Public Document Pack

Service Director – Legal, Governance and Commissioning
Julie Muscroft

Governance and Commissioning
PO Box 1720
Huddersfield
HD1 9EL

Tel: 01484 221000
Please ask for: Yolande Myers
Email: yolande.myers@kirklees.gov.uk
Thursday 17 November 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 25 November 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 Kath Pinnock
Councillor Harry McCarthy
Councillor Elizabeth Reynolds
Councillor Joshua Sheard
Councillor John Taylor

When a Member of the Corporate Governance and Audit Committee cannot attend the meeting, a member of the Substitutes Panel (below) may attend in their place in accordance with the provision of Council Procedure Rule 35(7).

Substitutes Panel

Conservative	Green	Independent	Labour	Liberal Democrat
B Armer	K Allison	C Greaves	S Hall	A Munro
A Gregg	S Lee-Richards	A Lukic	M Kaushik	PA Davies
D Hall			F Perry	J Lawson
V Lees-Hamilton			M Sokhal E Firth	A Marchington
R Smith			T Hawkins	A Pinnock
M Thompson				

Ex Officio Members

Councillor Paul Davies
Councillor Elizabeth Smaje
Councillor Jo Lawson

Agenda
Reports or Explanatory Notes Attached

Pages

1: Membership of the Committee

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

2: Minutes of Previous Meeting — 1 - 6

To approve the Minutes of the meeting of the Committee held on 30 September 2022.

3: Declarations of Interest — 7 - 8

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

4: Admission of the Public

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

5: Deputations/Petitions

The Committee will receive any petitions and hear any deputations from members of the public. A deputation is where up to five people can attend the meeting and make a presentation on some particular issue of concern. A member of the public can also hand in a petition at the meeting but that petition should relate to something on which the body has powers and responsibilities.

In accordance with Council Procedure Rule 10 (2), Members of the

Public should provide at least 24 hours' notice of presenting a deputation.

6: Public Question Time

The Committee will hear any questions from the general public.

7: Half Yearly Monitoring Report on Treasury Management Activities 2022/23 — 9 - 32

To receive the half-year treasury management performance in 2022/23.

Officer: Rachel Firth, Finance Manager

8: Audit Findings — 33 - 76

To receive the Audit Findings Report.

Contact: Grant Thornton, External Audit

9: Update on Representation on Outside Bodies — 77 - 80

To consider the nomination of a trustee to King James's School Foundation.

Officer: Martin Dearnley, Head of Risk

10: Quarterly Report of Internal Audit Q2 2022/23 - July 2022 to September 2022 — 81 - 84

To receive information about internal audit work in Quarter 2 of 2022/23.

Officer: Martin Dearnley, Head of Risk & Internal Audit

11: Exclusion of the Public

To resolve that under Section 100(A)(4) of the Local Government Act 1972, the public be excluded from the meeting during consideration of the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in Part 1 of Schedule 12A of the Act.

12: Quarterly Report of Internal Audit Q2 2022/23 - July 2022 to September 2022

This report is recommended for consideration in private because the information contained in it is exempt information within part 1 of Schedule 12A of the Local Government Act 1972 namely that the report contains information relating to the financial or business affairs of any particular person (including the authority holding that information). The public interest in maintaining the exemption outweighs the public interest in disclosing the information and providing greater openness in the Council's decision making.

Exempt appendix in relation to Agenda Item 10.

Contact: Martin Dearnley, Head of Audit and Risk

This page is intentionally left blank

Contact Officer: Leigh Webb

KIRKLEES COUNCIL

CORPORATE GOVERNANCE AND AUDIT COMMITTEE

Friday 30th September 2022

Present:	Councillor Yusra Hussain (Chair) Councillor Harry McCarthy Councillor Elizabeth Reynolds Councillor Joshua Sheard Councillor John Taylor
In attendance:	Eamonn Croston, Service Director, Finance Stephen Nixon, Grant Thornton Sarah Brown, Acting Head of Welfare and Exchequer Julian Hobson, Acting Head of Service, Financial, Transactional Services David Stickley, Senior Legal Officer Martin Dearnley, Head of Risk, Financial, IT and Transactional Services Laura Burrell, Electoral Services Manager Simon Straker, Audit Manager Samantha Lawton, Head of Governance Councillor Paul Davies (Ex-Officio) Councillor Jo Lawson (Ex-Officio)
Apologies:	Councillor Ammar Anwar Councillor Elizabeth Smaje (Ex-Officio)

1 Membership of the Committee

Apologies for absence were received on behalf of Councillor Ammar Anwar and Councillor Liz Smaje. Councillor Alison Munro substituted for Councillor Kath Pinnock.

2 Minutes of Previous Meeting

RESOLVED – That the Minutes of the meeting held on 15th July 2022 be approved as a correct record.

3 Declarations of Interest

No interests were declared.

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 Democracy Commission Update
The Committee received an update relating to the recent work of the Democracy Commission.

Cllr John Taylor advised the Committee that the Democracy Commission had met with the final Local Authority asking them to give evidence on their governance model.

The Committee heard that the Commission had viewed written responses from Partners and Members and would be considering Officer responses at the next meeting. The Commission would then begin to draw all the evidence together and prepare a report to be considered by the Corporate Governance and Audit Committee by the end of 2022.

RESOLVED: That the work of the Democracy Commission be noted.

8 Interim Polling District Review
The Committee received a report which asked for approval to amend the polling district boundaries following the conclusion of an interim polling district review.

The report advised that in accordance with section 18c (subsection 1) of the Representation of the People Act 1983, Kirklees Council had conducted a review of polling districts DE02, DE03 and DE04 located int eh Dewsbury East Ward along with LG05 and LG06 located in the Liversedge and Gomersal Ward.

The review had been conducted to address immediate polling station issues which related to the development of a new housing estate in Dewsbury East, and the lack of unsuitable buildings within the current polling district boundaries in Liversedge and Gomersal. The review sought to improve accessibility to polling stations for electors within the defined areas.

RESOLVED: That the amendment as per the (Acting) Returning Officer's proposals be approved.

9 Update on Representation on Outside Bodies
The Committee received an update on the Representation on Outside Bodies.

The Service Director, Legal, Governance & Monitoring had delegated authority, in consultation with Group Business Managers, to receive and process nominations to the Outside Bodies. Any Changes in the Council's representation on Outside Bodies are reported to Corporate Governance and Audit Committee for Information.

Kirklees Council upon its formation in 1974 was given responsibility for appointing two trustees for the Mitcheson Bequest that benefited the poor of Heckmondwike. The term of office for Trustees was four years. Cllr Steve Hall and Cllr Viv Kendrick had been nominated as trustees and agreed by the Group Business Managers.

RESOLVED:

(i) That Mitcheson Bequest be added to the list of Outside Bodies for Kirklees Council
(ii) That Cllr Steve Hall and Cllr Viv Kendrick be approved as trustees to the Mitcheson Bequest with immediate effect.

10 Annual report on bad debt write-offs - 2021/22

The Committee received a report on Bad Debt write-offs 2021-22.

Overall write-offs for 2021-22 were less than 2020-21 The overall percentage written off had reduced year on year for the last two years. It was noted that there was a likelihood of more suppressed bad debt, which could be reflected in future years write offs, alongside some continued economic volatility depending on the pace of global, national and local recovery from Covid.

The figures for write offs of Adult Social Care debt, Housing Benefit Overpayments recovery, Housing Revenue Account (HRA), Business Rates and Council Tax made up the top 5 areas for write offs and demonstrated how important it was for everyone to pay their share of the charges to help fund essential Council Services. The recover action highlighted was to ensure that all collectable debts outstanding were to be pursued through appropriate recovery action and support for the customer. Additional resources were to be deployed to recover unpaid Council Tax or Business Rates quicker and more effectively once older debts that had been through the recovery process had been removed. Tighter processes and procedures continued to be put in place to maximise recovery of collectable debts earlier in the process.

RESOLVED:

(i) That the Annual report on bad debt write-offs-2021/22 be noted
(ii) That the Committee acknowledged and thanked the team for all their work on debt recovery.

11 Draft Annual Governance Statement 2021/22

The Committee received a draft report noting the 2021/22 Draft Annual Governance Statement prior to it being signed off by the Chief Executive and Leader, and to consider whether the issues raised reflected the state of the governance and control framework during 2021/22.

The Statement covers the period up until the 2021/22 Annual Statement of Accounts are approved, but there may be a need for revisions to be made in the text, reflecting the findings from the external audit and anything material in the intervening period. The Statement concluded that overall the governance arrangements remained fit for purpose. It was reported that good progress had been made since the last Statement in addressing several of the issues highlighted and these had been omitted from the current statement, as they no longer represented a threat to the organisation. Similarly, where there had been a change of focus or circumstance, this had resulted in several issues being combined and revised. It was reported that the Action Plan would be the subject of internal monitoring, with reporting back to Executive Team and Corporate Governance and Audit Committee during 2022/23.

RESOLVED:

(i) That the report be noted
(ii) That the report be approved for public comment.

12 Audit Progress Report and Sector Update

The Committee received a verbal update from Stephen Nixon from Grant Thornton. It was reported that further to the submission of the Audit Plan at the June 2022 meeting of the Committee, work had progressed well with engagement and prompt responses from the finance team, with most of the audit fieldwork being complete by 30th September 2022.

It was noted that the financial statement audit would not be complete until confirmation had been received from the Authority's Pension Fund and their external auditor regarding the pension fund liability, and completion of audit work on infrastructure asset valuation. A statutory instrument was due to be issued by the Government setting out reduced disclosure requirements of valuation of infrastructure assets.

The Committee heard that the Value for Money Audit was being undertaken throughout October and November by the Firm's specialist value for money auditors. Findings were to be reported in the Auditor's Annual Report.

RESOLVED: That the report be noted.

13 Appointment of an Independent Member to the Corporate Governance & Audit Committee

The Committee received a report to consider the appointment of an Independent Member of Corporate Governance and Audit Committee.

In summer 2022, the government indicated an intention to create a statutory obligation for local authorities to have an Audit Committee, including an Independent Member. In discussion at the Committee meeting on 17th June 2022, the Committee considered that there would be merit to adopting the proposal which included an Independent Member.

The Committee heard that if they were minded to progress the proposal, it would need to seek authority from Council to amend its terms of reference.

In a discussion, it was noted that the preference would be to appoint an Independent Member who had a financial background, and that the terms of reference should allow for an independent person to remain over the 3 years in specific circumstances.

RESOLVED:

(i) That the process for the appointment of an Independent Member be approved
(ii) That the necessary changes to the Committee's Terms of Reference be referred to Council

(iii) That subject to agreement, Cllr Kath Pinnock, as the longest serving Member of the Corporate Governance and Audit Committee was included in the recruitment process.

This page is intentionally left blank

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 and date of meeting: **Corporate Governance and Audit Committee**
25 November 2022

Cabinet
21 December 2022

Council
11 January 2023

Title of report: **Half Yearly Monitoring report on Treasury Management activities 2022/23**

Purpose of report

The Council has adopted the CIPFA Code of Practice on Treasury Management. It is a requirement of the Code that regular reports be submitted to Members detailing treasury management operational activity. This report is the mid-year for 2022/23 covering the period 1 April to 30 September 2022.

Key Decision - Is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?	**No**
Key Decision - Is it in the Council's Forward Plan (key decisions and private reports?)	**Key Decision: Yes** **Private Report/Private Appendix: N/A**
The Decision - Is it eligible for call in by Scrutiny?	**No**
Date signed off by Strategic Director and name **Date signed off by Service Director** **Is it also signed off by the Service Director Legal Governance and Monitoring?**	**N/A** **Eamonn Croston – 15 November 2022** **Julie Muscroft – 15 November 2022**
Cabinet member portfolio	**Corporate** **Cllr Paul Davies**

Electoral wards affected: **N/A**
Ward councillors consulted: **N/A**
Public or Private: **Public**
GDPR: This report contains no information that falls within the scope of General Data Protection Regulations.

1 Summary

1.1 The report gives assurance that the Council's treasury management function is being managed prudently and pro-actively. External investments, including £10.0 million invested in the Local Authorities Pooled Investment Fund (LAPF), averaged £69.7 million during the period at an average rate of 0.66%. Investments have ranged from a peak of £111.1 million in August and a low of £34.7 million in June. The high investment balance was due to the receipt of £25.6 million of Council Tax Energy Rebate grant at the end of March which was paid out over a few months, along with taking advantage of medium-term Local Authority loans and arranging a £20.0 million PWLB loan in August from HM Treasury.

1.2 Balances were invested in line with the approved treasury management strategy (see Appendix 1), in instant access accounts or short-term deposits.

1.3 The treasury management revenue budget is £26.7 million. This is covered in more detail at paragraph 2.18 later in this report.

1.4 In-year treasury management performance is in line with the treasury management prudential indicators set for the year (see Appendix 4).

