Service Director – Legal, Governance and Commissioning
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Thursday 9 June 2022

Notice of Meeting

Dear Member

Corporate Governance and Audit Committee

The **Corporate Governance and Audit Committee** will meet in the **Meeting Room 3 - Town Hall, Huddersfield** at **10.00 am** on **Friday 17 June 2022.**

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

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 Ammar Anwar
Councillor Harry McCarthy
Councillor Kath Pinnock
Councillor Elizabeth Reynolds
Councillor Joshua Sheard
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	Labour	Liberal Democrat
B Armer	S Hall	A Munro
A Gregg	M Kaushik	PA Davies
V Lees-Hamilton	F Perry	A Marchington
R Smith	M Sokhal E Firth	A Pinnock
M Thompson	T Hawkins	

Ex Officio Members
Councillor Paul Davies - Cabinet Member, Resources
Councillor Jo Lawson - 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** To approve the Minutes of the meeting of the Committee held on 13 May 2022.	1 - 4
3:	**Declarations of Interest** 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.	5 - 6
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 2021/22 7 - 24

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

Contact: James Anderson – Head of Accountancy

8: External Audit Plan 25 - 50

To receive the external audit plan.

Contact: Stephen Nixon, Grant Thornton

9: Government response to local audit framework: technical consultation 51 - 58

To receive the outcomes from a consultation on local audit matters.

Contact: Martin Dearnley, Head of Risk

Contact Officer: Yolande Myers

KIRKLEES COUNCIL

CORPORATE GOVERNANCE AND AUDIT COMMITTEE

Friday 13th May 2022

Present:	Councillor Yusra Hussain (Chair) Councillor Paola Antonia Davies Councillor Steve Hall Councillor Susan Lee-Richards Councillor Kath Pinnock Councillor Melanie Stephen Councillor John Taylor
Observers:	Councillor Paul Davies (Ex Officio) – Cabinet Member Resources

1 Membership of the Committee

No apologies for absence were received.

2 Minutes of Previous Meeting

That the Minutes of the previous meeting, held on 22 April 2022 be approved as a correct record.

3 Declarations of Interest

Councillor Yusra Hussain declared an interest on agenda item 7 as she is employed by the NHS in another Local Authority area.

4 Admission of the Public

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

5 Deputations/Petitions

There were no deputations or petitions received.

6 Public Question Time

No questions were asked.

7 Report of the Members' Allowances Independent Review Panel (MAIRP) (Reference to Annual Council)

The Committee considered a report which set out the outcome of the Members Allowances Independent Review Panel.

The Committee noted that the Review Panel recommended a Special Responsibility Allowance for a new Lead Councillor: Primary Care Networks and Local Health Improvement. The Committee noted that the new role was the evolution of the Place Partnership Lead Member role, with a proposal to create nine roles to mirror the number of Primary Care Networks.

The Committee discussed at length the new role of Lead Councillor for Primary Care Networks and how it would be an evolution of the Place Based Partnership Lead Member roles. The Committee had concerns that the role would be one that was particularly technical and could become very time consuming. Richard Parry, Strategic Director Adults and Health informed the Committee that officers from Public Health would provide guidance and training, including a data pack for Lead Councillor consideration.

The Committee concluded that there should be a review and accountability structure along with a review of the roles after 6 months.

RESOLVED –

1. That the Committee conveys thanks to the Members Allowances Independent Review Panel for their work and notes the outcomes of the Panel, as attached at Appendix A of the report.

2. That a review of the new role profile be undertaken after 6 months. The review will include the accountability of those in lead roles having regard to any learning from the Place Based working role which this new Lead Councillor role is intended to replace, [and any work already done to consider that already] with a report back to this committee.

3. That the Committee recommends that Council approves and adopts the recommendations with effect from 25 May 2022, and that the 9 Lead Councillor – Primary Care Networks and Local Health Improvement role be incorporated into the Members Allowance Scheme.

Under the provision of Councillor Procedure Rule 24(5) Councillor John Taylor asked that their vote against the motion be recorded. Councillor Mel Stephen asked that their abstention be recorded.

8 Changes to the Council's Constitution (Reference to Annual Council)

The Committee received a report setting out proposed changes to the Council's constitution as detailed in the Appendices. The report also provided a summary of changes to the Constitution made by the Monitoring Officer using delegated powers.

The Committee noted that it was essential the Council's Constitution be regularly reviewed and updated to ensure that it remained fit for purpose and enabled Council meetings to be conducted in a fair, business like and effective manner. It was also essential that the Constitution complied with current legislation. Failure to do so could lead to challenges, unnecessary procedural delays, and less transparency in the Council's democratic process.

RESOLVED – That the Committee:

1. Notes the changes made to the Constitution in 2021-2022 as listed in Appendix 1 of the report and notes the Cabinet approval of the Safeguarding Policy, set out in paragraph 2.04.

2. Approves the amendment to the Policy Framework at paragraph 2.04 in the event that Council considers and adopts the Council Corporate Safeguarding Policy referred to in that paragraph.

3. Approves the proposed changes to the Councils constitution as set out in paragraphs 2.08, 2.11, 2.12, 2.13, 2.14, 2.15, 2.16,and 2.22 and the accompanying relevant Appendices.

4. Notes the further work proposed to keep the Council's Constitution under review.

5. Notes the proposed further work in respect of standards.

6. Recommends that Council approves and adopts the recommendations with effect from 25 May 2022, and delegate authority to the Service Director – Legal, Governance and Commissioning to make appropriate amendments to the constitution which may be agreed by Council as well as any consequential amendments to the constitution to reflect the changes agreed.

9 Corporate Customer Standards Interim Report 2021-22

Item withdrawn.

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KIRKLEES COUNCIL

COUNCIL/CABINET/COMMITTEE MEETINGS ETC
DECLARATION OF INTERESTS

Corporate Governance and Audit Committee

Name of Councillor

Item in which you have an interest	**Type of interest (eg a disclosable pecuniary interest or an "Other Interest")**	**Does the nature of the interest require you to withdraw from the meeting while the item in which you have an interest is under consideration? [Y/N]**	**Brief description of your interest**

Signed: …………………………………………… **Dated:** ……………………………………..

NOTES

Disclosable Pecuniary Interests

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

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

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

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

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

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

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

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

Any beneficial interest which you, or your spouse or your civil partner has in securities of a body where -
(a) that body (to your knowledge) has a place of business or land in the area of your council or authority; and
(b) either -

> the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or
> if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which you, or your spouse or your civil partner, has a beneficial interest exceeds one hundredth of the total issued share capital of that class.

Name of meeting: Corporate Governance and Audit Committee

Date: 17 June 2022

Title of report: Annual Report on Treasury Management 2021/22

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 **Is it also signed off by the Service Director - Finance?** **Is it also signed off by the Service Director for Governance and Commissioning Support?**	**Eamonn Croston 5 June 2022** **As above** **Julie Muscroft 5 June 2022**
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

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1. Summary

1.1 The Council's treasury management operation for the year has followed the strategy approved by Council on 10 February 2021. Investments averaged £37.9 million and were largely deposited in instant access accounts earning an average interest rate of 0.12%.

1.2 Total external borrowing at 31 March 2022 increased by £43.1 million to £468.9 million (£425.8 million as at 31 March 2021). The Council took £50 million new Government long term loans from the Public Works Loan Board (PWLB) (see paragraph 2.6.3 for more detail) and an additional £20 million Local Authority medium term loans (2-3 years). Temporary borrowing decreased for the year by £20.0 million to £21.5 million (£41.5 million 31st March 2021). The majority of borrowing is on fixed rate terms and the average long-term borrowing rate for 2021/22 relating to all long-term debt on the balance sheet was 3.84%. Short-term borrowing rates averaged 0.49%.

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 2021/22. 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 2021/22 was £13.7 million. The actual MRP calculation for 2021/22 was £15.6 million and hence the maximum unwind allowable. However, in 2021/22 the actual unwind was in-line with the budget at £13.7 million.

1.6 Treasury management costs incurred in the year include £9.2 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 2021/22 performance, reference will be made to the Treasury Management Strategy Report approved by Budget Council on 10 February 2021.

2.2 Borrowing and Investment Strategy 2021/22

2.2.1 The Council's overall Treasury Management Strategy prioritises security, liquidity and risk management which was adhered to in 2021/22. 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 and the Councils objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

2.2.2 Lower official interest rates during the majority of 2021/22 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 2.3.1-2.3.8 are a commentary from our external treasury management advisors, Arlingclose.

2.3.1 The continuing economic recovery from the coronavirus pandemic, together with the war in Ukraine, higher inflation, and higher interest rates were major issues over the period.

2.3.2 The Bank Rate was 0.1% at the beginning of the reporting period. April and May 2021 saw the economy gathering momentum as the shackles of the pandemic restrictions were eased. Despite the improving outlook, market expectations were that the Bank of England would delay rate rises until 2022. Rising, persistent inflation changed that.

