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Our ref

24 July 2017

Dear Debbie

### **Kirklees Council Audit of Accounts 2016/17 – Audit progress**

We have produced this letter to provide an update on the progress of our 2016/17 audit, to give you and the Corporate Governance & Audit Committee a timely summary of the key matters arising to date.

### **Objections to the accounts under the Local Audit & Accountability Act 2014**

The public rights relating to local authority accounts, as set out in the Local Audit & Accountability Act 2014, include the right for a local elector to raise an objection to an item of account in the financial statements with the auditor.

On 7<sup>th</sup> July 2017 we received an objection from a local elector. This objection relates to the lawfulness of the Council's Lender Option Borrower Option loans. In the 2016/17 draft financial statements the Council has over £75 million of LOBO loans on its balance sheet. We accepted the objection on 17<sup>th</sup> July 2017, and have commenced our audit work.

On 14<sup>th</sup> July 2017 we received a second objection from another local elector. This objection relates to the lawfulness of three of the Council's Private Finance Initiative schemes. We have not yet completed our initial review and have not formally accepted the objection.

The audit process in investigating, concluding and reporting on objections is lengthy, complex and time consuming, Public Sector Audit Appointments Ltd expect that auditors complete their work on objections within 9 months of accepting the objection. Consequently we do not expect that we will be in a position to complete our 2016/17 audit, and provide our audit opinion, before the statutory 30 September 2017 deadline.

## **Financial statements audit work**

Our audit work on the 2016/17 financial statements is substantially complete. The substantive testing fieldwork has progressed well, and officers provided good quality supporting working papers in a timely manner, and responded to our audit queries promptly. Our initial plan was to complete the audit and provide the audit opinion in early August 2017: this would have been achieved, without the objections we received in July.

We have completed the audit work on the two significant risks reported in our audit plan in January 2017 and have not identified any material matters to report. We have not identified any additional significant risks through our audit, and the two risks reported in our audit plan were

- Significant changes in the pensions liability due to the LGPS triennial valuation; and
- The valuation of Council dwellings.

There are three matters arising from our audit work to date to report to the Committee:

- Our audit work, which included input from KPMG IT specialists, on the Council's main IT system, SAP, identified some control weaknesses, and we have discussed the required improvements with officers. The key weaknesses related to:
  - the lack of an audit trail to demonstrate that all system changes were appropriate and authorised, and
  - the lack of review of the continued appropriateness of 'super-user' privileged profiles.
- One non-material error on the valuation of Council Dwellings in the Balance Sheet, whereby the Council has included in its Balance Sheet a value £7.3 million higher than the external valuer has included in their valuation report. The Council has informed us that, because it is not material, it does not intend to adjust for this error in the final financial statements.
- One non-material error in the short term provisions in the Balance Sheet, whereby the Council has included £1.4 million of provisions, for items that, in our opinion, meet the definition of a known liability which should be accrued and included as a short term creditor. The Council does not intend to adjust for this error in the final financial statements on the grounds that it is not material.

These matters will all be included in our final audit report at the conclusion of our audit, along with relevant recommendations and action plans.

### **Value for Money conclusion work**

In our audit plan issued in January 2017 we identified one significant risk to our value for money conclusion: the Council's financial sustainability in the medium term.

Following the completion of our planning work we have also identified a second significant risk relating to the Council's Children's Services arrangements, following the Ofsted inspection and report during 2016/17.

We have progressed our audit fieldwork on both significant risks. We will complete this work and include our conclusions on the Council's arrangements in our final audit report. This will be issued at the end of the audit after we have reached our decisions on the electors' objections.

Yours sincerely



John Prentice  
Director, KPMG LLP