2 Information required to take a decision

2.1 The treasury management strategy for 2022/23 was approved by Council on 16 February 2022. The over-riding policy continues to be one of ensuring the security of the Council's balances. The Council aims to invest externally balances of around £30 million, largely for the purpose of managing day-to-day cash flow requirements, with any remaining balances invested "internally", offsetting borrowing requirements.

2.2 The investment strategy is designed to minimise risk, with investments being made primarily in instant access accounts or short-term deposits, with the major British owned banks and building societies, or Money Market Funds. Diversification amongst counterparties is key. The additional cash received in August was mainly invested in the Debt Management Office (DMO) which is an Executive Agency of Her Majesty's Treasury.

Economic Context

2.3 *The following economic update has been provided via our external advisors Arlingclose (paragraphs 2.4 to 2.9 below):*

2.4 The ongoing conflict in Ukraine has continued to put pressure on global inflation and the economic outlook for UK and world growth remains weak. The UK political situation towards the end of the period following the 'fiscal event' increased uncertainty further. The economic backdrop during the April to September period continued to be characterised by high oil, gas and commodity prices, ongoing high inflation and its impact on consumers' cost of living, no imminent end in sight to the Russia-Ukraine hostilities and its associated impact on the supply chain, and China's zero-Covid policy.

2.5 The Bank of England pushed up interest rates over the period and committed to fighting inflation, even when the consequence was, in all likelihood, recession. UK inflation remained extremely high. Annual headline CPI hit 10.1% in July, the highest rate for 40 years, before falling modestly to 9.9% in August. RPI registered 12.3% in both July and August.

2.6 The labour market remained tight through the period but there was some evidence of easing demand and falling supply. The unemployment rate fell to 3.8% and declined further to 3.6% in July. Although now back below pre-pandemic levels, the recent decline was driven by an increase in inactivity rather than demand for labour. Pay growth in July was 5.5% for total pay (including bonuses) and 5.2% for regular pay. Once adjusted for inflation, however, growth in total pay was -2.6% and -2.8% for regular pay.

2.7 The Bank of England increased the official Bank Rate to 2.25% over the period. From 0.75% in March, the Monetary Policy Committee (MPC) pushed through rises of 0.25% in each of the following two MPC meetings, before hiking by 0.50% in August and again in September. The Committee noted that domestic inflationary pressures are expected to remain strong and so given ongoing strong rhetoric around tackling inflation further Bank Rate rises should be expected.

2.8 On 23rd September the UK government, following a change of leadership, announced a raft of measures in a 'mini budget', loosening fiscal policy with a view to boosting the UK's trend growth rate to 2.5%. With little detail on how government borrowing would be returned to a sustainable path, financial markets reacted negatively. Gilt yields rose dramatically by between 0.7% - 1% for all maturities with the rise most pronounced for shorter dated gilts. The swift rise in gilt yields left pension funds vulnerable, as it led to margin calls on their interest rate swaps and risked triggering large scale redemptions of assets across their portfolios to meet these demands. It became necessary for the Bank of England to intervene to preserve market stability through the purchase of long-dated gilts, albeit as a temporary measure, which has had the desired effect with 50-year gilt yields falling over 100bps in a single day. Bank of England policymakers noted that any resulting inflationary impact of increased demand would be met with monetary tightening, raising the prospect of much higher Bank Rate and consequential negative impacts on the housing market.

2.9 Uncertainty remained in control of financial market sentiment and bond yields remained volatile, continuing their general upward trend as concern over higher inflation and higher interest rates continued to dominate. Towards the end of September, volatility in financial markets was significantly exacerbated by the UK government's fiscal plans, leading to an acceleration in the rate of the rise in gilt yields and decline in the value of sterling. Due to pressure on pension funds, the Bank of England announced a direct intervention in the gilt market to increase liquidity and reduce yields. Over the period the 5-year UK benchmark gilt yield rose from 1.41% to 4.40%, the 10-year gilt yield rose from 1.61% to

4.15%, the 20-year yield from 1.82% to 4.13% and the 50-year yield from 1.56% to 3.25%.

Investment Performance

2.10 The Council invested an average balance of £59.7 million externally (excluding the LAPF) during the period (£27.6 million in the first six months of 2021/22), generating £285k in investment income over the period (£4k in 2021/22). The LAPF investment of £10.0 million generated £174k of dividend income during the period (£180k in the first six months of 2021/22). Appendix 7 shows a comparative average net monthly balances invested over the last 3 years.

2.11 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. Balances were invested in instant access accounts, short term deposits and the LAPF. Appendix 1 shows where investments were held at the start of April, the end of June and September by counterparty, by sector and by country.

2.12 The Council's average investment rate for the period was 0.66%. This is slightly higher than the average in the same period in 2021/22 of 0.49%, as the base rate started to rise. Returns on liquid cash balances were 0.48% and 3.47% on the LAPF (after deducting charges). The actual gross dividend yield quoted from the fund on Net Asset Value was 3.40% at the end of September for the last 12 months, and the fund size was £1,451.4 million (3.91% and £1,296.7 million respectively for the 12 months to September 2021).

2.13 Appendix 3, provided by Arlingclose, compares the Council's performance against other Local Authorities at the end of September. In order to gain better rates of return, the majority of Local Authorities with a higher rate of return have further external investments creating a more diverse portfolio.

Borrowing Performance

2.14 Long-term loans at the end September totalled £499.9 million (£404.2 million 31 March 2022) and short-term loans £31.0 million (£5.9 million 31 March 2022).

2.15 Fixed rate loans account for 88.1% of total long-term debt giving the Council stability in its interest costs. The maturity profile for long-term loans is shown in Appendix 2 and shows that no more than 7.8% of 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 future years when interest rates might be at a relatively high level.

2.16 The mid-year forecasted liability benchmark, based on updated capital plans, highlights that there is an expectation of additional long-term borrowing of £81.3 million for the year. Following a slight dip in gilt yields in August, a £20.0 million 20 year EIP loan was arranged from the PWLB. This is in addition to £60.0 million borrowed since March 2021. These loans provide some longer-term certainty and stability to the debt portfolio. The remainder of the borrowing will be funded by short and medium loans. Further detail on this and the increase in PWLB interest rates is covered in paragraph 2.26 and 2.27.

2.17 Appendix 5 sets out in year repayments on long-term borrowing and also further re-payments for the next 6 months.

Revenue Budget Monitoring

2.18 The treasury management revenue budget is £26.7 million. Forecasted outturn is currently in line with budget. The change in Minimum Revenue Provision (MRP) policy allowed for a planned release of £9.1 million MRP budget over provision in 2022/23. The budget strategy update report 2023/24 re-affirmed the decision taken in the annual budget report in February 2022 to forward profile the release of the MRP over-provision with an additional £4.6 million, in light of estimated medium term Covid impacted pressures on the Council finances. The MRP policy is to provide for MRP on the basis of the asset life to which external borrowing is incurred. The MRP calculation is used to determine the amount of revenue resources that need to be set aside annually by the Council to meet its debt obligations.

Prudential Indicators

2.19 The Council is able to undertake borrowing without Central Government approval under a code of practice called the Prudential Code. Under this Code, certain indicators have to be set at the beginning of the financial year as part of the treasury management strategy.

2.20 The purpose of the indicators is to contain the treasury function within certain limits, thereby reducing the risk or likelihood of an adverse movement in interest rates or borrowing decision impacting negatively on the Council's overall financial position. Appendix 4 provides a schedule of the indicators set for treasury management and the latest position.

Borrowing and Investment – General Strategy for 2022/23

2.21 The Capital Financing Requirement (CFR) represents the Council's underlying need to finance capital expenditure by borrowing or other long-term liability arrangements.

2.22 A Council can choose to finance its CFR through internal or external borrowing or a combination of the two.

2.23 Forecast changes in the CFR and how these will be financed are shown in the balance sheet analysis table below:

Balance Sheet Forecast

	Actual **2021/22** **£m**	**Strategy Estimate** **2022/23** **£m**	**Revised Forecast** **2022/23** **£m**
General Fund CFR - Non PFI	556.1	610.7	617.9
PFI	39.4	35.5	35.5
HRA CFR - Non PFI	166.0	177.3	168.6
PFI	45.2	42.7	42.7
Total CFR	806.7	866.2	864.7
Less: PFI debt liabilities	84.6	78.2	78.2
Borrowing CFR	**722.1**	**788.0**	**786.5**
Financed via:			
Deferred Liabilities	3.7	3.6	3.6
Internal Borrowing	249.6	197.8	232.7
External Borrowing	468.8	586.6	550.2
Total	**722.1**	**788.0**	**786.5**
Investments	78.9	30.0	30.0

2.24 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.

2.25 The Council's chief objective when borrowing is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. PWLB is the primary source of borrowing alongside cheaper short-term borrowing for a mixed portfolio of debt.

2.26 Over the April to September period short term PWLB rates rose dramatically, particularly in late September after the Chancellor's 'mini-budget' prompted a fall in sterling and rise in market interest rate expectations. Interest rates rose by over 2% during the period in both the long and short term. As an indication the 5 year maturity certainty rate rose from 2.30% on 1st April to 5.09% on 30th September; over the same period the 30-year maturity certainty rate rose from 2.63% to 4.68%. Although interest rates across the board have risen, short-term borrowing from other local authorities remains at slightly lower interest rates than long term borrowing.

2.27 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 long-term repayment loans. In the six-month period the Council borrowed £55.0 million medium/longer-term fixed rate loans, details of which are shown in Appendix 5. These loans provide some longer-term certainty and stability to the debt portfolio and will guard against future increases in interest rates.

Future Treasury Management Strategy

2.28 The Council's overall Treasury Management Strategy will continue to maintain a relatively low risk strategy giving priority to security and liquidity, and as such invest an average of around £20 million externally in relatively short-term, liquid investments through the money markets, for the purpose of managing day-to-day cash flow requirements. Any remaining balances, net of investment in the LAPF, will be used internally, offsetting borrowing requirements. The investment strategy is designed to minimise risk, investments being made primarily in instant access accounts, short-term deposits, Local Authorities or Money Market Funds.

2.29 The Treasury Management Code of Practice ensures management practices are in place for non-treasury management activity in addition to the existing 12 Treasury Management Practices (TMPs). This is identified at the end of this report (Appendix 6).

2.30 CIPFA published its revised Treasury Management Code of Practice and Prudential Code for Capital Finance in December 2021. The principles within the two codes took immediate effect although Local Authorities could defer introducing the revised reporting requirements within the revised codes until the 2023/24 financial year, which the Council has elected to do.

2.31 The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments. The code stipulates restrictions on borrowing primarily for financial return, including commercial property. The Council's current and proposed capital plans do not include any capital investment funded by borrowing primarily for commercial return, that may otherwise have restricted access to PWLB borrowing going forward. The new code does not introduce restrictions on Councils borrowing for purposes essential to their core aims, such as for housing and regeneration projects, or for treasury management purposes.

2.32 Arlingclose expects the Bank Rate to rise further during 2022/23 and to reach 4.25% by June 2023. UK interest rate expectations have eased following the mini-budget, with a growing expectation that UK fiscal policy will now be tightened to restore investor confidence. The Monetary Policy Committee (MPC) however remains concerned with rising inflation and the tight labour market. The MPC may therefore raise the Bank Rate more quickly and to a higher level to dampen aggregate demand and reduce the risk of sustained higher inflation. This action by the MPC will slow the economy, necessitating cuts in the Bank Rate later in 2024.

2.33 Gilt yields are expected to remain broadly at current levels over the 3 year medium term period to September 2025. The risks for short, medium and longer term yields are judged to be broadly balanced over the forecast horizon. As ever, there will undoubtedly be short term volatility due to economic and political uncertainty and events. Officers will continue to review funding options going forward in conjunction with its external advisors.

2.34 Budget developments for 2023/24 and future years include significant regeneration activity which provides potential for diversifying funding sources, particularly if rates can be achieved on alternatives which are below gilt yields, with blending funding approaches alongside the PWLB.

Risk and Compliance issues

2.35 In line with the investment strategy, the Council has not placed any direct investments with companies as defined by the Carbon Underground 200.

3 Implications for the Council

3.1 Working with People: N/A
3.2 Working with Partners: N/A
3.3 Placed based working: N/A
3.4 Climate Change and Air Quality: N/A
3.5 Improving Outcomes for Children: N/A

3.6 Other (e.g. Legal/Financial or Human Resources):
Treasury management budget forecast will continue to be reported as part of the overall quarterly financial monitoring reporting cycle to Cabinet, through the remainder of the year.

4 Consultees and their opinions

Arlingclose, the treasury management advisors to the Council, have provided the economic context commentary contained in this report.

5 Next steps

Following consideration at Corporate Governance and Audit Committee, this report will be presented to Cabinet on 21 December 2022 and council on 11 January 2023.