2.3.3 UK Consumer Price Inflation (CPI) was 0.7% in March 2021 but thereafter began to steadily increase. Initially driven by energy price effects and by inflation in sectors such as retail and hospitality which were re-opening after the pandemic lockdowns, inflation then was believed to be temporary. Thereafter price rises slowly became more widespread, as a combination of rising global costs and strong demand was exacerbated by supply shortages and transport dislocations. The surge in wholesale gas and electricity prices led to elevated inflation expectations. CPI for February 2022 registered 6.2% year on year, up from 5.5% in the previous month and the highest reading in the National Statistic series. Core inflation, which excludes the more volatile components, rose to 5.2% year on year from 4.4%.

2.3.4 The government's jobs furlough scheme insulated the labour market from the worst effects of the pandemic. The labour market began to tighten and demand for workers grew strongly as employers found it increasingly difficult to find workers to fill vacant jobs. Having peaked at 5.2% in December 2020, unemployment continued to fall and the most recent labour market data for the three months to January 2022 showed the unemployment rate at 3.9% while the employment rate rose to 75.6%. Headline 3-month average annual growth rate for wages were 4.8% for total pay and 3.8% for regular pay. In real terms, after adjusting for inflation, total pay growth was up 0.1% while regular pay fell by 1.0%.

2.3.5 With the fading of lockdown – and, briefly, the 'pingdemic' – restraints, activity in consumer-facing sectors improved substantially as did sectors such as oil and mining with the reopening of oil rigs but materials shortages and the reduction in the real spending power of households and businesses dampened some of the growth momentum. Gross domestic product (GDP) grew by an upwardly revised 1.3% in the fourth calendar quarter of 2021 according to the final estimate (initial estimate 1.0%) and took UK GDP to just 0.1% below where it was before the pandemic. The annual growth rate was revised down slightly to 7.4% (from 7.5%) following a revised 9.3% fall in 2020.

2.3.6 Having increased the Bank Rate from 0.10% to 0.25% in December, the Bank of England hiked it further to 0.50% in February, 0.75% in March and 1% in May. At the meeting in February, the Monetary Policy Committee (MPC) voted unanimously to start reducing the stock of its asset purchase scheme by ceasing to reinvest the proceeds from maturing bonds as well as starting a programme of selling its corporate bonds. In its March interest rate announcement, the MPC noted that the invasion of Ukraine had caused further large increases in energy and other commodity prices, with the expectation that the conflict will worsen supply chain disruptions around the world and push CPI inflation to around 8% later in 2022, even higher than forecast only a month before in the February Monetary Policy Report. The Committee also noted that although GDP in January was stronger than expected with business confidence holding up and the labour market remaining robust, consumer confidence had fallen due to the squeeze in real household incomes.

2.3.7 The 5-year UK benchmark gilt yield began the quarter at 0.82% before rising to 1.41%. Over the same period the 10 year gilt yield rose from 0.97% to 1.61% and the 20-year yield from 1.20% to 1.82%.

2.3.8 Having completed its full review of its credit advice on unsecured deposits, in September Arlingclose extended the maximum duration limit for UK bank entities on its recommended lending list from 35 days to 100 days; a similar extension was advised in December for the non-UK banks on this list. As ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

2.4 Investment Activity

2.4.1 CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes on 20th December 2021. These define treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business. Treasury Management Code now includes extensive additional requirements for service and commercial investments, far beyond those in the 2017 version.

2.4.2 The Council's treasury management investments totalled £78.9 million as at 31 March 2022 (£37.1 million 31 March 2021). The large investment balance at the yearend was partly due to £25.6 million Council Tax Energy Rebate monies being received at short notice on 30 March along with ensuring the Council had enough funds to meet planned outgoings in early April, including the West Yorkshire Pension Fund upfront payment of £37.8 million on 1 April 2022. The Council invested an average balance of £37.9 million externally during the year (£63.6 million 2020-21). Interest income of £0.034 million was generated through these investments (£0.071 million 2020-21) and £0.349 million dividend income from the CCLA Property Fund (£0.366 million 2020-21). Appendix 1 shows where investments were held at the beginning of April 2021, the end of September 2021 and the end of March 2022, by counterparty, by sector and by country. The Council's average lending rate for the year was 0.12% (0.13% 2020-21).

2.4.4 In April 21 the Council received £22.4 million in central government funding to support small and medium businesses during the coronavirus pandemic through restart grant schemes. 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.

2.4.5 Ultra low short-dated cash rates, which were a feature since March 2020 when Bank Rate was cut to 0.1%, prevailed for much of the 12-month reporting period which resulted in the return on sterling low volatility net asset value, Money Market Funds being close to zero. However, higher returns on cash instruments followed the increases in Bank Rate in December, February and March 2022.

2.4.6 The Council still has £10 million invested in the CCLA Property Fund as part of the 2019/20 Treasury Management Strategy (see paragraph 2.11.6).

2.5 Borrowing Update

2.5.1 In August 2021 HM Treasury significantly revised guidance for the PWLB lending facility with more detail and various examples of permitted and prohibited use of PWLB loans. 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. The acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, re-financing and treasury management.

2.5.2 CIPFA published its revised Prudential Code for Capital Finance and Treasury Management Code on 20th December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments.

2.5.3 The principles of the Prudential Code took immediate effect although local authorities could defer introducing the revised reporting requirements until the 2023/24 financial year which the Council opted to do. To comply with the Prudential Code, authorities must not borrow to invest primarily for financial return. This Code also states that it is not prudent for local authorities to make investment or spending decision that will increase the Capital Financing Requirement (CFR) unless directly and primarily related to the functions of the authority. Existing commercial investments are not required to be sold; however, authorities with existing commercial investments who expect to need to borrow should review the options for exiting these investments.

2.5.4 Borrowing is permitted for cashflow management, interest rate risk management, to refinance current borrowing and to adjust levels of internal borrowing. Borrowing to refinance capital expenditure primarily related to the delivery of a local authority's function but where a financial return is also expected is allowed, provided that financial return is not the primary reason for the expenditure. The changes align the CIPFA Prudential Code with the PWLB lending rules. There are no aspects of the Council's current multi-year plan that are expected to be in breach of the updated HMT guidance. All current and future capital activity funded by borrowing will be closely scrutinised by senior officers in conjunction with appropriate external advice to ensure future compliance and build into future business case appraisal.

2.5.5 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 pursue these lower cost solutions and opportunities with its advisor Arlingclose.

2.6 Borrowing Requirement and Debt Management

2.6.1 In terms of borrowing, long-term loans maturing greater than one year totalled £442.3 million and short-term loans maturing within 12 months (excluding interest accrued) totalled £26.6 million (£375.8 million and £50.0 million 31 March 2021), an overall increase of £43.1 million. Appendix 2 details repayments of long-term loans during the year and short-term loans outstanding as at 31 March 2022.

2.6.2 The Council has an increasing 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.

2.6.3 The Council borrowed £50 million of new long-term loans from the PWLB in 2021/22. These loans were taken throughout the year in tranches of £10 million, all 20 year Equal Instalment of Principal (EIP) loans at a rate between 1.46% and 2.28%. An EIP loan pays back principal over the life of the loan, and the interest associated with the loan goes down as the principal outstanding reduces.

2.6.4 As PWLB rates rose, the Council took advantage of medium-term loans over a 2 to 3 year time frame, achieving lower interest rates for the period and securing the funds needed.

2.6.5 Fixed rate loans account for 86.10% 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 7.43% 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.

2.6.6 The primary source of the Council's borrowing is from the Governments PWLB representing 70.02% of total external borrowing.

2.6.7 The Council continues to hold £61.5 million of LOBO (Lender's Option Borrower's Option) loans which represents 13.75% 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.

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

	2020/21 £m actual	2021/22 £m forecast	2021/22 £m actual
General Fund CFR - Non PFI	500.1	539.9	556.1
PFI	42.5	39.4	39.4
HRA CFR - Non PFI	170.3	170.5	166.0
PFI	48.1	45.2	45.2
Total CFR	761.0	795.0	806.7
Less: PFI debt liabilities	90.6	84.6	84.6
Borrowing CFR	**670.4**	**710.4**	**722.1**
Other deferred liabilities	3.7	3.7	3.6
Internal borrowing	240.9	222.9	249.6
External borrowing:			
PWLB Loans	271.5	330.4	313.3
LOBOs	61.5	61.5	61.5
Loan Stock (Fixed Rate)	7.0	7.0	7.0
Other Loans (Fixed Rate)	44.3	43.4	65.6
Temporary borrowing	41.5	41.2	21.5
Total External borrowing	425.8	466.1	468.9
Total Funding	**670.4**	**692.7**	**722.1**
Investments	37.1	30.0	78.9

2.6.9 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 2021/22.

2.6.10 The average long-term borrowing rate for 2021/22 for the Council's long-term loans outstanding was 3.84% (4.46% 2020/21).

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 receipts was £2.7 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 2021/22. Training was provided to Members on 30 November 2021.

Looking ahead – Treasury Management developments in 2022/23

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

2.9.1 As outlined within the Council approved Treasury Management Strategy 2022/23, 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 (£5.3 million outstanding as at 31 March 2022) 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 2022/23 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 2022 there are assets under management of £1,439 million. The Fund aims to provide investors with regular revenue income and long-term price stability 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 3.25% in 2021/22 (4.30% 2020-21), which compares with average 0.12% on other short-term investments (see paragraph 2.4.1 above). Net income of £0.349 million was received by the Council in 2021/22 (£0.366 million in 2020/21).

