any accounting and regulatory updates.

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

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

Public Sector

Local
government

National Audit Office – Planning for new homes

The National Audit Office (NAO) has recently published a report on *Planning for new homes*. This report is part of a series on housing in England, including *Housing in England: overview (2017)* and *Homelessness (2017)*. The latest report focuses on the Ministry of Housing, Communities and Local Government's (MHCLG's) objective for housing in England to deliver a million homes by the end of 2020; half a million by the end of 2022; and to deliver 300,000 net additional homes a year on average.

The report recognises that increasing the supply of new homes is a complex task and one of the measures MHCLG has introduced to help achieve the objective is reforming the planning system. The report notes that the planning system is fundamental to providing new homes and it assesses how effectively MHCLG supports the planning regime to provide the right homes in the right places through:

- supporting local authorities to produce plans for how the supply of new homes will meet need in their area;
- supporting local authorities and the Planning Inspectorate in having effective and sufficiently resourced planning processes and teams to deal with planning applications and appeals; and
- working effectively with local authorities, other government departments and developers to ensure infrastructure to support new homes is planned and funded.

The report finds that at present, the system is not providing value for money and that the supply of new homes has failed to meet demand. It notes that a number of factors have contributed to the planning system not working and some of these include:

- the process of setting the need for new homes;
- the reductions in local authority capability;
- the under-performing Planning Inspectorate; and
- failures in the system to ensure adequate contributions for infrastructure.

The report recognises that MHCLG's new National Planning Policy Framework is an important step, but it is too early to tell whether the changes it introduces will be effective. The report also makes a number of recommendations for MHCLG to implement alongside the framework to help the planning systems work more effectively.

The report concludes that the Department and government more widely need to take this much more seriously and bring about improvement if they are to meet their ambition of 300,000 new homes per year by the mid-2020s.

The report is available on the NAO website:

<https://www.nao.org.uk/report/planning-for-new-homes/#>



NAO Report

Challenge question:

Has your Authority got a robust plan in place to deliver the additional houses needed over the next five years?



National Audit Office – Pressures on children’s social care

The Local authorities in England have statutory responsibility for protecting the welfare of children and delivering children’s social care. In extreme cases they may use their statutory powers to place children in need on protection plans or even take them into care. Local authorities are also responsible for delivering non-statutory services for all children and young people, such as children’s centres. The Department for Education (the Department) provides statutory guidance on delivering these functions. It also has overall policy responsibility for children’s services, and has the strategic vision that all vulnerable children, no matter where they live, should have access to high-quality support by 2022.

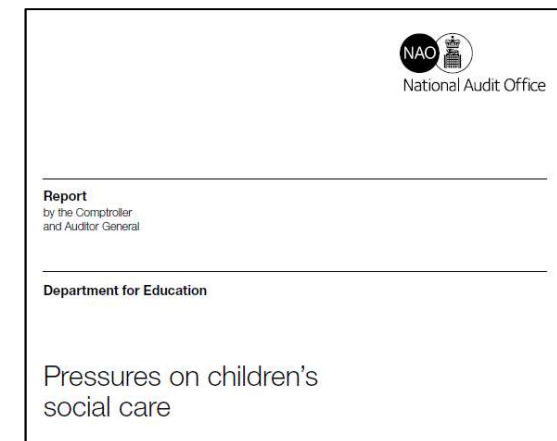
The report sets out recent trends in pressures on children’s social care demand and activity and the response of both national and local government to these pressures. It also sets out analysis the NAO conducted about what is causing variations in children’s social care demand and activity between different local authorities. The report covers:

- the pressures on children’s social care;
- the response of national and local government to increasing demand for children’s social care; and
- NAO analysis of what is causing variations in demand for children’s social care between local authorities.

The report notes that, while the Department has put in place a programme of reform, it still does not fully understand what is driving demand for children’s social care or why there is such wide variation between local authorities in their children’s social care activity and costs. It has not yet done the work to tie together available sources of information and therefore lacks a well-informed pathway to achieve its goal. While the Department has recognised the need for this analysis, it will not complete the work until summer 2019. Even if its analysis is completed successfully it will be a tall order for the Department to achieve its goal within three years.

The report is available on the NAO website:

<https://www.nao.org.uk/report/pressures-on-childrens-social-care/>



NAO Report

Challenge question:

Has your Authority considered the NAO report, and how any local variations in demands can be addressed?



CIPFA – Social Care risk tool

The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Association of Directors of Adult Social Services' (ADASS) have updated the Social Care Risk Tool; an advisory risk assessment tool for discretionary use by councils with adult social care responsibility.

The tool's objective is to help authorities assess whether unsustainable financial pressures might be faced by the adult social services department. It seeks to do this by assessing the extent to which various risk factors apply. This is the third version of the risk tool and it has been expanded to include new risks that have emerged since the previous version. In addition, a number of risks have been revised to make them clearer.

The risk assessment adopts a survey format and covers the following areas:

- savings;
- local pressures; and
- culture and relationships.

Each of the areas above includes a series of questions (or indicators), and authorities are required to assess whether the indicators are strongly present (score of 5); only present to some extent (scores 2 to 4); or not at all (score of 1). The total score helps to give an indication of where the authority lies. The maximum score is 195 (there are 39 questions altogether) which represents the highest risk possible. Some of the metrics (particularly those relating to unit costs) are more illustrative than prescriptive and local authorities may wish to adjust these to reflect their local circumstances.

To download the tool:

<https://www.cipfa.org/cipfa-thinks/health/articles/social-care-risk-tool>



CIPFA Social Care risk tool

Challenge question:

Has your Authority completed the Social Care risk tool? Have your Directors shared the results and responses with you?



Links

Grant Thornton

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

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

National Audit Office

<https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/>

<https://www.nao.org.uk/report/local-authority-governance-2/>

<https://www.nao.org.uk/report/planning-for-new-homes/#>

<https://www.nao.org.uk/report/pressures-on-childrens-social-care/>

Ministry of Housing, Communities and Local Government

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>

Public Sector Audit Appointments

<https://www.psaa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

CIPFA

<https://www.cipfa.org/cipfa-thinks/health/articles/social-care-risk-tool>