6 Officer recommendations and reasons

Having read this report and the accompanying Appendices, Corporate Governance and Audit Committee are asked to:

6.1 Note the half-year treasury management performance in 2022/23 as set out in the report.

7 Contact officer

James Anderson	Head of Accountancy Service	01484 221000
Rachel Firth	Finance Manager	01484 221000

8 Background Papers and History of Decisions

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

CIPFA's Code of Practice on Treasury Management in the Public Services.
CIPFA's Treasury Management in the Public Services – Guidance notes
The treasury management strategy report for 2022/23 - Council 16 February 2022
Council Budget Strategy Update Report 2023/24 – Council 7 September 2022
Annual Report on Treasury Management 2021/22 - Annual Financial Outturn Report 2021/22; Council 7 September 2022

9 Service Director responsible

Eamon Croston 01484 221000

Appendix 1

Kirklees Council Investments 2022/23

Counterparty		Approved Strategy Limit £m	Approved Strategy Credit Rating	Credit Rating Sept 2022*	1 April 2022 (opening) £m	Interest Rate	Type of Investment	30 June 2022 £m	Interest Rate	Type of Investment	30 September 2022 £m	Interest Rate	Type of Investment
Specified Investments													
LAPF Property Fund		10.0	-	-	10.0	-	***	10.0	-	***	10.0	-	***
DMO	Govt	Unlimited	-	F1+/AA-	16.1	0.55%	Fixed Deposit	0.0	-	-	5.0	1.93%	Fixed Deposit
DMO	Govt	Unlimited	-	F1+/AA-	10.6	0.55%	Fixed Deposit	0.0	-	-	5.0	1.96%	Fixed Deposit
DMO	Govt	Unlimited	-	F1+/AA-	0.0	-	-	0.0	-	-	6.0	2.00%	Fixed Deposit
DMO	Govt	Unlimited	-	F1+/AA-	0.0	-	-	0.0	-	-	5.0	2.01%	Fixed Deposit
DMO	Govt	Unlimited	-	F1+/AA-	0.0	-	-	0.0	-	-	10.0	2.09%	Fixed Deposit
DMO	Govt	Unlimited	-	F1+/AA-	0.0	-	-	0.0	-	-	5.0	2.10%	Fixed Deposit
PCC Devon & Cornwall	LA	10.0	-	F1+/AA-	10.0	0.60%	Fixed Deposit	0.0	-	-	0.0	-	-
PCC Dorset	LA	10.0	-	F1+/AA-	10.0	0.60%	Fixed Deposit	0.0	-	-	0.0	-	-
Cornwall Council	LA	10.0	-	F1+/AA-	0.0	-	-	5.0	0.91%	Fixed Deposit	0.0	-	-
Leeds City Council	LA	10.0	-	F1+/AA-	0.0	-	-	0.0	-	-	5.0	2.00%	Fixed Deposit
PCC West Yorkshire	LA	10.0	-	F1+/AA-	0.0	-	-	0.0	-	-	3.0	2.20%	Fixed Deposit
Aberdeen Standard	MMF**	10.0	AAA-A	AAA	8.9	0.54%	MMF	8.6	1.08%	MMF	10.0	2.14%	MMF
Aviva	MMF**	10.0	Aaa-A2	Aaa*	10.0	0.53%	MMF	10.0	1.11%	MMF	10.0	1.94%	MMF
Deutsche	MMF**	10.0	AAA-A	AAA	0.0	0.52%	MMF	10.0	1.07%	MMF	0.0	1.78%	MMF
Goldman Sachs	MMF**	10.0	AAA-A	AAA	3.3	0.53%	MMF	10.0	1.07%	MMF	7.3	1.97%	MMF
					78.9			**53.6**			**81.3**		
Sector analysis													
Property Fund		10.0			10.0	13%		10.0	19%		10.0	12%	
Local Authorities		10.0			20.0	25%		5.0	9%		8.0	10%	
MMF**		50.0			22.2	28%		38.6	72%		27.3	34%	
Central Govt		Unlimited			26.7	34%		0.0	0%		36.0	44%	
					78.9	100%		**53.6**	100%		**81.3**	100%	
Country analysis													
UK					56.7	72%		15.0	28%		54.0	66%	
MMF**					22.2	28%		38.6	72%		27.3	34%	
					78.9	100%		**53.6**	100%		**81.3**	100%	

*Fitch short/long term ratings, except Aviva MMF (Moody rating). See next page for key. The use of Fitch ratings is illustrative – the Council assesses counterparty suitability using all 3 credit rating agencies, where applicable, and other information on credit quality.

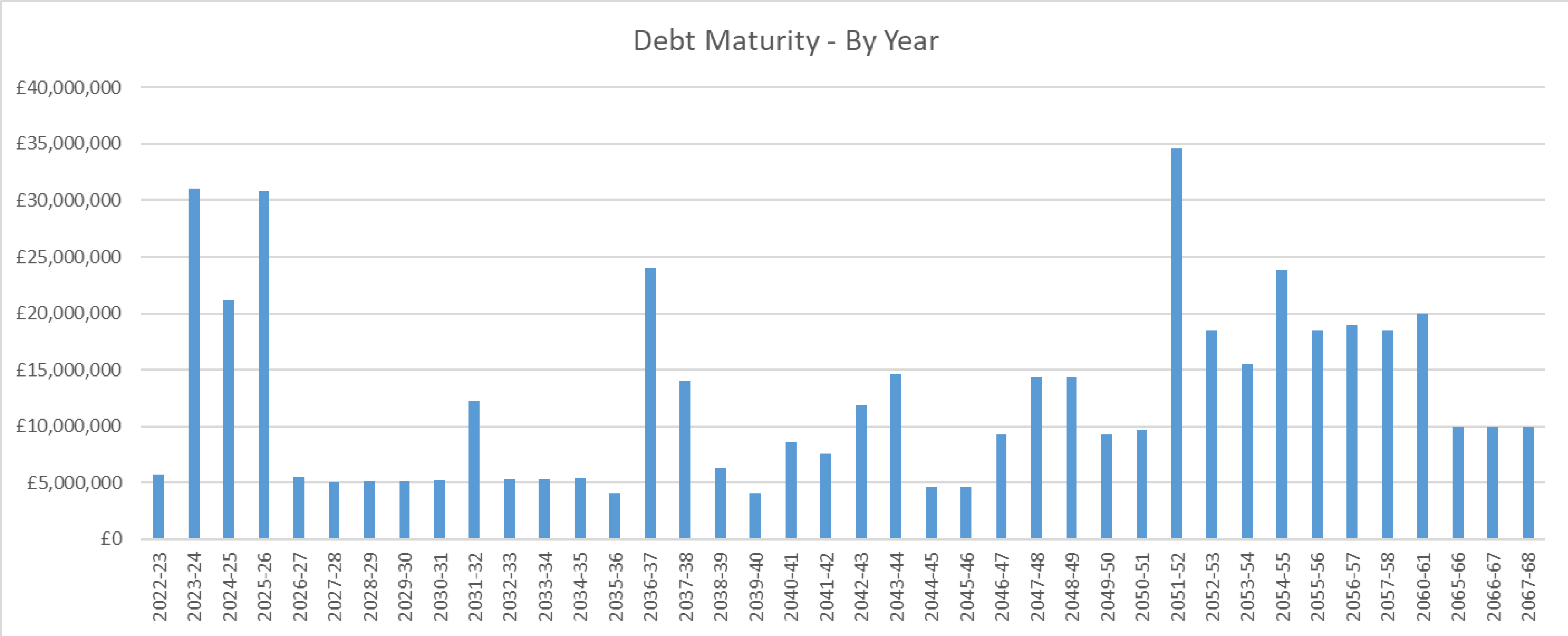
**MMF – Money Market Fund. These funds are domiciled in Ireland for tax reasons, but the funds are made up of numerous diverse investments with highly rated banks and other institutions. The credit risk is therefore spread over numerous countries, including the UK. The exception to this is the Aviva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

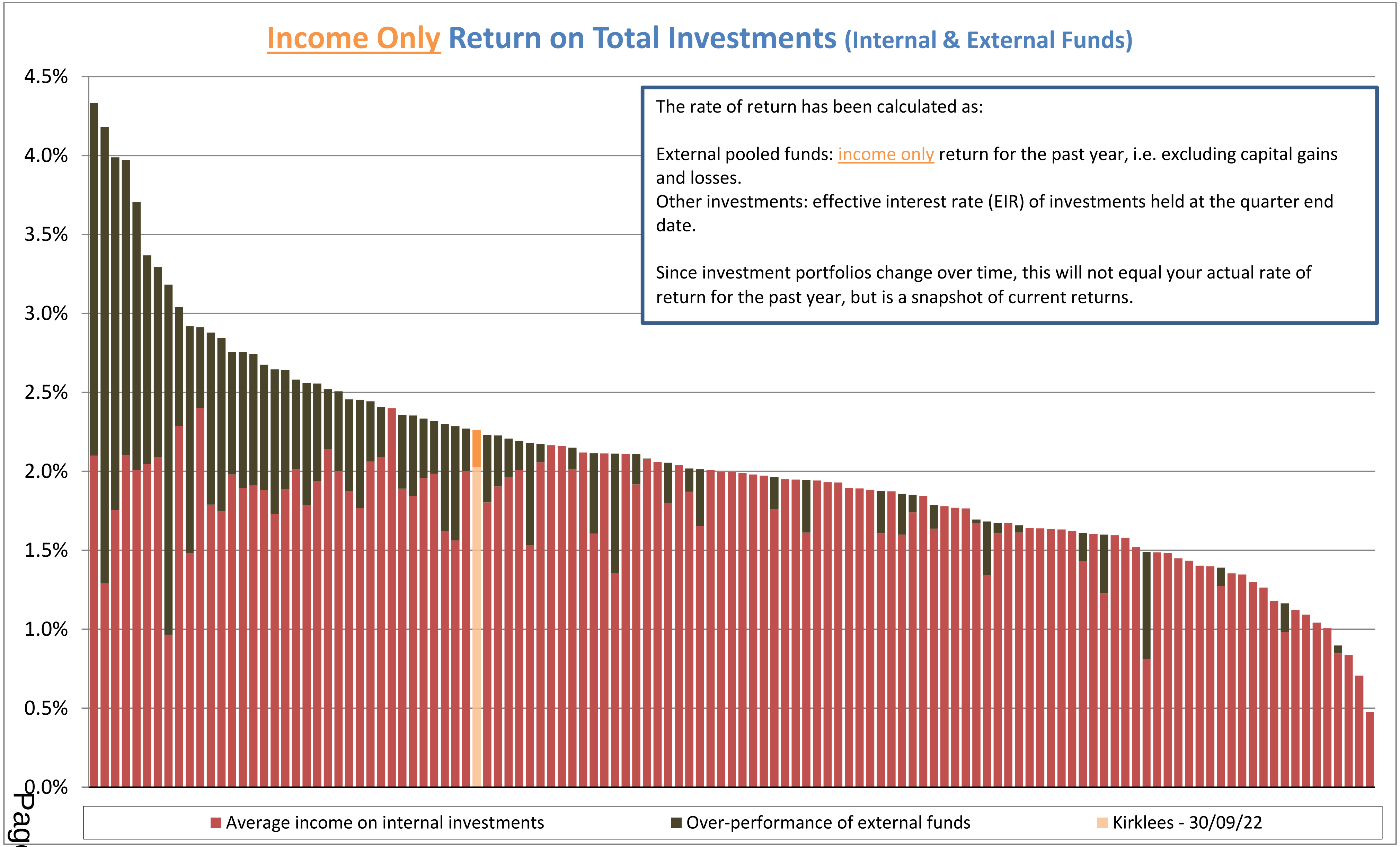
***Specialised property fund available for Local Authority investors.

<u>Key – Fitch's credit ratings</u>: **Appendix 1 Continued**

		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


Debt Maturity - By Year
£40,000,000
£35,000,000
£30,000,000
£25,000,000
£20,000,000
£15,000,000
£10,000,000
£5,000,000
£0
2022-23
2023-24
2024-25
2025-26
2026-27
2027-28
2028-29
2029-30
2030-31
2031-32
2032-33
2033-34
2034-35
2035-36
2036-37
2037-38
2038-39
2039-40
2040-41
2041-42
2042-43
2043-44
2044-45
2045-46
2046-47
2047-48
2048-49
2049-50
2050-51
2051-52
2052-53
2053-54
2054-55
2055-56
2056-57
2057-58
2060-61
2065-66
2066-67
2067-68


Income Only Return on Total Investments (Internal & External Funds)
4.5%
4.0%
3.5%
3.0%
2.5%
2.0%
1.5%
1.0%
0.5%
0.0%
The rate of return has been calculated as:
External pooled funds: income only return for the past year, i.e. excluding capital gains and losses.
Other investments: effective interest rate (EIR) of investments held at the quarter end date.
Since investment portfolios change over time, this will not equal your actual rate of return for the past year, but is a snapshot of current returns.
Average income on internal investments
Over-performance of external funds
Kirklees - 30/09/22

Appendix 4

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 2022/23	Estimated Actual* 2022/23
Interest at fixed rates as a percentage of net interest payments	60% - 100%	84%
Interest at variable rates as a percentage of net interest payments	0% - 40%	16%

*The estimated actual is 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 2022/23	Estimated Actual 2022/23
Under 12 months	0% - 20%	1%
12 months to 2 years	0% - 20%	7%
2 years to 5 years	0% - 60%	13%
5 years to 10 years	0% - 80%	8%
More than 10 years	20% - 100%	71%

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

Total principal sums invested for periods longer than 364 days

The Council will not invest sums for periods longer than 364 days.