2.11.4 In the nine months to December 2021 improved market outlook was reflected in equity, property and multi-asset fund valuations and, in turn, in the capital values of the CCLA. The prospect of higher inflation and rising bond yields did however result in muted bond fund performance. In the January-March quarter the two dominant themes were tighter UK and US monetary policy and higher interest rates, and the military invasion of Ukraine by Russia in February, the latter triggering significant volatility and uncertainty in financial markets. In light of Russia's invasion, Arlingclose contacted the fund managers of our MMF, cash plus and strategic funds and confirmed no direct exposure to Russian or Belarusian assets had been identified.

2.11.5 Unrealised cumulative capital gains of £0.6 million 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 on 31st March 2023. The Government has indicated this override may be extended or become permanent.

2.11.6 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 Council'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 to fund the capital plan is to use a combination of short and long-term borrowing. 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, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective.

2.12.2 With short-term interest rates remaining much lower than long term rates, the Council considered it more cost effective in the near term to use internal resources and to borrow temporary short-term loans instead. With the continued recent volatility in PWLB rates and the recent increases, medium-term loans over shorter time frame, will also continue to be considered as the opportunities present themselves.

2.12.3 Long term loans from the PWLB will continue to be taken when gilt yields drop and the opportunity to take those fixed rate loans is presented. The Authority's borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short- and long-term borrowing was maintained and having considered the appropriate duration and structure of the borrowing need based on realistic projections, and with ongoing consultation with Arlingclose.

2.12.4 As noted in the recent 2022/23 Treasury Management Strategy report, the Council will also consider the opportunity to arrange forward starting loans (with alternative lenders as these are not available through the PWLB), where the interest rate is fixed in advance but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period. Again, this would only be undertaken after having considered the appropriate duration and structure of the borrowing need based on realistic projections, and with ongoing consultation with Arlingclose.

2.12.5 On 11 May 22 The Levelling Up and Regeneration Bill was introduced to Parliament along with further updated PWLB guidance for applicants. The Bill included unexpected proposals to amend the Local Government Act 2003 to give the Secretary of State wide-ranging powers to issue local authority 'risk mitigation' directions. These could include asset sales or limits on borrowing with intervention triggered by a range of risk thresholds, for example, the amount of debt held in relation to financial resources, and 'other metrics'. HM Treasury will consult on the detail of the risk metrics referred to the in Bill, at a later date.

2.12.6 The updated PWLB guidance states that the PWLB will not advance new loans if there is more than negligible risk that the newly advanced loan will not be repaid without future government support. HM Treasury considered it necessary to clarify this in response to the continued build-up of very high levels of debt and associated credit risk in some local authorities. If a Councils debt level is flagged, it will be required to explain how it is managing financing risks. HM Treasury noted though, that authorities complying with the Prudential Code should not expect any change in their ability to access PWLB loans or to the process of applying for a loan, unless contacted by HM Treasury regarding specific concerns.

3. Implications for the Council

3.1 Working with People – N/A
3.2 Working with Partners – N/A
3.3 Place Based Working – N/A
3.4 Climate Change and Air Quality – N/A
3.4 Improving outcomes for children - N/A
3.5 Other (e.g. Legal/Financial) – 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 and Council in July 2022 as part of the overall financial outturn and rollover report 2021/22.

6. Officer recommendations and reasons

6.1 CGAC are asked to note the treasury management performance in 2021/22 as set out in this report, prior to its submission to Cabinet and Council;

7. Cabinet portfolio holder's recommendations

The Cabinet portfolio holder notes the borrowing and investment performance as detailed in this report.

8. Contact officer

James Anderson	Head of Accountancy
Rachel Firth	Finance Manager

9. Background Papers and History of Decisions

CIPFA's Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes 2021 edition
CIPFA's Prudential Code for Capital Finance in Local Authorities 2021 edition
Public Works Loan Board Website.
Treasury Management 2021/22 Strategy Report approved by Council on 10 February 2021.
Treasury Management 2022/23 Strategy Report approved by Council on 16 February 2022.

10. Service Director responsible

Eamonn Croston 01484 221000

APPENDIX 1

Kirklees Council Investments 2021/22		Credit Rating Mar 2022*	1 April 2021 £m	Interest Rate	Type of Investment	30 September 2021 £m	Interest Rate	Type of Investment	31 March 2022 £m	Interest Rate	Type of Investment
Counterparty											
Specified Investments											
Santander	Bank	F1/A+	5.0	0.30%	35 Day Notice	5.0	0.10%	35 Day Notice	0.0	0.35%	35 Day Notice
Barclays	Bank	F1/A+	0.6	0.01%	Instant Access	0.0	0.01%	Instant Access	0.0	0.01%	Instant Access
Aberdeen Standard	MMF**	AAAmmf	8.6	0.01%	Instant Access	10.0	0.01%	Instant Access	8.9	0.51%	Instant Access
Aviva	MMF**	Aaa-mf	7.0	0.01%	Instant Access	6.1	0.01%	Instant Access	10.0	0.51%	Instant Access
Deutsche	MMF**	AAAmmf	5.9	0.01%	Instant Access	10.0	0.02%	Instant Access	0.0	0.49%	Instant Access
Goldman Sachs	MMF**	AAAmmf	0.0	0.00%	Instant Access	0.0	0.00%	Instant Access	3.3	0.48%	Instant Access
PCC for Devon & Cornwall	Local Authority		0.0	N/A	Local Authority	0.0	N/A	Local Authority	10.0	0.60%	Local Authority
PCC for Dorset	Local Authority		0.0	N/A	Local Authority	0.0	N/A	Local Authority	10.0	0.60%	Local Authority
Debt Management Office	Cent Govt		0.0	N/A	Cent Govt	0.0	N/A	Cent Govt	26.7	0.55%	Cent Govt
CCLA	Property Fund		10.0	N/A	Property Fund	10.0	N/A	Property Fund	10.0	N/A	Property Fund
			37.1			**41.1**			**78.9**		
Sector Analysis			**£m**	**%age**		**£m**	**%age**		**£m**	**%age**	
Bank			5.6	15%		5.0	12%		0.0	0%	
MMF**			21.5	58%		26.1	64%		22.2	28%	
Local Authorities/Cent Govt			0.0	0%		0.0	0%		46.7	59%	
Property Fund			10.0	27%		10.0	24%		10.0	13%	
			37.1	100%		**41.1**	100%		**78.9**	100%	
Country analysis			**£m**	**%age**		**£m**	**%age**		**£m**	**%age**	
UK			15.6	42%		15.0	36%		56.7	72%	
MMF**			21.5	58%		26.1	64%		22.2	28%	
			37.1	100%		**41.1**	100%		**78.9**	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	
	Very Strong	AA+	
		AA	F1+
		AA-	
	Strong	A+	
		A	F1
		A-	
	Adequate	BBB+	F2
		BBB	
		BBB-	F3
Speculative Grade	Speculative	BB+	
		BB	
		BB-	
	Very Speculative	B+	B
		B	
		B-	
	Vulnerable	CCC+	
		CCC	
		CCC-	C
		CC	
		C	
	Defaulting	D	D