Appendix 5

Long-term loans repaid during the period 01/04/22 to 30/09/22

	Amount £000s	Rate %	Date repaid
Salix - Annuity	490	0.00	1 April 22
PWLB (340221) - EIP	250	1.63	27 April 22
PWLB (439173) - EIP	250	1.66	17 May 22
PWLB (373440) - EIP	250	1.46	12 July 22
PWLB (487385) - EIP	250	2.28	22 Aug 22
Salix - Annuity	186	0.00	1 Sept 22
PWLB (313112) - EIP	250	1.64	5 Sept 22
PWLB (493145) - EIP	250	1.98	9 Sept 22
PWLB (496956) - Annuity	404	4.58	29 Sept 22
Total	**2,580**		

Long-term loans to be repaid during the period 01/10/22 to 31/03/23

	Amount £000s	Rate %	Date to be repaid
Salix - Annuity	490	0.00	3 Oct 22
PWLB (340221) - EIP	250	1.63	27 Oct 22
PWLB (439173) - EIP	250	1.66	17 Nov 22
PWLB (373440) - EIP	250	1.46	12 Jan 23
PWLB (538379) - EIP	500	2.60	9 Feb 23
PWLB (487385) - EIP	250	2.28	21 Feb 23
Salix - Annuity	186	0.00	1 Mar 23
PWLB (313112) - EIP	250	1.64	6 Mar 23
PWLB (493145) - EIP	250	1.98	9 Mar 23
PWLB (496956) - Annuity	413	4.58	29 Mar 23
Total	**3,089**		

Medium and Long-term loans taken during the period 01/04/22 to 30/09/22

	Loan Period	Amount £m	Rate %	Date to be repaid
Crawley Borough Council	2 Years	5.0	0.50	2 Apr 24
Leicester City Council	2 Years	5.0	0.75	12 Apr 24
South Yorkshire Mayoral Combined Authority	3 Years	10.0	1.50	1 Apr 25
Leicester City Council	3 Years	10.0	2.00	15 Jul 25
Oxfordshire County Council	3 Years	5.0	2.00	15 Aug 25
PWLB (538379) - EIP	20 Years	20.0	2.60	9 Aug 42
Total		**55.0**		

Appendix 6

TREASURY MANAGEMENT PRACTICES

The following Treasury Management Practices (TMPs) set out the manner in which the Council aims to achieve its treasury management policies and objectives, and how it will manage and control those activities.

1. TMP 1 Risk management

The Service Director - Finance will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in TMP6 Reporting requirements and management information arrangements. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the schedule to this document.

(i) Credit and counterparty risk management

The Council regards a prime objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with which funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved Instruments, methods and techniques are listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

(ii) Liquidity risk management

The Council will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to which are necessary for the achievement of its business/service objectives. The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

(iii) Interest rate risk management

The Council will manage its exposure to fluctuations in interest rates with a view to containing its net interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements.

It will achieve these objectives by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. The above are subject at all times to the consideration and, if required, approval of any policy or budgetary implications.

(iv) Exchange rate risk management

The Council will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

(v) Refinancing risk management

The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective and will avoid over-reliance on any one source of funding if this might jeopardise achievement of the above.

(vi) Legal and regulatory risk management

The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1(i) Credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may affect with the Council.

The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

(vii) Fraud, error and corruption, and contingency management

The Council will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption, or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

(viii) Market risk management

The Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

2. **TMP2 Performance measurement**

The Council is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its Treasury Management Policy Statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery and of other potential improvements. The performance of the treasury management function will be measured using the criteria set out in the schedule to this document.

3. **TMP3 Decision-making and analysis**

The Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the schedule to this document.

4. **TMP4 Approved instruments, methods and techniques**

The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined in TMP1 Risk management.

Where the Council intends to use derivative instruments for the management of risks, these will be limited to those set out in its annual treasury strategy. The Council will seek proper advice when entering into arrangements to use such products.

5. **TMP5 Organisation, clarity and segregation of responsibilities, and dealing arrangements**

The Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, and for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

The principles on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when the Council intends, as a result of lack of resources or other circumstances, to depart from these principles, the Service Director - Finance will ensure that the reasons are properly reported in accordance with TMP6 Reporting requirements and management information arrangements, and the implications properly considered and evaluated.

The Service Director - Finance will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangement for absence cover. The present arrangements are detailed in the schedule to this document.

The Service Director - Finance will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the schedule to this document.

The delegation to the Service Director - Finance in respect of treasury management is set out in the schedule to this document. The Service Director - Finance will fulfil all such responsibilities in accordance with the Council's policy statement and TMPs and, as a CIPFA member, the Standard of Professional Practice on Treasury Management.

6. TMP6 Reporting requirements and management information arrangements

The Council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and the transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum, the Council will receive:

- an annual report on the strategy and plan to be pursued in the coming year
- a mid-year review
- an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's Treasury Management Policy Statement and TMPs.

The present arrangements and the form of these reports are detailed in the schedule to this document.

7. TMP7 Budgeting, accounting and audit arrangements

The Service Director - Finance will prepare, and the Council will approve and, if necessary, from time to time amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at a minimum be those required by statute or regulation, together with such information as will demonstrate compliance with the TMPs. Budgeting procedures are set out in the schedule to this document. The Service Director - Finance will exercise effective controls over this budget, and will report any major variations.

The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being. The present form of this function's accounts is set out in the schedule to this document.

The Council will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices. The information made available under present arrangements is detailed in the schedule to this document.

8. **TMP8 Cash and cash flow management**

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the Service Director - Finance and, with the exception of Secondary Schools' bank accounts, will be aggregated for cash flow purposes. Cash flow projections will be prepared on a regular and timely basis, and the Service Director - Finance will ensure that these are adequate for the purposes of monitoring compliance with TMP1(i) Liquidity risk management. The present arrangements for preparing cash flow projections are set out in the schedule to this document.

9. **TMP9 Money laundering**

The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will ensure that staff involved in treasury management activities are fully aware of their responsibilities with regards this. The present safeguards, including the name of the officer to whom any suspicions should be reported, are detailed in the schedule to this document.

10. **TMP10 Training and qualifications**

The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The present arrangements are detailed in the schedule to this document.

The Service Director - Finance will ensure that Members of the committee providing a scrutiny function have access to regular training relevant to their responsibilities.

11. **TMP11 Use of external service providers**

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times. However, it also recognises the potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources.

When it employs such service providers, it will ensure it does so for reasons which will have been submitted to full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over-reliance on one or a small number of companies.

Where services are subject to formal tender or re-tender arrangements, legislative requirements and the Council's Contract Procedure Rules will always be observed. The monitoring of such arrangement’s rests with the Service Director - Finance, and details of the current arrangements are set out in the schedule to this document.

12. **TMP12 Corporate governance**

The Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The Council has adopted and has implemented the key principles of the Code. This, together with the other arrangements detailed in the schedule to this document, are considered vital to the achievement of proper corporate governance in treasury management, and the Service Director - Finance will monitor and, if necessary, report upon the effectiveness of these arrangements.

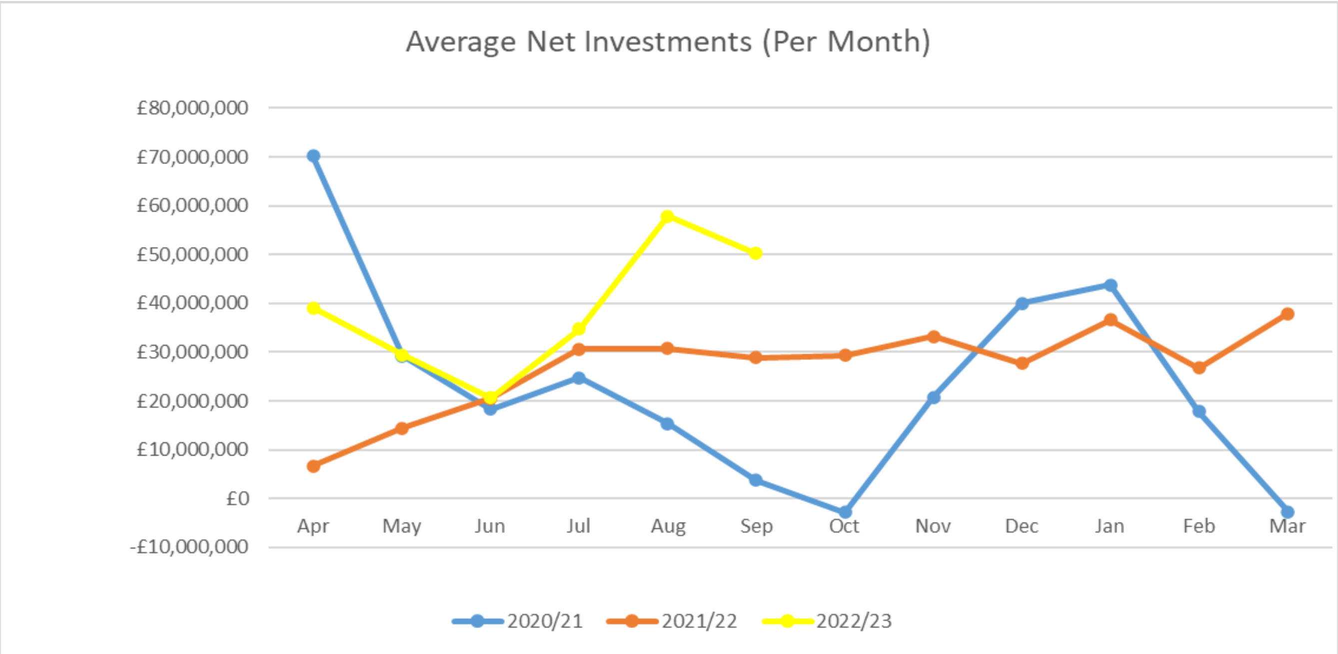
Management Practices for Non-Treasury Investments

The Council recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios.

The Council will ensure that all investments are covered in the Capital and Investment Strategies, and will set out where appropriate, the Councils risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that of treasury management.

The Council will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the organisations risk exposure.

Appendix 7



PWLB Borrowing Rates %							
	30/09/22	**31/03/22**	**30/09/21**	**31/03/21**	**30/09/20**	**31/03/20**	**31/10/19**
Annuity							
15 years	5.17	2.55	1.87	1.74	2.09	2.24	2.50
20 years	5.14	2.68	2.07	1.97	2.27	2.40	2.67
30 years	5.13	2.84	2.31	2.26	2.58	2.69	3.00

50 years	4.79	2.79	2.38	2.38	2.76	2.84	3.20
Maturity							
15 years	5.15	2.82	2.28	2.22	2.56	2.66	2.96
20 years	5.11	2.86	2.38	2.35	2.72	2.84	3.16
30 years	4.85	2.77	2.36	2.37	2.74	2.79	3.18
50 years	4.41	2.58	2.17	2.20	2.60	2.59	3.05
EIP							
15 years	5.20	2.54	1.86	1.72	2.09	2.26	2.51
20 years	5.14	2.65	2.04	1.95	2.26	2.40	2.66
30 years	5.15	2.85	2.28	2.22	2.56	2.68	2.97
50 years	4.99	2.83	2.39	2.39	2.77	2.87	3.21

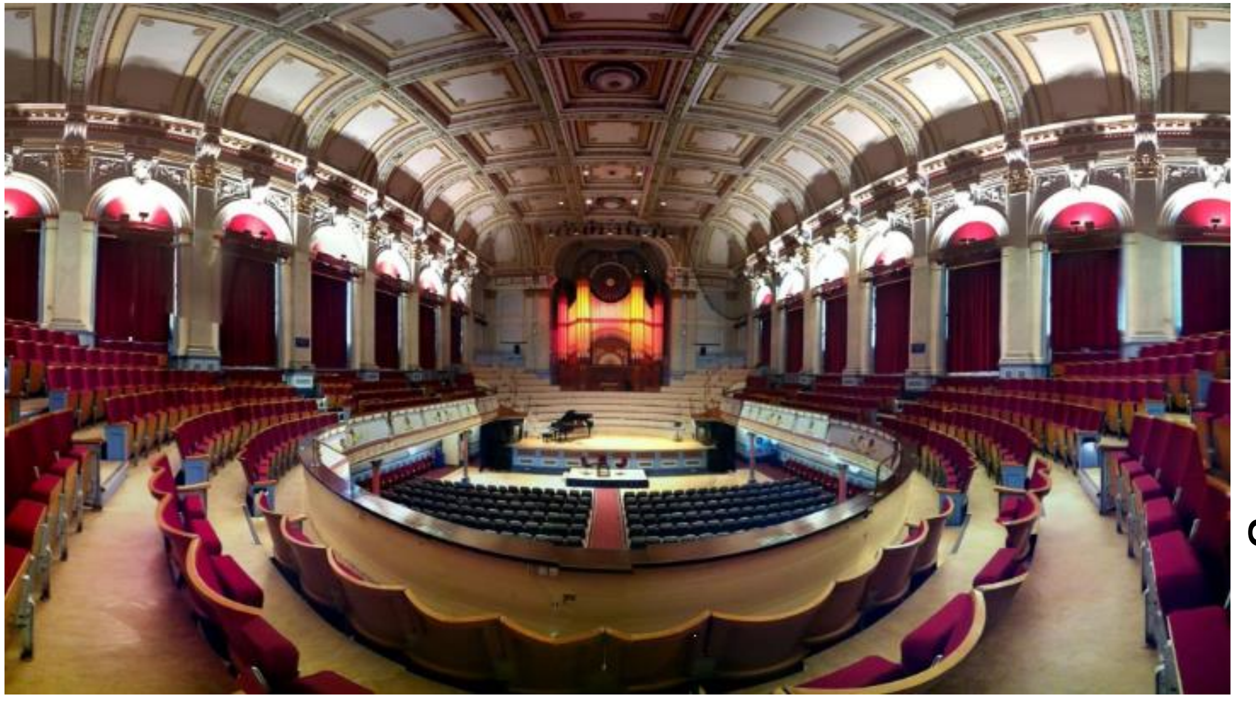
Grant Thornton

The Audit Findings for Kirklees Council

Year ended 31 March 2022

DRAFT

14 November 2022



Agenda Item 8

Contents

Your key Grant Thornton team members are:

Jon Roberts

Key Audit Partner

T 07919 380840

E jon.roberts@uk.gt.com

Tom Foster

Associate Director, Public Services Advisory (Value for Money work)

T 020 7728 2085

E thomas.foster@uk.gt.com

Stephen Nixon

Senior Manager

T 0161 234 6362

E stephen.r.nixon@uk.gt.com

Aaron Gouldman

Manager

T 0161 214 3678

E aaron.r.gouldman@uk.gt.com

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.

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management and the Corporate Governance and Audit Committee.

[Key Audit Partner Signature]

Name : Jon Roberts

For Grant Thornton UK LLP

Date :

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Kirklees Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2022 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the group and Council's financial statements give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

The majority of our audit work was completed both on site and remotely during July - November. Our findings are summarised on pages 5 to 26. We have not identified any adjustments to the financial statements that have resulted in amendment to the draft outturn in the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C. We have raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion, shown at Appendix E or material changes to the financial statements, subject to the following outstanding matters;

- completion of a small number of closing audit procedures;
- completion of quality review process and clearance of points raised
- completion of value for money procedures;
- testing of infrastructure asset valuation which is subject to CIPFA confirmation;
- receipt of signed management representation letter – see Appendix F; and
- review of the final set of financial statements.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unqualified.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in Appendix G to this report. We expect to issue our Auditor's Annual Report by 31 December 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. In our Audit Plan communicated to you on 17 June 2022 we identified risks in respect of:

- management of the Council's DSG deficit relating to Special Educational Needs (SEND). We have updated our knowledge of progress made by the Council to seek a solution to the SEND overspend and retained deficit as part of the support offered by the DfE Safety Valve Group. This has involved assessing the Safety Valve's assessment of the SEND Transformation Plan; and
- the Council's consideration of a move from the Leader and Cabinet model of Governance to a Committee structure

Our review to date has not identified any issues in respect of the above risks.

During the review we have identified a new risk of significant weakness regarding the funding gaps contained in the Council's medium term financial plan. The Council has unallocated reserves of £47m, but cost pressures of £18.8m for 2022/23 identified in the quarter 1 monitoring report and a further £41.3m for 2023/24 identified in the MTFP update in September 2022. However, we understand that more up to date information means that both figures are likely to be worse than that. As a result, it is likely that without urgent action the unallocated reserves will be eliminated by the end of 2023/24. A further update on the financial outlook and potential use of reserves is due to be published on 8 November and we will update our conclusion based on that update.

Our findings are set out in the value for money arrangements section of this report.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit.

Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and the Corporate Governance and Audit Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council and group's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to significantly alter our audit plan, as communicated to you on 17 June 2022. Materiality was increased to reflect the increase in operating expenditure from that used at audit planning stage, as explained on page 6.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Corporate Governance and Audit Committee (CGAC) meeting on 25 November 2022, as detailed in Appendix E. These outstanding items include:

- completion of a small number of closing audit procedures;
- completion of value for money procedures;
- receipt of signed management representation letter – see Appendix F; and
- review of the final set of financial statements.

Whilst all other elements of our audit are likely to be complete, which would, in normal circumstances have allowed the audit to be signed following the November CGAC, testing of the Council's infrastructure asset valuation has been delayed nationally, pending a statutory override and amendment to the CIPFA Code. We will inform the November Committee of when we anticipate being able to sign our opinion, upon resolution of this national issue.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff.

2. Financial Statements

Our approach to materiality

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

Materiality levels have increased from those reported in our audit plan on 17 June 2022 due to draft accounts reporting higher expenditure than forecast at audit planning stage. Expenditure is the benchmark used in calculating the materiality threshold.

We detail in the table alongside our determination of materiality for Kirklees Council and group.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	15,700,000	15,600,000	The threshold above which could reasonably be expected to influence the economic decisions of the reader of the financial statements.
Performance materiality	10,200,000	10,100,000	The amount set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality.
Trivial matters	800,000	800,000	Considered to be the threshold below which an error would be trivial to the overall financial statements.

2. Financial Statements - Significant risks

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.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override of controls – Council only 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 have: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence • Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Work is now complete. A risk-assessed selection of 52 journals was selected for testing. Our testing has not identified any evidence of inappropriate management override of controls.
ISA240 revenue and expenditure recognition risk – Council only	This risk was rebutted as explained in the Audit Plan. We did not identify any reason to reverse this rebuttal during the audit.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land, buildings, Council Dwellings and investment property – Council only 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.	In response to this risk we have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the Council's valuation experts • written to the Council's valuers to confirm the basis on which their valuations were carried out • challenged the information and assumptions used by the valuers to assess completeness and consistency with our understanding • engaged 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 • tested a sample of valuations at 31 March 2022 to understand the information and assumptions used in arriving at any revised valuations • tested revaluations made during the year to see if they had been input correctly into the Council's asset register • reviewed property valuations for assets not revalued by the Council's valuers • reviewed the social housing discount factor as applied to Council Dwellings We have carried out the planned audit procedures and raised challenge regarding the assumptions used by management and their expert valuers (Wilks Head Eve for land and buildings, District Valuation Service for Council Dwellings). The valuation date used by the valuer was 31 December 2021. We have received satisfactory responses to these enquiries, with the exception of a methodological query raised by our auditor's expert valuer, in relation to the application of useful life estimates to assets valued on the Depreciated Replacement Cost basis. Our firm view is that the Council's valuer does not adhere to the RICS guidance in this respect. As this is the second year our expert valuer has raised this issue, we have also included a recommendation to management in this regard- please see Appendix A to this report. We have also reviewed property values for the period 1 January 2022 – 31 March 2022, and have not identified any evidence to suggest that a material misstatement exists due to market factors between the valuation date and the balance sheet date. In undertaking our work we selected the following properties for detailed sample testing due to their high value and/or movement being different to our expectations based upon our expert valuer indexed movement: • Other land and buildings – 27 assets • Investment property – 16 assets • We also selected 15 Beacon classes of Council dwellings We have not identified any significant errors based upon our sample testing. Additionally, we have challenged management's assessment that assets not revalued in year are materially stated at the balance sheet date. Management have provided satisfactory responses **in respect of those assets revalued in previous financial years.** As part of this work we identified that a material value new leisure centre was brought into use in March 2022 and reclassified from 'Under Construction' to operational land and buildings. Under the Code this is required to be held at Current Value, rather than historical cost. We understand that this asset was not included in the 21/22 revaluation process due to the timing of the asset completion, however we are required to report that this asset is carried on the incorrect valuation basis in the financial statements. In order to satisfy ourselves that the asset value is not misstated, we requested management to perform a current value estimate, with input from the internal RICS valuer. From review of these workings we are satisfied that the asset's value is appropriately stated. Our audit testing has not identified any non-trivial errors.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of pension fund net liability – Council only 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.	In response to this risk we have: • updated our understanding of the processes and controls put in place by management to ensure that the pension fund net liability is not materially misstated and evaluated the design of the associated controls • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • assessed the competence, capabilities and objectivity of the actuary who carried out the share of the pension fund valuation • assessed the accuracy and completeness of the information provided to the actuary to estimate the liability • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing additional procedures suggested within the report to ensure estimates are reasonable and consistent with the ranges set by the auditor's expert • tested 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 • obtained assurances from the auditor of the West Yorkshire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements Our audit work is substantially complete and audit procedures have not identified any material errors in the valuation of the net pension fund liability. The following points are noted: • We are satisfied that the £99m net pension liability associated with staff formerly employed by the Kirklees Neighbourhood Homes company has been accurately transferred and incorporated into the Council's main LGPS liability. • Actuarial assumptions used by the scheme actuary appear to be in line with our expectations based on PWC actuarial guidance provided to local audit firms nationally. Work to be concluded when the Pension Fund Auditor responds to enquiries.

2. Financial Statements - Other risks

Risks identified in our Audit Plan - 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.	**Commentary**
Accounting for grant revenues and expenditure correctly – Council only 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 have: • Engaged with management to understand the different types of material grants received during 2021/22 and any conditions applicable; • Understood the conditions for payment out to other entities, businesses and individuals to identify whether the Council should be acting as agent or principal for accounting purposes; and • Tested material grant revenues to see whether the Council has accounted for these correctly. Our audit work has not identified any issues in respect of recognition and presentation of grant income.
Value of Infrastructure assets and the presentation of the gross cost and accumulated depreciation in the PPE note – Council only 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.	The Code requires infrastructure to be reported in the Balance Sheet at depreciated historical cost, that is historic cost less accumulated depreciation and impairment. In addition, the Code requires a reconciliation of gross carrying amounts and accumulated depreciation and impairment from the beginning to the end of the reporting period. Kirklees Council has material infrastructure assets, at a gross and net value basis, there is therefore a potential risk of material misstatement related to the infrastructure balance. 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 we understand is likely to include an amendment to the Code, as well as Government putting in place a 'Statutory override' to address aspects of the issue. 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. Audit work to be revisited and completed once the government publishes a Statutory Instrument together with a CIPFA Code amendment (expected late December 2022) regarding infrastructure valuation. This may impact our audit opinion once details are known.