Appendix 2

Long-term loans repaid and short-term loans outstanding 31 March 2022

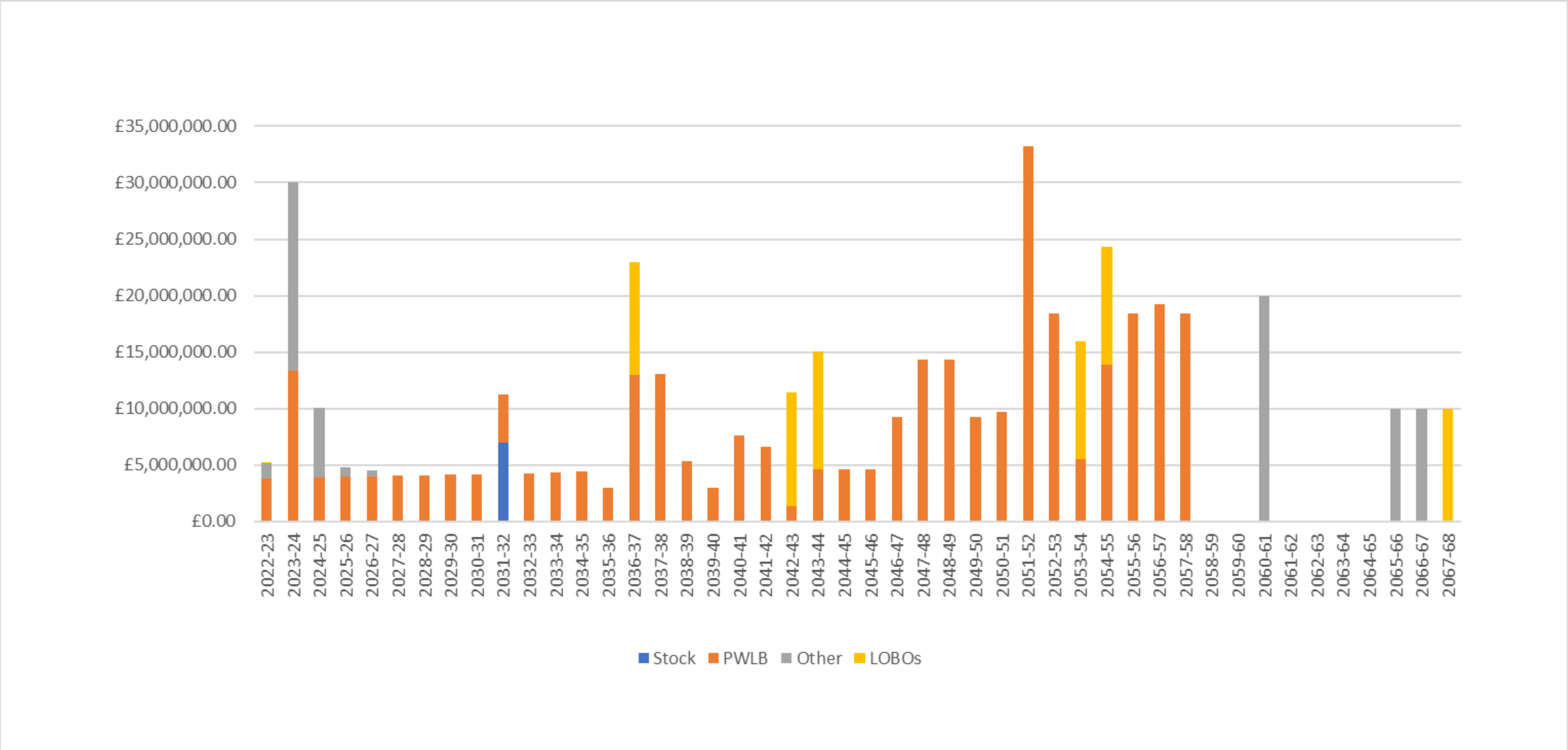
Long-term loans repaid during 2021/22

	Amount £000s	Rate %	Date repaid
Repayments on maturity			
PWLB (475156)	6,458	8.625	14 Feb 22
Repayments on annuity loans			
PWLB (496956)	386	4.58	29 Sep 21
PWLB (496956)	395	4.58	29 Mar 22
Repayments on EIP loans			
PWLB (313112)	250	1.64	6 Sep 21
PWLB (340221)	250	1.63	27 Oct 21
PWLB (373440)	250	1.46	12 Jan 22
PWLB (313112)	250	1.64	4 Mar 22
Total	**8,239**		

Short-term loans outstanding 31 March 2022

	Amount £000s	Rate %	Length (days)
Temporary borrowing from the Money Market			
Liverpool City Region Combined Authority	5,000	0.40	62
Middlesbrough Council	5,000	0.13	54
Greater Manchester Combined Authority	5,000	0.45	89
Oxfordshire County Council	5,000	0.70	184
Local lenders/Trust Funds	1,492		
Total Temporary borrowing	**21,492**		
Long-term loans due to mature in the next twelve months	5,167		
Total	26,659		

Kirklees Council Loan Maturity Profile (All Debt) **Appendix 3**



Appendix 4

Kirklees Council - Borrowing and Investment Trends

At 31 March	2022	2021	2020	2019	2018	2017
Investments	78.9m	37.1m	52.0m	39.1m	36.1m	31.3m
ST Borrowing (excl interest accrued)	26.6m	50.0m	53.2m	11.8m	20.8m	37.7m
LT Borrowing	442.3m	375.8m	373.7m	384.1m	392.4m	400.5m
Total Borrowing	468.9m	425.8m	426.9m	395.9m	413.2m	438.2m
Deferred liabilities (non PFI)	3.5m	3.6m	3.7m	3.9m	4.1m	4.1m
Net debt position	**393.5m**	**392.3m**	**378.6m**	**360.7m**	**381.2m**	**411.0m**
Capital Financing Requirement (excl PFI)						
General Fund	556.1m	500.1m	461.6m	436.6m	420.3m	412.8m
HRA	166.0m	170.3m	175.3m	175.3m	182.8m	186.2m
Total CFR	**722.1m**	**670.4m**	**636.9m**	**611.9m**	**603.1m**	**599.0m**
Balances “internally invested”	249.6m	240.9m	206.1m	212.1m	185.8m	156.7m
Ave Kirklees’ investment rate for financial year	0.1%	0.1%	0.7%	0.7%	0.3%	0.4%
Ave Base rate (Bank of England)	0.2%	0.1%	0.7%	0.7%	0.3%	0.3%
Ave LT Borrowing rate (1)	1.9%	2.3%	2.4%	2.5%	2.5%	2.5%

(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 2021/22	Actual 2021/22
Interest at fixed rates as a percentage of net interest payments	60% - 100%	86%
Interest at variable rates as a percentage of net interest payments	0% - 40%	14%

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.

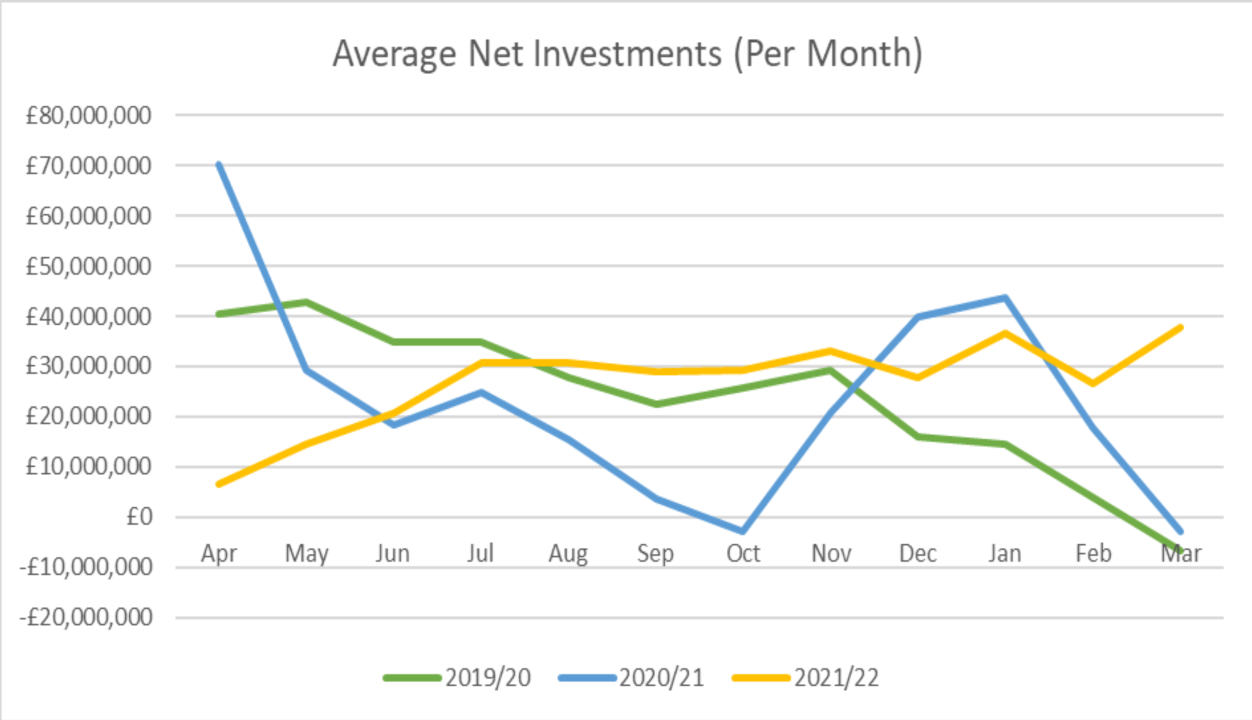
Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate	Limit Set 2021/22	Actual Levels 2021/22
Under 12 months	0% - 20%	1%
12 months to 2 years	0% - 20%	8%
2 years to 5 years	0% - 60%	5%
5 years to 10 years	0% - 80%	7%
More than 10 years	20% - 100%	79%

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



Average Net Investments (Per Month)
£80,000,000
£70,000,000
£60,000,000
£50,000,000
£40,000,000
£30,000,000
£20,000,000
£10,000,000
£0
-£10,000,000
-£20,000,000
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Jan
Feb
Mar
2019/20
2020/21
2021/22

Grant Thornton

External Audit Plan for Kirklees Council

Year ended 31 March 2022

31 May 2022

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.

Key matters

Factors

Council developments

The Council has set a balanced budget for 2021/22 and 2022/23 although recognises that funding pressures exist further into the medium term financial plan which require addressing.

We have continued to hold regular meetings with the senior finance team at the Council. During these meetings we discuss a range of key issues regarding the Council's general developments, current and projected financial performance and emerging financial reporting issues.

We have also attended each Corporate Governance and Audit Committee to provide audit updates and to gain a clear understanding of matters concerning risk management at the Council and relevant matters from Internal Audit reports.