2. Financial Statements – new issues and risks

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

Issue	Commentary	Auditor view
IFRS 16 implementation Following consultation and agreement by FRAB, the Code will provide for authorities to opt to apply IFRS 16 in advance of the revised implementation date of 1 April 2024. If management elect to implement IFRS 16 from April 2022 (early adoption) then in 2021/22 accounts as a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases, along with the estimated impact of IFRS 16 on the accounts	Kirklees Council is not intending to exercise early adoption of IFRS16 for 2022/23 and therefore no additional disclosure is required in 2021/22.	We have no further comments, although management will need to include additional IFRS 16 disclosures in the 2022/23 financial statements as that will be the year prior to adoption.
IT Control deficiencies The audit included an assessment of the relevant Information Technology (IT) systems and controls operating over them which was performed as part of obtaining an understanding of the information systems relevant to the Council's financial reporting.	The following IT systems were reviewed: • SAP • Northgate	Management has been provided with a separate report detailing our assessment over SAP and Northgate. The report raised five control improvement recommendations of which two were rated as high priority. These included user access levels, user access requests and segregation of duties. We concluded that the deficiencies were not likely to lead to material error in the financial statements. The recommendations are reported at Appendix A of this report.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – Values at 31 March 2022: Other Land & Buildings: £545.462m (PY £515.089m)	**Other Land and buildings and Investment Property:** Other land and buildings comprises £442m of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£103m) are not specialised in nature and are required to be valued at existing use value (EUV) at year end. The Council has engaged Wilks Head and Eve to complete the valuation of properties as at 31 December 2021 on a three yearly cyclical basis. 39.5% of total Land and Buildings assets were revalued during 2021/22. Management has considered the year end value of non-revalued properties, and the potential valuation change up to 31 March 2022 for assets revalued at 31 December 2021, to determine whether there has been a material change in the total value of these properties at the Balance Sheet date. Management concluded that there was no material movement in valuation between the valuation date of 31 December and the Balance Sheet date of 31 March 2022.	• We have assessed the Council's external valuer, Wilks Head and Eve, to be competent, capable and objective. We have however identified one instance in which we believe that the RICS guidance is not being followed. This is in respect of assumptions made by WHE about continuous asset maintenance where there is no direct knowledge of capital spend over many years. This has led to aged assets such as schools being given extended useful economic lives without clear evidence of their state of repair. This may not lead to material error in the financial statements but is not in line with the RICS guidance for the valuation of specialised assets. • We have carried out completeness and accuracy testing of the underlying information provided to the valuer used to determine the estimate, including floor areas and location factors • The Council has moved to a triennial valuation cycle from 2019/20 onwards which provides more robustness to the five yearly cycle that operated previously • Valuation methods remain consistent with the prior year • In relation to assets not revalued in the year, we have compared against the Gerald Eve (valuation specialists) report and held discussions with our own valuation expert. We also challenged the Council's valuation specialist on valuation differences identified through our sensitivity analysis work using other indices. There are no significant matters to report from this analysis. • As part of this work we identified that a new material leisure centre was brought into use in March 2022 and reclassified from 'Under Construction' to operational land and buildings. Under the Code this is required to be held at Current Value, rather than historical cost. We understand that this asset was not included in the 21/22 revaluation process due to the timing of the asset completion, however we are required to report that this asset is carried on the incorrect valuation basis in the financial statements. • We also challenged management's assessment that there was no material movement in valuation between the 31 December 2021 valuation date and the Balance Sheet date of 31 March 2022. We do not disagree with management's assessment. Testing to be completed and matters arising to be reported.	Blue

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Investment Property Valuation: £103.67m (PY £97.335m)	The Council has engaged Wilks Head Eve to complete an annual revaluation of investment properties as at 31 March 2022.	• We have assessed the Council's external valuer, Wilks Head and Eve, to be competent, capable and objective • We have carried out completeness and accuracy testing of the underlying information provided to the valuer used to determine the estimate, including property leases, rentals and yields • Valuation methods remain consistent with the prior year • Investment properties are required to be revalued annually in accordance with the CIPFA Code. At 31 March 2022 there were 45 investment properties totalling £3.7m which had not been subject to revaluation, contrary to the requirements of the CIPFA Code. Management assert that investment properties below £250k are deminimus and therefore not revalued.	Light purple
Council Dwellings Valuation: £784.236m (PY £720.632m)	The Council owns 21,949 dwellings and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council engages an external valuer, the District Valuation Service to complete the valuation of these properties.	• The Council's RICS qualified external valuer valued the entire housing stock using the beacon methodology, in which a detailed valuation of representative property types was then applied to similar properties. • Our work indicated that this methodology was applied correctly during 2021/22 valuation. • We have compared the valuation movements with our auditor's valuation expert (Gerald Eve) report and held discussions with our valuation expert. These discussions have concluded and we are now performing the final review process. • We have assessed the Council's valuer, to be competent, capable and objective in carrying out the valuations • We have carried out completeness and accuracy testing of the underlying information provided to the valuer used to determine the estimate and have no issues to report • Management apply a social housing discount factor of 41% after upward indexation. The discount factor is in line with the extant DCLG Stock Valuation Guidance 2016, and after discussing this with our auditor's valuation expert, we confirm we are satisfied with the factor used • We have agreed the HRA valuation report to the Statement of Accounts and we can confirm that HRA valuation report balance has being correctly accounted for in the financial statements.	Light purple

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Council net pension liability: £780.831m (PY £998.57m)	The total net pension liability comprises the West Yorkshire Pension Fund defined benefit Local Government pension scheme obligations relating to Kirklees Council. The Council uses AoN to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed at 31 March 2019, utilising key assumptions such as life expectancy, discount rates, salary growth and investment returns. A roll forward approach is used in the intervening years. The valuation undertaken at 31 March 2022 will be reflected in the 2022/23 financial statements. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. The Council has seen a £217.7m net decrease in Net Liability Related to Defined Benefit Pension Scheme during 2021/22. The 2021/22 liability also includes members from Kirklees Neighbourhood Housing Ltd which was brought within the Council's from 1 April 2021.	• We have assessed the Council's actuary, AoN, to be competent, capable and objective • We have performed additional tests in relation to accuracy of contribution figures, benefits paid, and investment returns to gain assurance over the 2021/22 roll forward calculation carried out by the actuary and have no issues to raise. • We have used PwC as our auditor expert to assess the actuary and assumptions made by the actuary – see table below for our comparison of actuarial assumptions: (see table below) • We have confirmed the controls and processes over the completeness and accuracy of the underlying information used to determine the estimate • We have confirmed there were no significant changes in 2021/22 to the valuation method • We are satisfied with the reasonableness of estimate of the net pension liability Audit work to be finalised upon response from PF auditor	Light purple

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.7%	2.70%-2.8%	Within range
Pension increase rate	3%	2.8% to 3.1%	Within range
Salary growth	4.25%	3.5%-5.5%	Within range
Life expectancy – Males currently aged 45 / 65	21.8 – 22.5 years	20.1-22.7 years	Within range
Life expectancy – Females currently aged 45 / 65	24.6 -25.7 years	22.9-24.9 years	Within range

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £8.027m (PY £6.634m)	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance The year end MRP charge was £8.027m, a net increase of £1.393m from 2020/21 reflecting the council's capital investment plans for Huddersfield town centre. The MRP charge is net of £13.7m previous overprovisions of MRP to offset the budget gap. This relates to an exercise during 2017/18 when it was deemed prudent to unwind a £91m overprovision of MRP over a 10 year period which management considered prudent at the time.	• The Council's calculation of MRP has been calculated in line with the statutory guidance and management assess the MRP charge to remain prudent • There have been no changes in the Council's policy for calculation of since the policy was approved by full Council in 2018/19 • The unwinding of the previous overprovision of MRP dates back to an overpayment of £91m in 2017/18 which was originally planned to offset budget gaps over a 10 year period. The planned offset for 2021/22 was increased from £9.1m to £13.7m to meet budget pressures. The £13.7m unwinding expires after 2023/24.	Light purple
Business rates appeals provision- £1.593m (PY £2.583m)	Following the introduction of the Business Rates Retention Scheme in April 2013, Local Authorities are liable for a share of the cost of successful appeals by businesses against their rateable value in 2021/22 and earlier financial years. A provision has therefore been recognised in the statement of accounts. The estimated provision has been calculated using the latest Valuation Office Agency (VOA) ratings list of ratings appeals and the analysis of successful appeals to date.	• Management have calculated the provision value using the latest information from the VOA listings. • Management have not included an estimate for as-yet un-lodged claims, however we are satisfied from discussions with management that the provision is not understated in this regard. • We have reviewed appeals activity in 22-23 to date and this has not given any indication that the 21-22 provision is understated. • There have been no changes to the Council's method for calculating the provision since the prior financial year.	Light purple

2. Financial Statements - Internal Control

Assessment	Issue and risk	Recommendations
	A separate report has been produced by the Grant Thornton IT auditor identifying some deficiencies in arrangements and this has been circulated to Those Charged With Governance.	See separate report for detailed findings and recommendations. Recommendations are summarised at Appendix A of this report for completeness.

This section provides an overview of results from our assessment of the relevant Information Technology (IT) systems and controls operating over them which was performed as part of obtaining an understanding of the information systems relevant to financial reporting. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

IT system	Level of assessment performed	Overall ITGC rating	ITGC control area rating		
			Security management	Technology acquisition, development and maintenance	Technology infrastructure
Northgate	Detailed ITGC assessment (design effectiveness only)				
SAP	Detailed ITGC assessment (design effectiveness only)				

Assessment

- Significant deficiencies identified in IT controls relevant to the audit of financial statements
- Non-significant deficiencies identified in IT controls relevant to the audit of financial statements / significant deficiencies identified but with sufficient mitigation of relevant risk
- IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- Not in scope for testing

Page 48

2. Financial Statements - Internal Control

Transaction cycle	Effectiveness of the system of internal control	Basis of assessment
Revenue (the presumed significant risk is rebutted)	Assessment not applicable - no significant risk identified and no control assessment performed.	Assessment not applicable - no significant risk identified and no control assessment performed other than a refresh of business process documentation.
Expenditure (not a significant risk however internal control assessed to assist substantive assurance procedures)	Designed effectively No control deficiencies identified	From discussions with management, financial accountants and accounts payable service accountants, we have identified key controls within the expenditure and payables processes and performed walkthrough procedures to confirm that these are designed effectively and are implemented as designed. We have performed a segregation of duties review and have not identified any control deficiencies from this. From the work of our IT auditor, we have not noted any significant control deficiencies at IT General Control level that would impact on our ability to conclude that the activity level controls are not designed effectively.

2. Financial Statements - matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

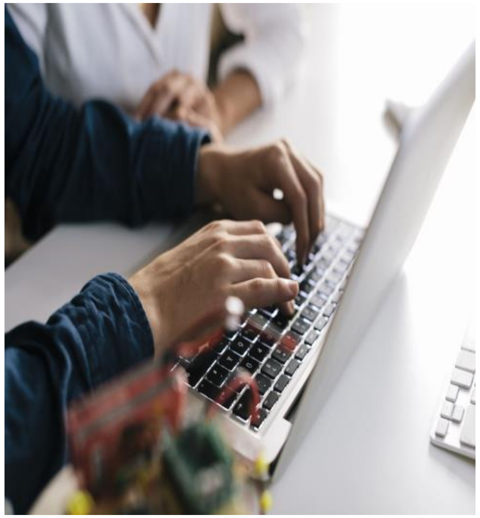
Significant matter	Commentary	Auditor view
Prior to 2021/22 the Council produced Group accounts which consolidated Kirklees Neighbourhood Homes Ltd (KNHL) as a 100% owned subsidiary. On 1 April 2021 KNHL was disaggregated from the Group and the assets and liabilities, and staff transferred back within Kirklees Council.	Management engaged early with the audit team to discuss and agree the proposed transactions to bring KNHL back into the Council's financial statements and the impact in the Council's reserves.	We are satisfied that the transactions to transfer KNHL back into the Council's accounts are correctly processed.

2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Corporate Governance and Audit Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, which is shown at Appendix F.

2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send a confirmation request to the Council's bankers and a sample of investment counterparties. This permission was granted and the requests were sent and responded to with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

2. Financial Statements - other communication requirements

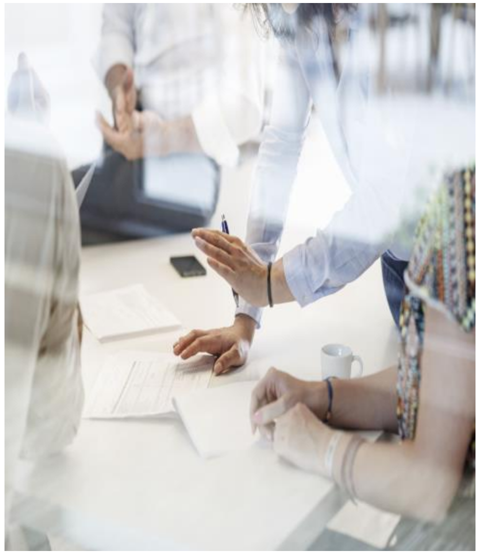
Our responsibility

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

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate • management's assessment that their joint venture KSDL remains a going concern is supported by appropriate evidence.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified other than minor presentational matters, the majority of which have been adequately rectified by management. These are reported at Appendix C. We plan to issue an unmodified opinion in this respect as reported at Appendix E.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money. We have nothing to report on these matters, although the Value for Money work is underway and not due to be completed until December 2021.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting threshold we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. • Note that this work is not yet completed. The NAO requires the work to be completed once the audit opinion is provided on the financial statements and has not yet released data collection instructions
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2021/22 audit of Kirklees **Council** in the audit report, as detailed in Appendix E, until we have completed our work on the WGA consolidation exercise mentioned above and completed our Value for Money responsibilities with the issue of the Auditor's Annual Report.



3. Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified 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

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are 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

3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix G to this report. We expect to issue our Auditor's Annual Report by 31 December 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified risks 1 and 2 set out in the table below. We have performed further procedures in respect of these risks and have completed this element of our VFM work. Our conclusions are detailed below. We have also identified a risk of significant weakness documented at risk 3 below.