Recovery from COVID-19 pandemic

The COVID-19 pandemic continues to have a significant impact on the normal operations of the Council. During 2021-22 the Council has been focused on response and recovery. It has had to work differently at all levels to be able to deliver all of it's required services effectively. The Council has continued to receive COVID-19 related grant funding from central government for distribution to businesses and residents.

Infrastructure Assets

CIPFA has established a task and finish consultation group to address an issue regarding the derecognition of parts of infrastructure assets following 'replacement' expenditure. The group will consider the issues arising, and how it might assist in their resolution. The outcome of the consultation is expected very shortly and such assistance might take the form of producing additional guidance on this issue, or including clarifications in the accounting code.

Infrastructure balances are highly material at Kirklees Council, particularly regarding highway assets.

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, will be agreed with the Section 151 Officer (Service Director – Finance).
- We will consider your arrangements for managing and reporting your financial resources as part of our Value for Money work. This work is to be carried out by the Grant Thornton Public Sector Advisory Team who perform the work across numerous council clients and are able to draw useful comparisons.
- 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 in regards to management override of control.
- We will review the accounting treatment for COVID-19 funding for compliance with the code and appliable financial reporting standards.
- We will review your accounting treatment for Infrastructure Assets against the requirements of the code and the implications of any additional guidance or clarifications issued by CIPFA.
- We will continue to provide you with sector updates via our Corporate Governance and Audit Committee updates.

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 in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Kirklees 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 we consider whether there are sufficient arrangements in place at the Council and group for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently to maximise the outcomes that can be achieved.

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 2021/22 group financial statements that consolidate the financial information of Kirklees Stadium Development Ltd. Kirklees Neighbourhood Housing Ltd is no longer consolidated.

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 Land & Buildings, Council Dwellings and Investment Property
- Valuation of the Pension Fund Net Liability

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 2021/22 planning materiality to be £14.5m (PY £13.5m) for the group and £14.4m (PY £13.4m) for the Council, which equates to 1.35% of your prior year gross expenditure. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.7m (PY £0.66m).

Value for Money arrangements

Our initial risk assessment regarding your arrangements to secure value for money has identified two risks of significant weakness for detailed audit review:

- Identifying a solution to the Dedicated Schools Grant overspend regarding Special Educational Needs budget
- Review of the processes followed by the Council to determine the most suitable governance structure (either the existing Leader and Cabinet model or move to a Committee Structure)

Further detail is provided at page 18. 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.

Audit logistics

Our planning and interim audit work visit took place in March and April 2022, and our final visit will take place between July and September. Management have committed to providing draft financial statements, together with working papers by 30 June 2022, a month earlier than the statutory deadline in order to facilitate an early audit.

Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report. These are planned to be delivered by the statutory deadline of 30 November 2022.

Our fee for the audit will be £222,971 (TBC) for the Council, subject to the Council delivering a good set of draft financial statements and working papers and subject to the outcome of the CIPFA consultation on Infrastructure assets. The fee also assumes that we are able to complete an element of the audit fieldwork in person at the Council.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm our independence 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 significant risks detailed in this Audit Plan at page 6 onwards and materiality at page 15	Full scope audit performed by Grant Thornton UK LLP
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 using the equity method, including the consolidation adjustments. We will also review the valuation of KSDL stadium in calculating the Council's equity investment in KSDL

Key changes within the group:

Kirklees Neighbourhood Housing Ltd subsidiary was brought back under Council control on 1 April 2021 and therefore no longer reported as a group component for consolidation in the group financial statements.

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to risks of material misstatement of the group financial statements
- 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	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. 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.	We will: • 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 (cont.)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
ISA240 revenue and expenditure recognition risk	Council	<u>Revenue</u> 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. 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: • 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 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. <u>Expenditure</u> 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. This risk is rebuttable if the auditor concludes that there is no risk of material misstatement due to fraud relating to expenditure recognition. 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 heighted inherent risk of 'other service expenditure' in our audit scoping and testing assessment.	N/A as rebutted. 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: • 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 2021/22 • 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 (cont.)

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	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. Additionally, valuations are significant estimates made by management in the accounts. We have identified the valuation of land, buildings, Council Dwellings and investment property as a significant risk.	We will: • 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 Council's valuers 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 valuers • test a sample of valuations at 31 March 2022 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 Council's expert valuer has reported any material uncertainty in relation to property valuations as at 31 March 2022 and, if so, assess the impact on disclosures in the financial statements and our audit opinion.

Significant risks identified (cont.)

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	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. 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. We therefore identified valuation of the Council's pension fund net liability as a significant risk of material misstatement.	We will: • 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 fund assets valuation in the pension fund financial statements. 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 2022 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 Council

Other risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Accounting for grant revenues and expenditure correctly	Council	The Council (as with all other Local Authorities) has been the recipient of significant increased grant revenues during the 2021/22 financial year relating to COVID-19. In common with all grant revenues, the Council will need to consider for each type of grant whether it is acting as agent or principal, and depending on the decision how the grant income and amounts paid out should be accounted for.	We will: Engage with management to understand the different types of material grants received during 2021/22 and any conditions applicable; Understand the conditions for payment out to other entities, businesses and individuals Therefore understand whether the Council should be acting as agent or principal for accounting purposes; and We will test material grant revenues to see whether the Council has accounted for these correctly.
Value of Infrastructure assets and the presentation of the gross cost and accumulated depreciation in the PPE note	Council	Infrastructure assets includes roads, highways, streetlighting and bridge assets. Each year the Council spends a material sum on Infrastructure capital additions. As at 31 March 2021, the net book value of infrastructure assets was £196m. In accordance with the Code, Infrastructure assets are measured using the historical cost basis, and carried at depreciated historical cost. With respect to the financial statements, there are two risks which we plan to address: The risk that the value of infrastructure assets is materially misstated as a result of applying an inappropriate Useful Economic Life (UEL) to components of infrastructure assets. The risk that the presentation of the PPE note is materially misstated insofar as the gross cost and accumulated depreciation of Infrastructure assets is overstated. It will be overstated if management do not derecognise components of Infrastructure when they are replaced. For the avoidance of any doubt, these two risks have not been assessed as a significant risk at this stage, but we have assessed that there is some risk of material misstatement that requires an audit response.	Our response will depend upon the outcome of the CIPFA consultation on accounting for infrastructure assets as set out on page 3 of this report, which may include an amendment to the Code. As a minimum we would expect to: Reconcile the Fixed Asset Register to the Financial statements; Using our own point estimate, consider the reasonableness of depreciation charge to Infrastructure assets; Obtain assurance that the UEL applied to Infrastructure assets is reasonable; and Document our understanding of management's process for derecognising Infrastructure assets on replacement and obtain assurances that the disclosure in the PPE note is not materially misstated.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report.

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

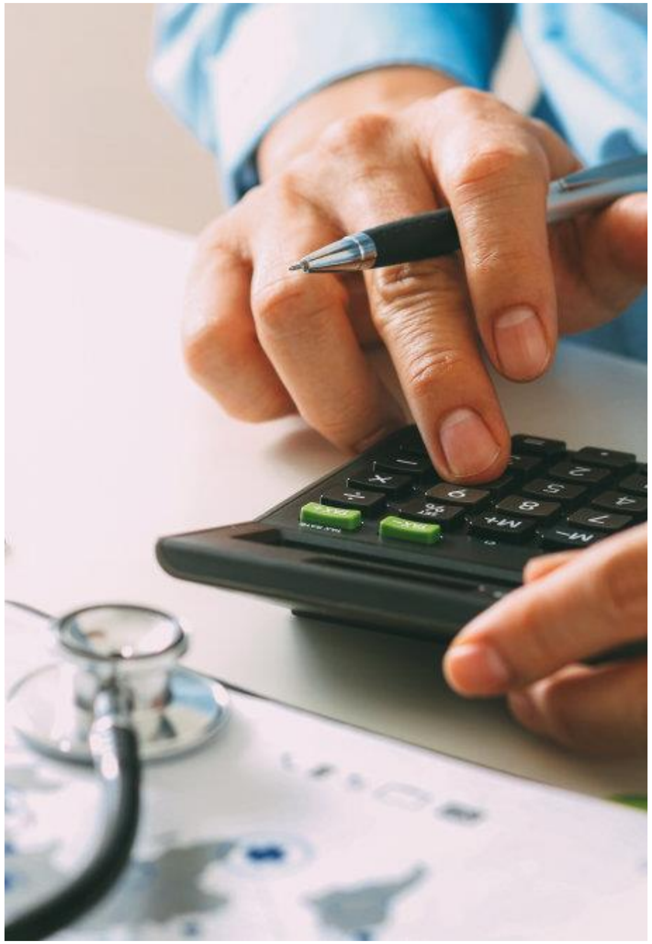
Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- 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 (cont.)

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 2022.

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.

Accounting estimates and related disclosures (cont.)

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 uncertainly 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 reviewed and agreed by Members of the Corporate Governance and Audit Committee at their meeting on 22 April 2022.

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

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 2021/22 financial statements, consider and decide upon any objections received in relation to the 2021/22financial 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.