Risk of significant weakness	Procedures undertaken	Conclusion	Outcome
1. 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 have updated our knowledge of 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 has involved assessing the Safety Valve's assessment of the SEND Transformation Plan.	No significant weakness in arrangements has been identified.	We have no recommendations to make to the Council.
2. 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 have reviewed 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.	No significant weakness in arrangements has been identified.	We have no recommendations to make to the Council.
3. Financial sustainability: Funding gaps in the medium term financial plan During the review we have identified a new risk of significant weakness regarding the funding gaps contained in the Council's medium term financial plan. The Council has unallocated reserves of £47m, but cost pressures of £18.8m for 2022/23 identified in the quarter 1 monitoring report and a further £41.3m for 2023/24 identified in the MTFP update in September 2022. However, we understand that more up to date information means that both figures are likely to be worse than that. As a result, it is likely that without urgent action the unallocated reserves will be eliminated by the end of 2023/24. A further update on the financial outlook and potential use of reserves is due to be published on 8 November	We have made enquiries of the Service Director - Finance regarding the options being considered to address the funding gaps. We await information from the update to the financial outlook on 8 November and will comment further at that point	A significant weakness in arrangements has been identified.	The draft Auditor's Annual Report contains the following Key Recommendation: [to be provided following receipt of the updated financial outlook on 8 November]

4. Independence and ethics

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

We have received confirmation that Gerald Eve LLP, the auditor valuation expert engaged for this audit is independent of the Council.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council and group. No non-audit services were identified which were charged from the beginning of the financial year to the date of this report.

Appendices

A. Action plan – Audit of Financial Statements

We have identified 2 recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
High	The draft financial statements including the Annual Governance Statement (AGS) are required to be published on the Council's website for public inspection and comment. The draft AGS was not included with the initial publication.	For 2022/23 ensure that public inspection requirements are met. **Management response** […]
Medium	In 2020/21 our auditor's expert for valuations work noted that the Council's General Fund valuer had not followed the expected RICS guidance in performing DRC valuations for specialised assets. Specifically, the Council's valuer does not allow for age-related reductions in the useful lives of buildings, nor is there a mechanism for capital expenditure to affect the remaining lives of the building as components are replaced or renewed. Upon review of the 2021/22 valuations we noted that this issue still exists and therefore warrants the attention of Those Charged with Governance. We do not however consider there to be a material misstatement occurring as a result of this methodological issue.	For 2022/23 communicate with the General Fund valuer to understand and ensure they are following the national RICS guidance for valuations. **Management response** […]

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

A. Action plan – IT controls findings

	Assessment	Issue and risk	Recommendations
1.	●	**Users with debug access in SAP production** During our audit, we observed three accessible SAP user accounts had been provided with DEBUG access in production in the financial year (via the S_DEVELOP SAP authorisation object). Specifically, the following accounts: • ABSOFT_APPS • ABSOFT_BASIS • DDIC We understood that two of the accounts (ABSOFT_APPS, and ABSOFT_BASIS) belong to third party SAP support, and one account (DDIC) was used for applying patches in the production environment. **Risk** The assignment of DEBUG access within SAP, allows users to alter system source code and logic directly in the production environment. This therefore potentially allows users to bypass the configured transport route and change controls in place. This increases the risk of inappropriate and unauthorised changes being made to the system. Where this access is granted either for an extended period or to users outside of IT the risk is further increased. As part of our audit testing, we reviewed system records and observed that the account DDIC and PORTALADMIN had not been logged into during the audit period. We also noted that a monthly review on DEBUG access is in place since March 2022. DEBUG access from 01 Nov 2021 were retrospectively checked in the first review.	Management should review the assignment of this access and ensure that DEBUG access is removed from all dialog and service users in the production environment. If this access is required in the future, it should be granted for as short a period of time as possible with a risk assessment completed to identify any required supporting controls. **Management response** • Debug access has now been removed from both Absoft accounts • DDIC is a standard SAP system account that applies upgrades; it cannot be used to log in – account only used for patching and set to a service account; this account hasn't been used since 2019. This account has now been locked.

Assessment

- Significant deficiency – ineffective control/s creating risk of significant misstatement within financial statements and / or directly impact on the planned financial audit approach.
- Deficiency – ineffective control/s creating risk of inconsequential misstatement within financial statements and not directly impacting on the planned financial audit approach
- Improvement opportunity – improvement to control, minimal risk of misstatement within financial statements and no direct impact on the planned financial audit approach

A. Action plan – IT controls findings - SAP

	Assessment	Issue and risk	Recommendations
2.	Red	**Lack of formal process in managing SAP self-assigned access request** During our audit, we noted that there was no formal process in managing self-assigned access request within the SAP BASIS team. We observed that users in SAP BASIS team had assigned new access roles to their own SAP accounts. Such accesses were requested and approved verbally without formal documentation. Although audit logging was enabled, there was no proactive log review in place during the year except for DEBUG access. **Risk:** User access may not be appropriately aligned to job role requirements which may lead to inappropriate access within the application or underlying data.	Management should ensure that all access requests are formally documented and approved. Where feasible, logging and monitoring should be extended beyond debug access. **Management response** • We will review the process and put in place authorization mechanism – target end December 22
3.	Amber	**Segregation of duties conflicts between SAP change develop and implementer access** During our audit, a segregation of duties conflict was observed for three users (ABSOFT_APPS, BYRNEC and NICHOLSONJ) who are assigned a SAP development key along with ABAP developer access in the development environment (via SAP t-code SE38) and transport access in the production and quality environments (via t-code STMS with S_TRANSPRT and S_RFC authorisations). We also observed that there was no proactive monitoring in place to verify the appropriateness of any developers also implementing their own changes. We reviewed the STMS import history and observed there were 270 transports implemented in production. By comparing the STMS import history from development environment, we noted that no transport was developed and implemented by same user in FY2021/22. **Risk** The combination of access to develop changes and the ability to implement those changes in production is a segregation of duties conflict that could lead to an increased risk of inappropriate or unauthorised changes to data and programs being made.	Management should review these access assignments to ensure developers do not also have access to transport utilities in the production environment that would allow changes to be implemented. Where management believes for operational reasons, this access cannot be fully segregated a risk assessment should be undertaken and other mitigating controls considered (i.e. periodic monitoring of changes to identify those with the same developer and implementer and verify appropriateness). **Management response** • Will remove developer keys from these accounts – end Dec 22

A. Action plan – IT controls findings - SAP

	Assessment	Issue and risk	Recommendations
4.	●	**Business user with inappropriate SM19 access (audit log configuration)** During our review, we noted that 7 business users, including: - Head of Risk, - 2 Audit Managers, - 2 Senior Finance Officers, - Assistant Finance Officer, and - Internal Auditor have the ability to configure audit log (via SAP transactions SM19). **Risk** Access to audit log configuration (via SM19) within SAP gives users the ability to create, modify or delete audit logs owned and configured by other users. Where this ability is not appropriately restricted, audit logs may not be sufficiently maintained. Sufficient logs may not be available in the event of investigations for error or fraud detection.	Management should review the assignment of this access. Where possible, limit users with these privileges assigned to members of the IT and related support teams. Any users that do not require these privileges in an ongoing manner to perform their job role should have this level of access removed. Where this level of access is required for a specific task or purpose it should be assigned via a Fire Fighter ID. **Management response** • Access to be removed for SM19 (target end September 22)
5.	●	**Inadequate privileged generic user account management** During our audit, we observed 5 generic dialog accounts that had privileged access within SAP. Of these, two accounts were used by third party support consultants, while three were managed by the SAP Basis team. We noted that the activities performed via these generic accounts were not proactively monitored by management to ensure they were only used by appropriate individuals and for approved reasons. **Risk** Activities performed via shared generic accounts may not be linked to specific individuals, eroding accountability. Unauthorised transactions performed via these accounts may not be detected.	Management should consider performing an evaluation of the appropriateness and necessity of the generic accounts identified. This should include consideration of whether: (a) Activity could be performed through individually named users accounts with generic accounts reduced and only used for specific pre-approved activity; and (b) Accounts within the SAP application could be made into 'SYSTEM' user type, to allow them to run batch jobs but not be directly accessible for login. (c) If accounts are obsolete or not-in-use and if they could be disabled or deleted. Management should also consider whether compensating controls could be implemented to mitigate the risk created (i.e. passwords held within a password safe tool with logging of access or proactive monitoring of access with periodic review to validate an appropriate requirement). Where these controls will be owned / operated by external organisations management should consider disabling the accounts and only enable these accounts on need. Activities performed by the third parties should be monitored. **Management response** • This refers to accounts named: SAPSupport & PortalAdmin (service account), DDIC, Absoft (x2) • All these accounts will be kept locked unless required.

A. Action plan – IT controls findings - SAP

	Assessment	Issue and risk	Recommendations
6.	●	**Inadequate restrictions on the production client settings** During our audit, we observed the following weaknesses in SAP system configuration related to direct modification in production: - The parameter Protection: Client Copier and Comparison Tool was set to "Protection level 0: No restriction". This allows production data to be overwritten by a client copy from other clients. - The parameter CATT and eCATT Restrictions was set to "eCATT and CATT only Allowed for 'Trusted RFC". This allows automated test scripts to be run in the production client via an RFC procedure. **Risk** Limited or no restriction in direct modification of data in production client and corruption of data if unsafe test scripts are run.	Management should consider reviewing the production client settings and configure them as follows: • The parameter "Protection: Client Copier and Comparison Tool " should be set to "Protection level 1: No overwriting". • The parameter "CATT and eCATT Restrictions" should be set to "eCATT and CATT Not Allowed" **Management response** • These settings have been implemented (September 2022)
7.	●	**No formal process for changes in SAP batch jobs** During our audit, we noted that there was no formal process to manage the changes in relation to SAP batch changes (via SM36). **Risk:** A lack of consistent change management processes and controls regarding batch jobs could lead to a loss of data integrity, processing integrity and/or system down-time.	Management should establish a change management policy and associated procedures for changes in relation to SAP batch jobs, to ensure changes are consistently logged, tested, approved and monitored throughout the change lifecycle. **Management response** • Batch jobs are BAU tasks and risks are accepted as normal operating procedures. All access is audited within the system. • A separate process for recording any changes will be reviewed (target December 2022)

A. Action plan – IT controls findings - Northgate

	Assessment	Issue and risk	Recommendations
8.	●	**Lack of proactive review on appropriateness of activities performed by generic accounts** We noted that there was no proactive periodic access monitoring, for activities performed by generic administrative accounts in Northgate. Although a monthly activity report of account "RB" is produced, and an access log of using this ID is maintained, there was no review on both files to detect any abnormal or improper activities happened. In addition, there was no proactive review performed for account "FRC", another generic administrative account used in Northgate. **Risk:** Without formal and routine reviews of security event logs, inappropriate and anomalous activity may not be detected and resolved in a timely manner. Additionally, unauthorised system configuration and data changes made using privileged accounts may not be detected.	Management should ensure that security event logs are reviewed on a regular basis, ideally by a personnel/ team who are independent of those administrating Northgate and its underlying database. Any issues identified within these logs should be investigated and mitigating controls implemented to reduce the risk of reoccurrence. **Management response** • Monthly reviews have been scheduled (starting September 2022) and will be carried out by the Team Manager

B. Follow up of prior year recommendations

We identified the following issues in the audit of Kirklees Council's 2020/21 financial statements, which resulted in 5 recommendations being reported in our 2020/21 Audit Findings report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**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.	From our audit work performed, we consider this recommendation to have been substantially addressed in 2021/22.
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.	Management have not revalued investment properties at 31 March 2022 which fall below their de-minimus value. At 31 March 2022 there were investment properties totaling £3.7m which had not been subject to revaluation.
✓	**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.	From our audit work performed, we consider this recommendation to have been substantially addressed in 2021/22.
✓	**GRNI accruals (Repeat recommendation from 2019/20 – see Appendix B)** Audit testing of GRNI accruals identified items that should have been cleared out as paid and should not be reported as creditors.	From our audit work performed, we consider this recommendation to have been substantially addressed in 2021/22.
x	**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.	Five of the eleven 2020/21 recommendations were not fully addressed and these matters are repeated at Appendix A.

Assessment

✓ Action completed

x Not yet addressed

C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2022.

No adjusted misstatements have been identified to date.