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

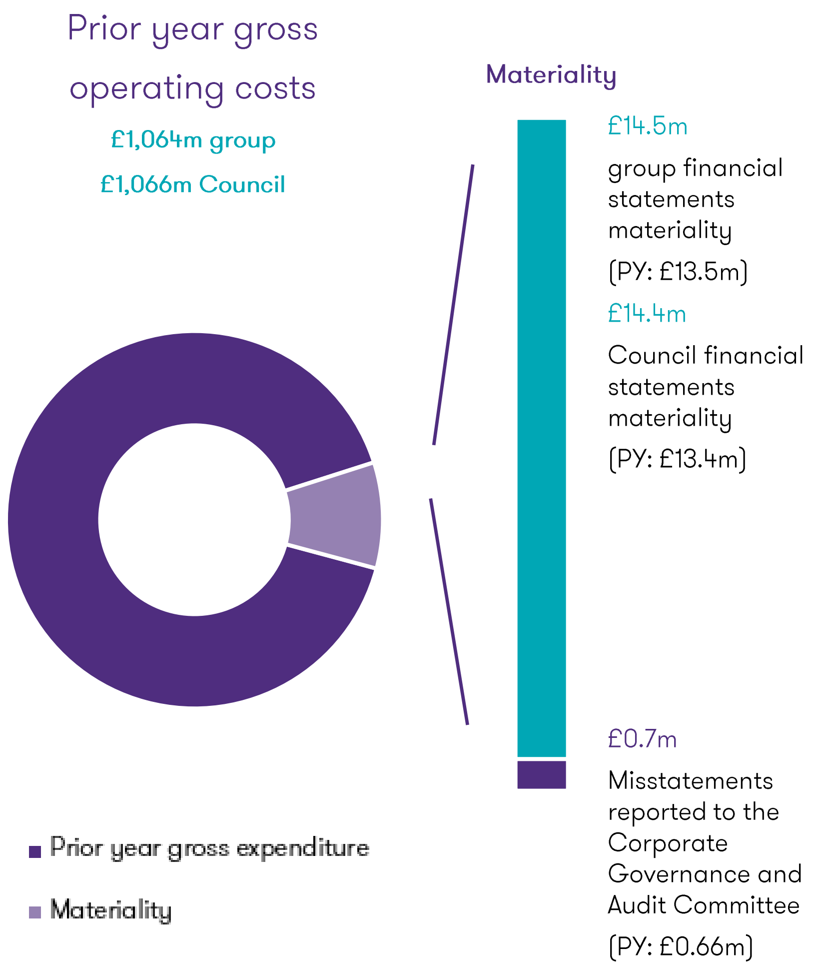
We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £14.5m (PY £13.5m) for the group and £14.4m (PY £13.4m) for the Council, which equates to approximately 1.35% of your prior year's gross expenditure.

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 £0.7m (PY £0.66m).

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.



IT audit strategy

In accordance with ISA (UK) 315, we are required to obtain an understanding of the information systems relevant to financial reporting to identify and assess the risks of material misstatement. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design of ITGCs related to security management; technology acquisition, development and maintenance; and technology infrastructure. Based on the level of assurance required for each IT system the assessment may focus on evaluating key risk areas ('streamlined assessment') or be more in depth ('detailed assessment').

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
SAP	Financial reporting	• Detailed ITGC assessment (design effectiveness)
Northgate	Council Tax Business Rates Housing Benefits	• Detailed ITGC assessment (design effectiveness) • Application controls assessment (Interface to SAP)
Active Directory	System security	• Detailed ITGC assessment (design effectiveness only)

Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office(NAO) issued updated guidance for auditors in April 2020. The Code requires 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 set out below.

Our Value for Money work in 2020/21 resulted in no key recommendations but raised eight improvement recommendations spread across each of the three reporting criteria.

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.

Financial Sustainability: Dedicated Schools Grant (DSG) overspend.

The Council has a significant DSG SEND (Special Educational Needs) overspend which is held in an unusable negative DSG reserve at 31 March 2021 and 31 March 2022 under statutory override. At the end of 2020/21 the Dedicated Schools Grant (DSG) deficit was £25.1m, due to pressures in the High Needs Block. The deficit is forecast to increase to at least £35m at the end of 2021/22. The statutory override expires after 2021/22 and the Council must identify a solution to the financial pressure.

We will update our knowledge on the progress made by the Council to seek a solution to the SEND overspend and retained deficit as part of the DfE Safety Valve Group. This will involve assessing the Safety Valve's assessment of the SEND Transformation Plan.

Governance: Proposed change to governance structure at the Council

The Council is considering a move from the Leader and Cabinet model of Governance to a Committee structure and is receiving support from the LGA to arrive at the most suitable model for the Council. There is a risk that the Council does not arrive at the most suitable governance structure unless the decision is properly considered and supported by evidence.

We will review the process followed by the Council to determine why a change in structure may be required and also the evidence to support any decision made.

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

Planning & Interim audit March – April 2022

Corporate Governance & Audit Committee July 2022

Audit Plan

Year end audit July – September 2022

Corporate Governance & Audit Committee September 2022

Draft Audit Findings Report

Corporate Governance & Audit Committee November 2022

Audit opinion Auditor's Annual Report

Jon Roberts, Engagement Lead

Leads our relationship with you and takes overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Council.

Tom Foster, Associate Director (Public Services Advisory)

Tom leads on the Value for Money audit and draws upon experience from carrying out VFM work nationally.

Stephen Nixon, Senior Manager

Plans and manages the delivery of the audit including regular contact with senior officers and attendance at the Corporate Governance and Audit Committee to provide audit updates.

Aaron Gouldman, Manager

Key audit contact responsible for the day to day management and delivery of the audit work.

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 items for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit and that desk space is available for the on-site audit team
- 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 2021/22 audit.

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 detailed on page 13 in relation to the updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures. The need to fund increased audit coverage was recognised by the Department of Levelling Up Housing and Communities recently, who have provided financial support to Councils to help fund these additional costs.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. Our proposed work and fee for 2021/22, as set out below, is detailed overleaf.

	Actual Fee 2020/21	Proposed fee 2021/22
Kirklees Council and Group Audit	£195,721*	£222,971*

- TBC.

Note there will be an additional fee if we are unable to conduct our year end audit work entirely off-site.

Assumptions

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

- prepare a good quality set of financial statements , 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

Audit fee breakdown	
2019/20 Scale fee published by PSAA	£122,221
Recurrent increases to scale fee first identified in 2019/20 (reported to Corporate Governance & Audit Committee)	
Raising the bar / regulatory factors / Public Interest Entity (PIE) status / reduced materiality	£23,375
Enhanced audit procedures for Property, Plant and Equipment (which includes the cost of the auditors experts)	£12,500
Enhanced audit procedures for Pensions Liabilities (IAS19)	£4,375
Additional work on Value for Money (VfM) under new NAO Code	£20,000
Increased audit requirements of revised auditing standards	£6,000
Additional work required for Group accounts	£10,000
Additional work required on housing benefit related expenditure	£3,000
New issues for 2021/22	
Increase in fee due to enhanced FRC review and infrastructure for 2021/22	£6,500
Additional cost of partial remote working	£5,000
Increased work to address local VFM risks	£10,000
Total planned audit fee for 2021/22 (excluding VAT)	**£222,971

* The 2020/21 fee is to be finalised once the NAO Whole of government accounts work is completed

** The 2021/22 fee assumes that we are able to partially conduct our audit on site with the finance team available/present. The total planned audit fee is to be confirmed.

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.

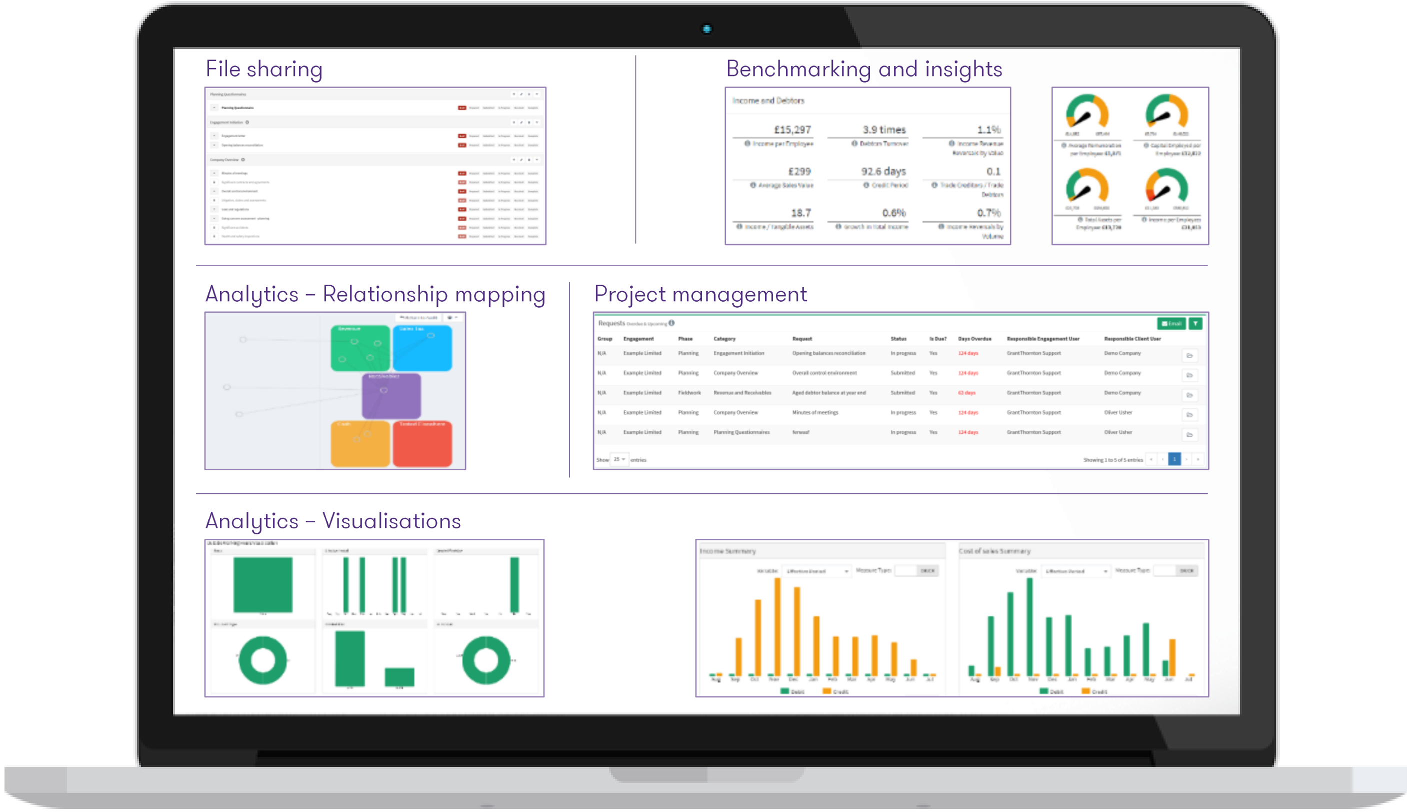
Other services

No other services provided by Grant Thornton have been provided during 2021/22 to the date of issue of this report.

Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:

Function	Benefits for you
Data extraction	Providing us with your financial information is made easier
File sharing	An easy-to-use, ISO 27001 certified, purpose-built file sharing tool
Project management	Effective management and oversight of requests and responsibilities
Data analytics	Enhanced assurance from access to complete data populations



Grant Thornton's Analytics solution is supported by Inflo Software technology

Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:

Data extraction

- Real-time access to data
- Easy step-by-step guides to support you upload your data

File sharing

- Task-based ISO 27001 certified file sharing space, ensuring requests for each task are easy to follow
- Ability to communicate in the tool, ensuring all team members have visibility on discussions about your audit, reducing duplication of work

Project management

- Facilitates oversight of requests
- Access to a live request list at all times

Data analytics

- Relationship mapping, allowing understanding of whole cycles to be obtained quickly
- Visualisation of transactions, allowing easy identification of trends and anomalies

How will analytics add value to your audit?

Analytics will add value to your audit in a number of ways. We see the key benefits of extensive use of data analytics within the audit process to be the following:

Improved fraud procedures using powerful anomaly detection

Being able to analyse every accounting transaction across your business enhances our fraud procedures. We can immediately identify high risk transactions, focusing our work on these to provide greater assurance to you, and other stakeholders.

Examples of anomaly detection include analysis of user activity, which may highlight inappropriate access permissions, and reviewing seldom used accounts, which could identify efficiencies through reducing unnecessary codes and therefore unnecessary internal maintenance.

Another product of this is identification of issues that are not specific to individual postings, such as training requirements being identified for members of staff with high error rates, or who are relying on use of suspense accounts.

More time for you to perform the day job

Providing all this additional value does not require additional input from you or your team. In fact, less of your time is required to prepare information for the audit and to provide supporting information to us.

Complete extracts from your general ledger will be obtained from the data provided to us and requests will therefore be reduced.

We provide transparent project management, allowing us to seamlessly collaborate with each other to complete the audit on time and around other commitments.

We will both have access to a dashboard which provides a real-time overview of audit progress, down to individual information items we need from each other. Tasks can easily be allocated across your team to ensure roles and responsibilities are well defined.

Using filters, you and your team will quickly be able to identify actions required, meaning any delays can be flagged earlier in the process. Accessible through any browser, the audit status is always available on any device providing you with the information to work flexibly around your other commitments.

Appendix 1: Progress against prior year audit recommendations

We identified the following issues in our 2020/21 audit of the group financial statements, which resulted in 5 recommendations being reported in our 2020/21 Audit Findings Report. In addition we raised 8 VFM improvement recommendations in our Auditor's Annual Report which are followed up and reported as part of our VFM work.

As part of our risk assessment we have also considered the impact of unadjusted prior period errors.

We have followed up on the implementation of our recommendations as shown below.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
TBC	**Note 4 Critical Judgements** The disclosure note includes items which are not considered material and critical to the compilation of the financial statements and does not fully explain what the judgement itself is. The note should not be a description of the accounting policy. R1: Revisit the critical judgements disclosure for 2021/22 and ensure only items which are critical are included, and to ensure that the precise judgment involved is described.	Awaiting draft financial statements
X	**Note 17 Investment Property** Investment properties are required to be revalued annually in accordance with the CIPFA Code. At 31 March 2021 there were investment properties totalling £4.7m which had not been subject to revaluation. R2: Ensure all investment property is revalued annually.	Management disagreed with the recommendation and not implemented on the grounds of materiality.
TBC	**Note 36 Related Party Transactions** We have identified weaknesses in management's arrangements for capturing related party transactions within the Council and for carrying out a full assessment of whether control exists between bodies. The process for capturing Member's interests also requires revisiting, including to obtain confirmation if there is no change from the prior year. R3: Revisit the requirements of the Code of Practice and IAS24 to ensure all related party information is captured and reported in the financial statements. Obtain annual confirmations from Members and ensure they are fully reported on the Council website.	Awaiting draft financial statements
TBC	**IT General controls** A separate IT Audit Findings Report has been produced containing eleven recommendations to improve the design effectiveness of the IT General Controls as they affect the financial statements for the year ended 31 March 2021. Each of the eleven recommendations were agreed with management with actions. R4: Finance team to monitor progress in meeting the IT recommendations during 2021/22.	TBC
TBC	**GRNI accruals (Repeat recommendation from 2018/19)** Audit testing of GRNI accruals identified items that should have been cleared out as paid and should not be reported as creditors. R5: Review GRNI accruals to payments made to avoid overstating the GRNI creditor balance.	TBC

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Kirklees COUNCIL

Name of meeting: **CORPORATE GOVERNANCE & AUDIT COMMITTEE**
Date: **17th JUNE 2022**
Title of report: **Government response to local audit framework: technical consultation**

Purpose of report.
To advise members of the outcomes from a consultation on local audit matters

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 **Is it also signed off by the Service Director for Finance IT and Transactional Services?** **Is it also signed off by the Service Director for Legal Governance and Commissioning Support?**	 **8/6/2022** **8/6/2022**
Cabinet member portfolio	**not applicable**

Electoral wards affected: **All**

Ward councillors consulted: **None**

Public or private: **Public**

Have you considered GDPR? **Yes**

1. Summary

1.1 The government response to consultation includes information about how the Audit Reporting & Governance Authority will operate in relation to local authority external auditing and indicates an intention to create a statutory obligation for local authorities to have an Audit Committee, including an independent member.

2. Information required to take a decision

2.1 There have been long standing concerns about the effectiveness of external audit, and its supervision by the Financial Reporting Council across all sectors of the economy. The government has previously indicated an intention to replace the Financial Reporting Council with a new body the Audit Reporting & Governance Authority. There have more specifically been concerns about the purpose, quality, delivery of external audit in the local authority, which led to the government commissioning a review, published in September 2020 “The Independent Review into the oversight of local audit and the transparency of local authority financial reporting”. (Redmond) This made a number of recommendations.

2.2 The Ministry of Housing Communities & Local Government subsequently undertook a consultation- which attracted about 60 responses- and at the end of May 2022 published a report “Government response to local audit framework: technical consultation”.

2.3 This document addresses the responses to the consultation and sets out how the government intends the Audit Reporting & Governance Authority (ARGA) will operate in relation to local (authority) audits. This is to have a dedicated part of ARGA to look after local audit matters. There is no current intention that ARGA will directly commission local audit work and the -theoretical- freedom for local authorities to appoint their own auditor, or to choose an appointing person- Public Sector Audit Appointments (PSAA), which 99% of local authorities do- will remain, although they will have a degree of involvement/oversight.

2.4 A section of the response is titled “Enhancing the functions of local audit and the governance for responding to its findings”. The report notes that audit committees reinforce are a vital part of an organisation, supporting good governance, strong public financial management and effective internal audit and external audit. The Review noted that there was no statutory obligation on (most) local authorities to have an Audit Committee and recommended that local authorities should review their governance arrangements, including ‘the composition of their audit committees to include at least one independent member, suitably qualified’.

2.5 The consultation sought views on strengthened guidance on audit committees, a statutory obligation, and their role in external audit reporting. The responses are reported as broadly in favour, though with less support from local authority participants.

2.6 The government response has been to seek strengthened guidance from CIPFA- attached- which recommends the need for audit committees to be apolitical, ensuring membership has the right expertise, and reporting and publishing annually on committee effectiveness. Although the government accepts that this is not universally agreed, it considers it proportionate to ensure widespread take-up and with improved public accountability that local authorities should have an audit committee, with at least one independent member. This will be made a mandatory requirement, once Parliamentary time allows, although the government commits to consultation on how this should be implemented and encourages local authorities to establish their arrangements in line with CIPFA’s guidance, including appointing independent members in the intervening period.

2.7 There is no need for the Committee to do anything at his stage. The exact contents of any legislation and or regulations, statutory guidance, or guidance may require or suggest changes to the role of the committee and its membership at some point in the future.

2.8 It may however be prudent to compare the CIPFA statement with current practices and determine if the Committee wishes to amend any existing practices, or where these changes require such approval to seek approval of Council to amend arrangements.

3. **Implications for the Council**

3.1 **Working with People –** None directly- but see 3.7

3.2 **Working with Partners –** None directly- but see 3.7

3.3 **Place Based Working –** None directly- but see 3.7

3.4 **Improving outcomes for children–** None directly- but see 3.7

3.5 **Climate change and air quality-** None directly- but see 3.7

3.6 **Impact on the finances of local residents-** None directly

3.7 **Other (e.g., Legal/Financial or Human Resources)-** A strong and effective audit committee should ensures effective corporate governance of the council. Many of these aspects will be about financial achievements and control, but there are many other aspects (as 3.1 to 3.5 above) where assurance and oversight will enhance the achievement of successful performance against all aspects of service provision.

4. Consultees and their opinions

4.1 None at this stage.

5. Next steps and timelines

5.1 The report, is for noting, but in the expectation of strengthened legislation it may be prudent to consider potential implications.

6. **Officer recommendations and reasons**

6.1 Members are asked to note the report and make any observations.
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7. **Cabinet portfolio holder's recommendations**

Not applicable

8. **Contact officer**
Martin Dearnley, Head of Risk & Internal Audit (01484 221000 x73672)

9. **Background Papers and History of Decisions**
MoHCLG Consultation outcomes, CIPFA Position Statement

10. **Service Director responsible**
Finance; Legal , Commissioning & Governance

11 Appendix 1. CIPFA Position Statement on Audit Committees (attached)

Appendix 1.

CIPFA's Position Statement: Audit Committees in Local Authorities and Police 2022

Scope

This position statement includes all principal local authorities in the UK, corporate joint committees in Wales, the audit committees for PCCs and chief constables in England and Wales, PCCFRAs and the audit committees of fire and rescue authorities in England and Wales.
The statement sets out the purpose, model, core functions and membership of the audit committee. Where specific legislation exists (the Local Government & Elections (Wales) Act 2021 and the Cities and Local Government Devolution Act 2016), it should supplement the requirements of that legislation.

Status of the position statement

The statement represents CIPFA's view on the audit committee practice and principles that local government bodies in the UK should adopt. It has been prepared in consultation with sector representatives.
CIPFA expects that all local government bodies should make their best efforts to adopt the principles, aiming for effective audit committee arrangements. This will enable those bodies to meet their statutory responsibilities for governance and internal control arrangements, financial management, financial reporting and internal audit.

The 2022 edition of the position statement replaces the 2018 edition.

The Department for Levelling Up, Housing and Communities and the Home Office support this guidance.

CIPFA's Position Statement 2022:

Audit committees in local authorities and police Purpose of the audit committee Audit committees are a key component of an authority's governance framework. Their purpose is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements. The committee's role in ensuring that there is sufficient assurance over governance risk and control gives greater confidence to all those charged with governance that those arrangements are effective.
In a local authority the full council is the body charged with governance. The audit committee may be delegated some governance responsibilities but will be accountable to full council. In policing, the police and crime commissioner (PCC) and chief constable are both corporations sole, and thus are the individuals charged with governance.
The committee has oversight of both internal and external audit together with the financial and governance reports, helping to ensure that there are adequate arrangements in place for both internal challenge and public accountability.

Independent and effective model

The audit committee should be established so that it is independent of executive decision making and able to provide objective oversight. It is an advisory committee that has sufficient importance in the authority so that its recommendations and opinions carry weight and have influence with the leadership team and those charged with governance.

The committee should:
• be directly accountable to the authority's governing body or the PCC and chief constable
• in local authorities, be independent of both the executive and the scrutiny functions
• in police bodies, be independent of the executive or operational responsibilities of the PCC or chief constable
• have rights of access to and constructive engagement with other committees/functions, for example scrutiny and service committees, corporate risk management boards and other strategic groups
• have rights to request reports and seek assurances from relevant officers
• be of an appropriate size to operate as a cadre of experienced, trained committee members. Large committees should be avoided.

The audit committees of the PCC and chief constable should follow the requirements set out in the Home Office Financial Management Code of Practice and be made up of co-opted independent members.

The audit committees of local authorities should include co-opted independent members in accordance with the appropriate legislation.

Where there is no legislative direction to include co-opted independent members, CIPFA recommends that each authority audit committee should include at least two co-opted independent members to provide appropriate technical expertise.

Core functions

The core functions of the audit committee are to provide oversight of a range of core governance and accountability arrangements, responses to the recommendations of assurance providers and helping to ensure robust arrangements are maintained.

The specific responsibilities include:

Maintenance of governance, risk and control arrangements

• Support a comprehensive understanding of governance across the organisation and among all those charged with governance, fulfilling the principles of good governance.
• Consider the effectiveness of the authority's risk management arrangements. It should understand the risk profile of the organisation and seek assurances that active arrangements are in place on risk-related issues, for both the body and its collaborative arrangements.
• Monitor the effectiveness of the system of internal control, including arrangements for financial management, ensuring value for money, supporting standards and ethics and managing the authority's exposure to the risks of fraud and corruption.

Financial and governance reporting

• Be satisfied that the authority's accountability statements, including the annual governance statement, properly reflect the risk environment, and any actions required to improve it, and demonstrate how governance supports the achievement of the authority's objectives.
• Support the maintenance of effective arrangements for financial reporting and review the statutory statements of account and any reports that accompany them.

Establishing appropriate and effective arrangements for audit and assurance

• Consider the arrangements in place to secure adequate assurance across the body's full range of operations and collaborations with other entities.
• In relation to the authority's internal audit functions:
    o oversee its independence, objectivity, performance and conformance to professional standards
    o support effective arrangements for internal audit
    o promote the effective use of internal audit within the assurance framework
• Consider the opinion, reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control, and monitor management action in response to the issues raised by external audit.
• Contribute to the operation of efficient and effective external audit arrangements, supporting the independence of auditors and promoting audit quality.
• Support effective relationships between all providers of assurance, audits and inspections, and the organisation, encouraging openness to challenge, review and accountability.

Audit committee membership

To provide the level of expertise and understanding required of the committee, and to have an appropriate level of influence within the authority, the members of the committee will need to be of high calibre. When selecting elected representatives to be on the committee or when co-opting independent members, aptitude should be considered alongside relevant knowledge, skills and experience.

Characteristics of audit committee membership:

• A membership that is trained to fulfil their role so that members are objective, have an inquiring and independent approach, and are knowledgeable.
• A membership that promotes good governance principles, identifying ways that better governance arrangement can help achieve the organisation's objectives.
• A strong, independently minded chair, displaying a depth of knowledge, skills, and interest. There are many personal skills needed to be an effective chair, but key to these are:
    o promoting apolitical open discussion
    o managing meetings to cover all business and encouraging a candid approach from all participants
    o maintaining the focus of the committee on matters of greatest priority.
• Willingness to operate in an apolitical manner.
• Unbiased attitudes – treating auditors, the executive and management fairly.
• The ability to challenge the executive and senior managers when required.
• Knowledge, expertise and interest in the work of the committee.

While expertise in the areas within the remit of the committee is very helpful, the attitude of committee members and willingness to have appropriate training are of equal importance.

The appointment of co-opted independent members on the committee should consider the overall knowledge and expertise of the existing members.

Engagement and outputs

The audit committee should be established and supported to enable it to address the full range of responsibilities within its terms of reference and to generate planned outputs. To discharge its responsibilities effectively, the committee should:
• meet regularly, at least four times a year, and have a clear policy on those items to be considered in private and those to be considered in public
• be able to meet privately and separately with the external auditor and with the head of internal audit
• include, as regular attendees, the chief finance officer(s), the chief executive, the head of internal audit and the appointed external auditor; other attendees may include the monitoring officer and the head of resources (where such a post exists). These officers should also be able to access the committee members, or the chair, as required
• have the right to call on any other officers or agencies of the authority as required; police audit committees should recognise the independence of the chief constable in relation to operational policing matters
• support transparency, reporting regularly on its work to those charged with governance
• report annually on how the committee has complied with the position statement, discharged its responsibilities, and include an assessment of its performance. The report should be available to the public.

Impact

As a non-executive body, the influence of the audit committee depends not only on the effective performance of its role, but also on its engagement with the leadership team and those charged with governance.

The committee should evaluate its impact and identify areas for improvement.

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