C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Auditor recommendations	Adjusted?
Note 15 Property, Plant and Equipment	A £19m buildings asset (leisure centre) was transferred at historical cost from Assets under Construction to Other Land and Buildings in March 2022 upon completion of the building. Under the Code this is required to be held at current value, rather than historical cost. Following discussions we are satisfied that the difference in valuation is not material.	X
Note 17 Investment Property	Investment properties are required to be revalued annually in accordance with the CIPFA Code. At 31 March 2022 there were investment properties totalling £3.7m which have not been revalued. Management assert that investment properties below £250m are de-minimus and therefore not revalued.	X
Note 32 External Audit Costs	Note amended to reflect the forecast total cost of the external audit £213k (being scale fee of £132k and additional charges of £81k)	
Going Concern	We consider it good practice to include an explanatory going concern note in the financial statements.	X
Other information	Some presentational amendments to the Narrative Report and Annual Governance Statement were agreed with management.	✓

C. Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. The Corporate Governance and Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Balance Sheet Bank overdraft should be identified separately on the balance as a liability rather than netted off the cash balance.	0	Dr Cash 3.935m Cr Bank Overdraft (3.935m)	0	Not material and classification only with no overall impact
Total	0	0	0	

C. Audit Adjustments

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2020/21 financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting	Impact on 2021/22 financial statements
Balance Sheet Bank overdraft should be identified separately on the balance as a liability rather than netted off the cash balance.	0	Dr Cash 1,059 Cr Bank Overdraft (1,059)	0	Not material and no overall impact	Disclosure matter – not actioned for 2021/22 as £3.935m overdraft reported within note 32 Cash and Cash Equivalents
Note 15 Property Plant Equipment Incorrect accounting entries for surplus assets reclassified from investment properties.	Dr Cost of Services 3,050 Cr Surplus on revaluation of PPE (3,050)	0	0	Not material	No impact as specific to 2020/21
Note 41 Pensions Disclosures An extrapolated error relating to private equity holdings was reported by the WYPF auditor, 12% of which is attributable to Kirklees Council.	Dr Actuarial movement 2,229	Cr Pension Liability (2,229)	0 (Statutory override in place)	Based upon an extrapolation from an error raised in the WYPF accounts and not material	No impact as specific to 2020/21

D. Fees

We confirm below our final fees charged for the audit. We confirm there were no fees for the provision of non audit or audit related services.

Audit fees	Proposed fee	Final fee
Council Audit	£222,971	£212,971
Total audit fees (excluding VAT)	£222,971	£212,971*

* Final fee to be confirmed. Note there is a reduction in planned fee due to efficiencies of on-site working £5k and reduced Group audit procedures £5k with the demise of KNH Ltd .

The external audit fee agrees to Note 32 of the Financial Statements.

The variation from PSAA Ltd scale fee is set out below:

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**

E. Audit opinion

Our audit opinion is included below.

We anticipate we will provide the group with an unmodified audit report

See separate document upon completion of the audit

F. Management Letter of Representation

Grant Thornton UK LLP

2 Glass Wharf

Temple Quay

Bristol

BS2 0EL

[Date] – {TO BE DATED SAME DATE AS DATE OF AUDIT OPINION]

Dear Sirs

Kirklees Metropolitan Borough Council

Financial Statements for the year ended 31 March 2022

This representation letter is provided in connection with the audit of the financial statements of Kirklees Metropolitan Council and its subsidiary undertaking Kirklees Stadium Development Ltd for the year ended 31 March 2022 for the purpose of expressing an opinion as to whether the group and Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the group and Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the group and Council and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the group and Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include land, buildings & investment property valuation and pension liability valuation. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering 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 estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

vii. Except as disclosed in the group and Council financial statements:

a. there are no unrecorded liabilities, actual or contingent

b. none of the assets of the group and Council has been assigned, pledged or mortgaged

c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

F. Management Letter of Representation

xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached below. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end and are disclosure misclassifications only. The financial statements are free of material misstatements, including omissions.

xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiv. We have updated our going concern assessment. We continue to believe that the group and Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that :

a. the nature of the group and Council means that, notwithstanding any intention to cease the group and Council operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements

b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and

c. the group and Council's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the group and Council's ability to continue as a going concern need to be made in the financial statements.

xv. We have considered whether accounting transactions have complied with the requirements of the Local Government Housing Act 1989 in respect of the Housing Revenue Account ring-fence.

xvi. The group and Council has complied with all aspects of ring-fenced grants that could have a material effect on the group and Council's financial statements in the event of non-compliance.

xvii. We have made sufficient enquiries to be satisfied that the Council's joint venture Kirklees Stadium Development Ltd remains a going concern.

Information Provided

xviii. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the group and Council's financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. access to persons within the Council via remote arrangements, from whom you determined it necessary to obtain audit evidence.

xix. We have communicated to you all deficiencies in internal control of which management is aware.

xx. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xxi. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xxii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and Council, and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xxiii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xxiv. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxv. We have disclosed to you the identity of the group and Council's related parties and all the related party relationships and transactions of which we are aware.

xxvi. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

F. Management Letter of Representation

Annual Governance Statement

xxvii. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

xxviii The disclosures within the Narrative Report fairly reflect our understanding of the group and Council's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Corporate Governance and Audit Committee at its meeting on 25 November 2022.

Yours faithfully

Name…………………………….

Position…………………………..

Date……………………………..

Name…………………………….

Position…………………………..

Date……………………………..

Signed on behalf of the Council

Appendix – Schedule of unadjusted errors -

G. Audit letter in respect of delayed VFM work

Councillor Y Hussain
Chair of Corporate Governance and Audit Committee
Kirklees Council
Civic Centre
Market Street
Huddersfield
HD1 2EY

28 September 2022

Dear Councillor Hussain

The original expectation under the approach to VFM arrangements work set out in the 2020 Code of Audit Practice was that auditors would follow an annual cycle of work, with more timely reporting on VFM arrangements, including issuing their commentary on VFM arrangements for local government by 30 September each year at the latest. Unfortunately, due to the on-going challenges impacting on the local audit market, including the need to meet regulatory and other professional requirements, we have been unable to complete our work as quickly as would normally be expected. The National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We expect to publish our report no later than 31 December 2022.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

JD Roberts

Jon Roberts

Partner

Grant Thornton

grantthornton.co.uk

Kirklees COUNCIL

Name of meeting: Corporate Governance and Audit Committee

Date: 25 November 2022

Title of report: Update on Representation on Outside Bodies

Purpose of report
To seek approval for the nomination of a trustees to ‘King James’s School Foundation’ (charity 505999)

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?	**N/A**
Key Decision - Is it in the Council’s Forward Plan (key decisions and private reports)?	**N/A**
The Decision - Is it eligible for “call in” by Scrutiny?	**No as it is not an executive matter**
Date signed off by Director & name **Is it also signed off by the Assistant Director for Financial Management, IT, Risk and Performance?** **Is it also signed off by the Service Director - Legal Governance and Commissioning?**	**Julie Muscroft 16-11-22** **No financial implications – for information only** **Julie Muscroft 16-11-22**
Cabinet member portfolio	Not Applicable

Electoral wards affected: **Various in South Kirklees**

Ward Councillors consulted: **Not applicable**

Public or private: **Public**

No GDPR implications

1. Summary

1.1. The Service Director, Legal, Governance & Monitoring has delegated authority, in consultation with Group Business Managers, to receive and process nominations to Outside Bodies. Any changes in the Council's representation on Outside Bodies are reported to this Committee for information. A full report update was considered by this Committee at its meeting on 30th September 2022.

1.2. The Council has been reminded that it has a right to nominate one of 8 trustees to the King James's School Foundation charity. A trustee is nominated for 4 years.

2. Information required to take a decision

2.1 The King James's School Foundation charity was formed in 1608. Whilst the Council was corporate trustee in the past, it is currently governed by independent trustees, under a scheme approved by the Charity Commission in 2001, which establish the objectives as:

- the ownership of the King James's School site, in Almondbury,
- assistance with the provision of facilities for the school,
- assistance to pupils at the school and assistance to education for anyone under 25 who are resident in the ancient parish of Almondbury.

The ancient parish of Almondbury is an extensive area that includes large parts of the Colne Valley, Holme Valley and Meltham.

2.2 There are 8 trustees, and the Council is entitled to nominate 1 trustee. The current clerk to the trustees has written reminding the Council of its right to nominate. There is no one currently nominated (and it is not clear from records when, if ever, the Council last nominated anyone).

2.3 Officers are of the view that the Council should look to nominate, given that the objectives relate to young people who are residents of Kirklees, and beyond those who are involved directly with the school.

2.4 The group business managers will need to determine who they wish to nominate on behalf of the Council

3. Implications for the Council

Not applicable.

4. Consultees and their opinions

Not applicable.

5. Next steps

(i) Subject to approval, the Council will advise the Clerk of the charity of the Councils nomination.

6. Officer recommendations and reasons

(i) That the addition of 'King James's Foundation Charity' to the schedule of outside bodies, be approved.

(ii) That the Group Business Mangers be asked to nominate to someone to take up the council's position on the King James Foundation Charity

7. Cabinet portfolio holder recommendation

Not applicable.

8. Contact officer

Martin Dearnley 01484 221000
Email: Martin.Dearnley@kirklees.gov.uk

Sheila Dykes: 01484 221000
Email: Sheila.Dykes@kirklees.gov.uk

Helen Kilroy: 01484 221000
Email: Helen.Kilroy@kirklees.gov.uk

9. Background Papers and History of Decisions

None

10. Service Director responsible

Julie Muscroft, Service Director for Legal, Governance and Commissioning.

This page is intentionally left blank

Name of meeting: **CORPORATE GOVERNANCE & AUDIT COMMITTEE**
Date: **25 NOVEMBER 2022**
Title of report: **QUARTERLY REPORT OF INTERNAL AUDIT Q2 2022/23 JULY 2022 TO SEPTEMBER 2022**

Purpose of report.
To provide information about internal audit work in quarter 2 of 2022/23

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?**	**not applicable** **not applicable**
Cabinet member portfolio	**not applicable**

Electoral wards affected: **All**

Ward councillors consulted: **None**

Public or private: **Public with a private appendix**

The appendix to this report is recommended for consideration in private because the information contained in it is exempt information within part 1 of Schedule 12A of the Local Government Act 1972 namely that the report contains information relating to the financial or business affairs of any particular person (including the authority holding that information). The public interest in maintaining the exemption outweighs the public interest in disclosing the information and providing greater openness in the Council's decision making.

Have you considered GDPR? Yes

1. **Summary**

1.1 This report sets out the activities of Internal Audit in the second quarter of 2022/23.

1.2 The report contains information about eleven audits completed during the period. The routine audits were four schools, five that relate to other financial systems and processes and two follow up audits. All the school audits had positive findings, and there was substantial assurance related to business centres, and adequate assurance as regards purchasing cards and adult care client contributions; there were areas of activity that lead to concerns relating to the management of the integrated heathy child programme, and the SEND inclusion fund. Of the follow up audits, accounts payable was found to be adequate, but there remained concerns regarding income collection for grounds maintenance work.

1.3 Internal Audit also continued with its activity to support several governance areas and has reviewed certain grants and payment regimes, as well as data submission related to the national fraud initiative and government data collection related to (covid related) business grant funds

1.4 Internal Audit now looks after the Council's Fraud Investigation Team. 3 Right to Buy applications have been denied during the quarter with 1 property recovered. A further 12 investigations are ongoing. 1Tenancy Fraud has been proved and a tenancy termination signed. A further 3 investigations are ongoing. 6 cases of Blue Badge Misuse have led to prosecution, and 8 to warning letters. There has also been work continuing to support the ongoing prosecution of fraud in relation to Covid business grants.

1.5 Progress with routine audit work has been below expectations. This is not uncommon at this time of year due to previous year work having been completed in Quarter 1 and staff taking significant amounts of leave in Quarter 2. The plan for 2022/23 is that 85 audits should be completed. It is still anticipated that this should be possible, but if further slippage does occur the Head of Audit will advise the Committee at its January meeting if any action is necessary. Work is still progressing on determining an appropriate work plan for the Fraud Team. Linked to this it is anticipated that the Cabinet will shortly consider a new Counter Fraud Strategy, which restates the expectation that everyone acts with integrity when dealing with the Council, but the arrangements and systems will look to prevent and detect fraud, with actions always being taken against offenders.

1.6 It was agreed at March 2018 Council that this Committee consider any surveillance activities under the Regulation of Investigatory Powers Act 2000. There are none this quarter.

2. Information required to take a decision

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

3. Implications for the Council

3.1 **Working with People –** None directly
3.2 **Working with Partners –** None directly
3.3 **Place Based Working –** None directly
3.4 **Improving outcomes for children–** None directly
3.5 **Climate change and air quality-** None directly
3.6 **Impact on the finances of local residents-** None directly
3.7 **Other (e.g., Legal/Financial or Human Resources)-** Although each of the sub categorisations above suggest no direct implications, the work of internal audit covers all aspects of the Council's operations, including elements of the above, either specifically, indirectly or on a commissioned basis. The main issues relate to those

areas highlighted above- where there are risks associated with basic processing arrangements and delivering sound governance and control.

4. Consultees and their opinions

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

5. Next steps and timelines

5.1 To consider if any additional activity is sought. (Limited assurance audit outcomes are routinely followed up)

6. **Officer recommendations and reasons**

6.1 Members are asked to note the Internal Audit Quarterly Report and determine if any further action is sought on any matter identified.

6.2 Members are also asked to note that there has been no Regulation of Investigatory Powers Act activity during the period quarter 2 2022/23.

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**
Previous Quarterly Reports, Audit Plan, and confidential appendix.

10. **Service Director responsible**
Not applicable

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12Aof the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank