External Audit ISA260 Report 2017/18

Kirklees Council

July 2018

DRAFT

Note - This is draft document and subject to change as we finalise our audit work. Text in red will be updated/removed as appropriate as our audit work is finalised.

Summary for Corporate Governance and Audit Committee

This document summarises the key findings in relation to our 2017-18 external audit at Kirklees Council ('the Authority').

This report covers our final on-site work which was completed in June and July 2018 on the Authority's significant risk areas, as well as other areas of your financial statements.

Financial statements

Subject to all outstanding queries being resolved to our satisfaction we anticipate issuing an unqualified audit opinion on the Authority's financial statements before the deadline of 31 July 2018. We note the following outstanding work:

- Final enquires in relation to the carrying value of assets not revalued in 2017/18;
- Final review of the pensions assumptions used by the actuary; and
- Final procedures regarding the allocation of pension fund assets.

Based upon our initial assessment of risks to the financial statements (as reporting to you in our *External Audit Plan 2017/18* and updated during our audit) we identified the following significant risks (excluding those mandated by International Standards on Auditing – see Page 7):

— **Valuation of PPE;**

— **Valuation of Pensions Liabilities; and**

— **Faster Close.**

We have identified no audit adjustments with a total value of £X million. See page X for details. These adjustments result in a net [increase / decrease] of £[X] million in the reported [surplus / deficit] on provision of services and a net [increase / decrease] of £[X] million in the general fund [and Housing Revenue Account] balance.

Based on our work, we have raised one new recommendation. Details of our recommendations can be found in Appendix 1.

While we have completed the audit of the Council's draft financial statements, we have not yet completed the audit work on the Council's Whole of Government Accounts submission. Until that work is completed we will not be able to issue our completion certificate.

During the accounts public inspection period in the 2016/17 we received two objections from electors relating to Lender Option Borrower Option (LOBO) loans and Private Finance Initiative (PFI) schemes. While we concluded our work on the Lender Option Borrower Option (LOBO) loans, our work on the Private Finance Initiative (PFI) schemes is ongoing. We have obtained sufficient evidence to conclude that the accounts for 2017/18 are not materially mis-stated. Consequently we expect to give an unqualified audit opinion on the financial statements.

Resolving objections can be a lengthy process and our work commenced in mid-July 2017. We will continue our work and provide regular updates to the Corporate Governance & Audit Committee. Once the objections have been resolved we will conclude our audit, before issuing our audit certificate.

Summary for Corporate Governance and Audit Committee (cont.)

Value for money arrangements

We have completed our risk-based work to consider whether in all significant respects the Authority has proper arrangements to ensure has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. However, in respect of the Authority's arrangements for Children's Services we have concluded that the Authority has not made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We therefore anticipate issuing an 'except for' qualified value for money opinion highlighting the Children's Services arrangements.

While it is evident that the Council has made progress in improving the arrangements within Children's Services since the previous year, these arrangements have not been in place throughout the full 2017-18 year and therefore the changes have not yet had time to deliver tangible improvements overall.

We set out our assessment of those areas requiring additional risk based work in our *External Audit Plan 2017/18* and have updated this assessment during our interim visit. As a result of this we have identified the following significant VFM audit risks:

- **Delivery of Budgets; and**
- **Children's Services Arrangements.**

See further details on page 15.

Exercising of audit powers

We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.

We have not identified any matters that would require us to issue a public interest report.

In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014.

Although as noted on page 1 we are still dealing with an objection in respect of PFI in relation to the 2016/17 financial statements.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help.

Section one

Control Environment

Organisational and IT control environment

We have identified significant issues with the Authority's IT control environment. These issues were identified in the previous year. We followed up on these recommendations in the current year. We have documented our findings in Appendix 2.

The Authority has not implemented all of the recommendations raised through our previous IT audit.

We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency, to remove and reduce risks within the SAP application.

Work completed on the IT control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit. We obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

The Authority relies on information technology ("IT") to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations. This has been complemented by our own testing of the SAP and Northgate systems.

Key findings

We consider that your organisational controls are effective overall, but noted a number of areas for further improvement in the IT environment. See Appendix 2 for further details.

These weaknesses meant that we altered our audit strategy so that we did not place reliance on automated controls. This included additional substantive testing at year-end.

Work completed on the financial systems

Where we have determined that this is the most efficient audit approach to take, we evaluate the design and implementation of the control and then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

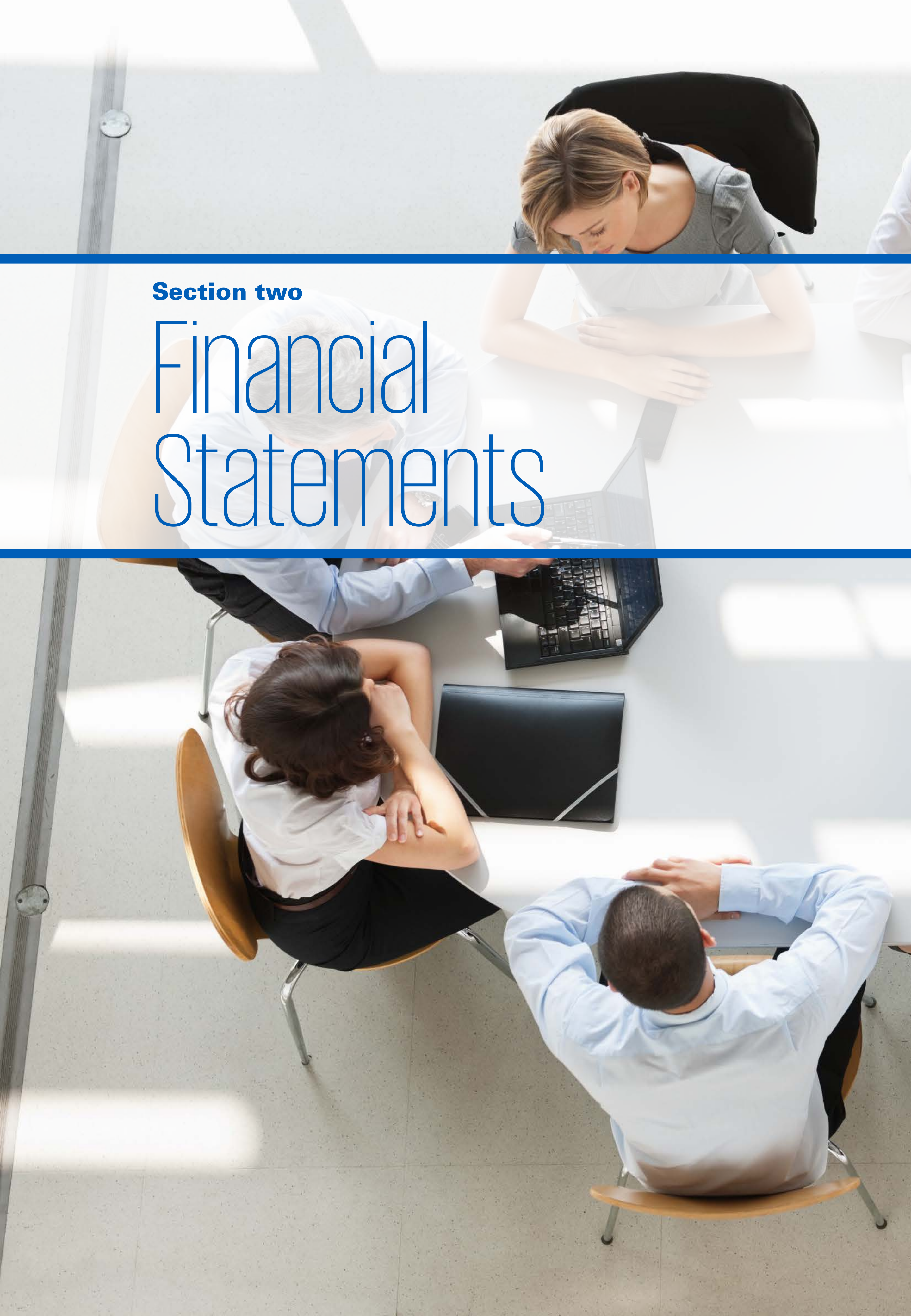
Our assessment of a system will not always be in line with your internal auditors' opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

Key findings

Based on the work completed on the IT environment we were unable to place reliance on controls with an automated element. Therefore we did not perform testing of controls with an automated element. Through the testing we performed on manual controls we did not identify any control deficiencies.

Section two

Financial Statements



Accounts production and audit process

Audit standards (ISA 260) require us to communicate our views on the significant qualitative aspects of the Authority's accounting practices and financial reporting.

We also assessed the Authority's process for preparing the accounts and its support for an efficient audit. The efficient production of the financial statements and good-quality working papers are critical to meeting the tighter deadlines.

The Authority's overall process for the preparation of the financial statements is adequate.

The Authority has implemented some of the recommendations in our *ISA 260 Report 2016/17*.

Accounts practices and production process

The Authority incorporated a number of measures into its closedown plan to further improve the project management of this complex process. Specifically, the Authority recognised the additional pressures which the earlier closedown brought and we engaged with officers in the period leading up to the year end in order to proactively address issues as they emerge.

We consider that the overall process for the preparation of your financial statements is good.

We also consider the Authority's accounting practices appropriate.

Going concern

The financial statements of the Authority have been prepared on a going concern basis. We confirm that we have identified no significant matters which would, in our view, affect the ability of the Authority to continue as a going concern.

Further commentary on the Authority's arrangements in place to secure the effective delivery of budgets is included at page 18.

Implementation of recommendations

We raised 7 recommendations in our ISA 260 Report 2016/17. The Authority has not fully implemented any of the recommendations relating to the financial statements in line with the timescales of the action plan. The Authority has a lot of work to do to implement the recommendations fully. Further details are included in Appendix 2.

Completeness of draft accounts

We received a complete set of draft accounts on 31 May 2018, which is the statutory deadline.

Quality of supporting working papers

The supporting working papers were provided in a timely manner and were of a high quality.

Response to audit queries

Officers dealt with our audit queries in a timely manner.

Specific audit areas

We anticipate issuing an unqualified audit opinion on the Authority's 2017-18 financial statements by 31 July 2018. We will also report that your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE ('Delivering Good Governance in Local Government') published in April 2016.

Auditing standards require us to consider two standard risks for all organisations. We consider these as a matter of course in our audit and will have set out the findings arising from our work in our ISA 260 Report below.

01

Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

There are no matters arising from this work that we need to bring to your attention.

02

Fraudulent revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our *External Audit Plan 2017-18* we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Specific audit areas

Significant Audit Risks – Authority

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Authority.

Risk:

Valuation of PPE (Key Audit Matter)

The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years.

This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value. In addition, as the valuation is undertaken as at 1 April, there is a risk that the fair value is different at the year end.

Council Dwelling valuations are based on Existing Use Value, discounted by a factor to reflect that the assets are used for Social Housing. The Social Housing adjustment factor is prescribed in DCLG guidance, but this guidance indicates that where a valuer has evidence that this factor is different in the Council’s area they can use their more accurate local factor. There is a risk that the Council's application of the valuer’s assumptions is not in line with the statutory requirements and that the valuation is not supported by detailed evidence indicating that the standard social housing factor is not appropriate to use.

Our assessment and work undertaken:

We reviewed the approach that the Council has adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach. We have also assessed the risk of the valuation changing materially during the year.

In addition, we considered movement in market indices between revaluation dates and the year end in order to determine whether these indicated that fair values have moved materially over that time.

In relation to those assets which have been revalued during the year we have assessed the valuer’s qualifications, objectivity and independence to carry out such valuations and reviewed the methodology used (including testing the underlying data and assumptions).

As a result of this work we determined that the Authority has accounted for the valuation of PPE appropriately.

We have set out our view of the assumptions used in relation to accounting for Property, Plant & Equipment at page 11.

Specific audit areas (cont.)

Significant Audit Risks – Authority (cont.)

Risk:

Valuation of Pension Liability (Key Audit Matter)

The pension liability represents a material element of the Council's balance sheet. The Council is an admitted body of West Yorkshire Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018.

The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Council's valuation.

There are financial assumptions and demographic assumptions used in the calculation of the Council's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Council's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.

There is a risk that the assumptions and methodology used in the valuation of the Council's pension obligation are not reasonable. This could have a material impact to pension liability accounted for in the financial statements.

Our assessment and work undertaken:

As part of our work we reviewed the controls that the Council has in place over the information sent directly to the Scheme Actuary. We also liaised with the auditors of the Pension Fund in order to gain an understanding of the effectiveness of those controls operated by the Pension Fund. This included consideration of the process and controls with respect to the assumptions used in the valuation. We also evaluated the competency, objectivity and independence of the Actuary.

We reviewed the appropriateness of the key assumptions included within the valuation, compared them to expected ranges, and consider the need to make use of a KPMG Actuary. We reviewed the methodology applied in the valuation by the Actuary.

In addition, we reviewed the overall Actuarial valuation and considered the disclosure implications in the financial statements.

As a result of this work we determined that the Authority has accounted for the pension liability appropriately.

We have set out our view of the assumptions used in valuing pension assets and liabilities at page 12.

Specific audit areas (cont.)

Significant Audit Risks – Authority (cont.)

Risk:

Faster Close

In prior years, the Council has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 however, revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July.

During 2016/17, the Council started to prepare for these revised deadlines and advanced its own accounts production timetable so that draft accounts were ready by 31 May. Whilst this was an advancement on the timetable applied in preceding years, further work is still required in order to ensure that the statutory deadlines for 2017/18 are met given the recent staffing changes in the accounts production team.

In order to meet the revised deadlines, the Council may need to make greater use of accounting estimates. In doing so, consideration will need to be given to ensuring that these estimates remain valid at the point of finalising the financial statements. In addition, there are a number of logistical challenges that will need to be managed. These include:

- Ensuring that any third parties involved in the production of the accounts (including valuers, actuaries) are aware of the revised deadlines and have made arrangements to provide the output of their work in accordance with this;
- Revising the closedown and accounts production timetable in order to ensure that all working papers and other supporting documentation are available at the start of the audit process;
- Ensuring that the Corporate Governance and Audit Committee meeting schedules have been updated to permit signing in July; and
- Applying a shorter paper deadline to the July meeting of the Corporate Governance and Audit Committee meeting in order to accommodate the production of the final version of the accounts and our ISA 260 report.

In the event that the above areas are not effectively managed there is a significant risk that the audit will not be completed by the 31 July deadline.

There is also an increased likelihood that the Audit Certificate (which confirms that all audit work for the year has been completed) may be issued separately at a later date if work is still ongoing in relation to the Council's Whole of Government Accounts return. This is not a matter of concern and is not seen as a breach of deadlines.

Our assessment and work undertaken:

We liaised with officers in preparation for our audit in order to understand the steps that the Authority was taking in order to ensure it met the revised deadlines. We also advanced audit work into the interim visit in order to streamline the year end audit work.

We received draft financial statements on the statutory deadline of 31 May 2018. The quality of this draft was consistent that of prior years and a result we identified that faster close did not pose a significant risk to the audit. Therefore this does not constitute a significant risk to the financial statements audit.

Judgements

We have considered the level of prudence within key judgements in your 2017-18 financial statements and accounting estimates. We have set out our view below across the following range of judgements.

Level of prudence

0	1	2	3	4	5	6
Audit Difference	Cautious		Balanced		Optimistic	Audit Difference
	Acceptable Range					

Subjective area	2017-18	2016-17	Commentary
Provisions (excluding Business Rates)	3	3	The provisions included in the accounts are balanced. We consider the provisions and related disclosures to be proportionate.
Accruals	3	3	Our work has not identified any matters arising with the accruals that the Council has made. The accruals tested were supported by detailed calculations and evidence and we conclude that the Council has taken a balanced approach to estimating these accruals.
Property Plant & Equipment: HRA Assets	3	4	The Authority continues its use of the beacon methodology in line with the DCLG's *Stock Valuation for Resource Accounting* published in November 2016. The Authority has utilised Cushman and Wakefield to provide valuation estimates. We have reviewed the instructions provided and deem that the valuation exercise is in line with the instructions. Our work has concluded that the Council's valuer has taken a balanced and reasonable approach to valuing the assets, and that the resulting valuation is compliant with DCLG guidance.
Property Plant & Equipment: Non-HRA Assets	3	3	The Authority has utilised Wilks, Head and Eve to value non-HRA assets under the Existing Use Value, Depreciated Replacement Cost and Fair Value methods for different classes of asset use. We reviewed the appropriateness of the method used for each type of asset being in line with the Code of Practice requirements and the accuracy of data provided to the valuer by the Authority. We evaluated associated valuer inputs and assumptions were reasonable and supported by 3rd party indice swhere possible . The large revaluation gain in relation to Investment Property in year was due valuing Investment Property under its 'alternative and best use' for Fair Value which was confirmed to be in compliance with code guidance. We confirmed that adjustments had been made to reflect the likelihood of development of vacant land to ensure valuations were not overly optimistic. Our work has concluded that the Council's valuer has taken a balanced and reasonable approach to valuing the assets, and that the resulting valuation is compliant with the Code of Practice requirements.

Judgements (cont.)

Subjective area	2017-18	2016-17	Commentary
Valuation of pension assets and liabilities	4	4	The Authority continues to use Aon Hewitt to provide actuarial valuations in relation to the assets and liabilities recognised as a result of participation in the Local Government Pension Scheme. Due to the overall value of the pension assets and liabilities, small movements in the assumptions can have a significant impact on the overall valuation. For example, a -0.1% p.a change in the discount rate would increase the present value of the liability by £41 million. The actual assumptions adopted by the actuary were determined to be slightly optimistic overall but fell within our expected ranges as set our below:

Assumption	Actuary Value	KPMG Range	Assessment
Discount rate	2.60%	2.35-2.65%	4
CPI inflation	2.10%	1.91-2.41%	3
Net discount rate	0.5%	(0.06)-0.74%	4
Salary Growth	3.35%	2.16-4.16%	3
Life expectancy Current male / female Future male/female	 22.1/ 25.3 23.1/ 27.1	 22.1/23.9 23.5/25.4	2

Proposed opinion and audit differences

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing [an unqualified audit opinion on the Authority's 2017-18 financial statements following approval of the Statement of Accounts by the Corporate Governance and Audit Committee on 27 July 2018.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

For the Authority, the final materiality (see Appendix 4) for this year's audit was set at £11.5 million. Audit differences below £0.575m are not considered significant.

For the Group, the final materiality (see Appendix 4) for this year's audit was set at £15 million. Audit differences below £0.750m are not considered significant.

We did not identify any material misstatements. We identified a number of issues that have not been adjusted by management as they do not have a material effect on the financial statements.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 ('the Code'). We have set out details of significant presentational adjustments in Appendix 3. We understand that the Authority will be addressing these where significant.

Annual governance statement

We have reviewed the Authority's 2017-18 Annual Governance Statement and confirmed that:

— It complies with Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE; and

— It is not misleading and is consistent with other information we are aware of from our audit of the financial statements.

Narrative report

We have reviewed the Authority's 2017-18 narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2017/18 financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have completed the work on the outstanding objection from 2016/17 we will prepare our Annual Audit Letter and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Kirklees Council for the year ending 31 March 2018, we confirm that there were no relationships between KPMG LLP and Kirklees Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 5 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the S151 Officer for presentation to the Corporate Governance and Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2017-18 financial statements.

Section three

Value for Money Arrangements

Specific value for money risk areas

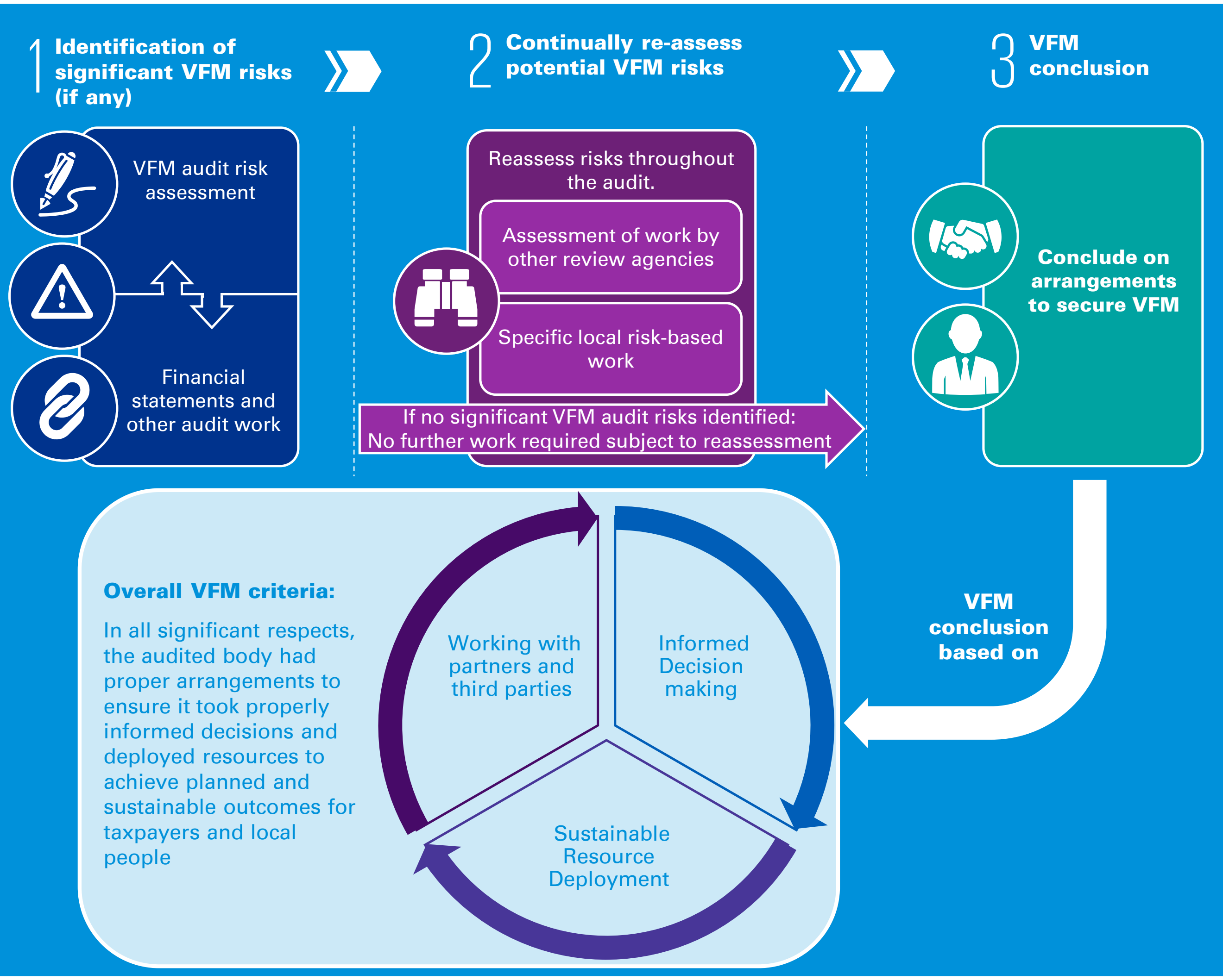
Our 2017-18 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have concluded that except for the Council's Children's Services arrangements the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

We follow a risk based approach to target audit effort on the areas of greatest audit risk.



Specific value for money risk areas (cont.)

The table below summarises our assessment of the individual VFM risks identified against the three sub-criteria. This directly feeds into the overall VFM criteria and our value for money opinion.

Applicability of VFM Risks to VFM sub-criteria

VFM Risk	Informed decision making	Sustainable resource deployment	Working with partner and third parties
Delivery of budgets	Applicable	Applicable	Applicable
Children's Services Arrangements	Applicable	Applicable	Applicable

In consideration of the risks above, we have concluded that in 2017-18 except for the arrangements operating over Children's Services, the Council has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Further details on the work done and our assessment are provided on the following pages.

Specific value for money risk areas (cont.)

As communicated to you in our *External Audit Plan 2017-18,* we have identified 2 risks requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

In some cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

We have provided below a summary of the risk areas identified, our work undertaken and the conclusions reached.

Risk:	**Delivery of budgets** For 2017/18 the Council set a net expenditure budget of £294.7 million, £20 million lower than the actual net expenditure delivered in 2016/17, although this was increased to £302.7 million during the year to reflect one-off in year commitments. The budget includes significant increases in resources for Children's Services and Adults' Services, and assumes a further use of reserves of £19 million. To deliver the budget the savings required are £54 million. As part of the budget reporting the Council outlined the indicative budgets for the next 3 years which shows budget surpluses being planned, albeit with increasing savings targets supporting those years, £82 million in 2018/19, £99 million in 2019/20 and £104 million in 2020/21. It should be noted that this is at a specific point in time (January 2018) and the budget will be considered by Cabinet on the 30 January 2018 and Council on the 14 February 2018. Early in-year monitoring indicates that the budget is forecast to be overspent but the Council is implementing a range of mitigations to reduce the impact of any overspend at the end of 2017/18.
Our assessment and work undertaken:	Like most of local government, the Authority faces a challenging future driven by funding reductions and an increase in demand for services. For 2017/18 the Council reported an underspend of £1.6 million against its revised net expenditure budget of £286.4 million. There were significant overspends in Children's Services of £11.3m. £5.8m of this was due to the continued priority investment in the emerging Children's Improvement Plan in partnership with Leeds Council. These overspends were partially offset by underspends in Adult and Health of £4.3m due to a release of the one off additional Better Care Fund monies of £8.3m in 2017/18. The Council budgeted to achieve savings of £54m in the year. This was split into Transformation activity (planned £26.9m) and service level change (planned £27.1m). The Council achieved 89% of this however identified a further £7m of other savings to mitigate this bringing them to 103% achievement in year. Going forward there are significant pressures in the areas of Children's Services and Adults Services in particular, and the Council is acutely aware of the need to press ahead with its savings plans and transformational agenda to ensure that the Council is fit for purpose and financially sustainable in the medium term. For 2018/19 the Council set a net expenditure budget of £291.2 million. The budget includes significant increases in resources for Children's Services and Adults' Services offset by increased need for savings.

Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Our assessment and work undertaken:

Overall conclusion

There are no matters arising from our review of the budget setting process for 17/18 and 18/19, the outturn position for 17/18, or the general arrangements to deliver financial sustainability, that indicate that the Council does not have adequate VFM arrangements. While the scale of the challenge is significant, the Council continues to refine and implement a robust approach to budget setting and reporting. Further target saving proposals of £16m in 2018-19 and £13m in 2019-20 will be required. The savings for 2018-19 have been identified and proposals developed at a Service level. The proposals include details of interdependencies and potential risks to the achievement of these savings. The Council also has a suitable structure in place in terms of Transformation to monitor and report on progress at an appropriate level.

Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Risk:	**Children's Services Arrangements** On 25 November 2016 Ofsted published its report from its Inspection of services for children in need of help and protection children looked after and care leavers, and its review of the effectiveness of the Local Safeguarding Children Board. The report rated Children's Services overall in Kirklees as Inadequate. Following this the Council has made fundamental changes in this area including a partnership arrangement with Leeds City Council (LCC) to improve Children's Services. The Commissioner report published in September 2017 noted the Council did not have the leadership and management capacity and capability to drive forward the necessary changes, and their recommendation was to progress the partnership arrangements with LCC to deliver the improvements. This issue impacted on our VFM conclusion and we issued a qualified 'except for' VFM conclusion in 2016/17.
Our assessment and work undertaken:	We have considered the range of reports and information published and available. Since the publication of the 'Inadequate' Ofsted report in November 2016 the Council has embarked on a number of fundamental changes in this area. Ofsted have continued to follow up their report with quarterly visits in June 2017, November 2017 and March 2018. The reports from the June and November visits concluded that insufficient progress had been made in improving Children's Services. The report from the March visit concludes that a small amount of progress has been made demonstrating an upward trajectory. Since the publication of the Ofsted report the Council has been proactive in developing its response and has engaged with Leeds City Council to provide significant assistance in helping to develop and deliver its Children's Services arrangements. The Director of Children's Services of Leeds City Council was appointed as Kirklees Council's statutory Director of Children's Services in July 2017. Alongside this, a number of other experienced staff have been seconded to Kirklees during the length of the agreement. We have met with the Director of Children's Services to understand developments throughout the year. In January 2018, a statutory direction was issue to the Council. The direction stated that the Council is still failing to perform to an adequate standard some or all of the functions to which section 497A of the Education Act 1996 ("the 1996 Act") is applied by section 50 of the Children Act 2004. The direction stated that further intervention and support is required for the Council to get the service up to the required standard. Following this the relationship between Kirklees City Council and Leeds City Council has been formalised in a strategic partnership agreement signed in March 2018. The Kirklees Safeguarding Children's Board has continued to be active in monitoring the delivery of its action plan in response to the relevant recommendations from the Ofsted report, and these have been reported regularly to Board meetings. While it is evident that the Council has made progress in improving the arrangements within Children's Services, as evidenced through the Ofsted monitoring report from the March visit published in April, these arrangements have not been in place throughout the full 2017-18 year and therefore the changes have not yet had time to deliver tangible improvements overall.

Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Our assessment and work undertaken:

Overall conclusion

The Council has responded to the Ofsted inspection by engaging with Leeds City Council to develop its response. Progress has been made as demonstrated in the monitoring reports published by Ofsted at the end of the financial year (report from the March visit). However, the arrangements have not been in place throughout the full year. Published reports demonstrate Children's Services is on upward trajectory and therefore it is anticipated that the Council will be able to demonstrate tangible improvements in the 2018/19 year. Our overall conclusion is that, in regard to Children's Services, the Council has not had adequate arrangements in place for 2017/18, as a result of:

—the statutory direction to Kirklees Council in relation to Children's Services under Section 497A(4B) of the Education Act 1996 stating that further intervention and support is required for the Council to get the service up to the required standard; and

—the Ofsted monitoring reports from throughout the year concluding that progress has been limited.

Appendices

Appendix 1:

Key issues and recommendations

Our audit work on the Authority's 2017-18 financial statements has not identified any issues leading to any new recommendations. We did however identify a recommendation through our work on the objection raised around Lender Option Borrower Option loans. We have listed this issues in this appendix together with our recommendations which we have agreed with Management. We have also included Management's response to this recommendation.

The Authority should closely monitor progress in addressing the risks, including the implementation of our recommendations.

We have given each recommendation a risk rating and agreed what action management will need to take.

Priority Rating for Recommendations

1	**Priority One:** Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	2	**Priority Two:** Issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	3	**Priority Three:** Issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

The following is a summary of the issues and recommendations raised in the year 2017/18.

Priority	This Report	Total
High	0	**0**
Medium	1	**1**
Low	0	**0**
Total	**1**	**1**

Key issues and recommendations (cont.)

No.	Risk	Issue & Recommendation	Management Response
1	2	**Lender Option Borrower Option** Through our work on the objection raised in 2016/17 relating to the financial statements we have identified the following recommendation. 1. When taking out new borrowing or refinancing existing borrowing, the Council should explicitly demonstrate through its approval and decision making process that: - the borrowing is for a purpose falling within Section 1 of the Local Government Finance Act 2003; - it would be financially prudent to enter into the borrowing; - the borrowing is within the Council's authorised limit for external debt; and - the borrowing terms are competitive with regards to the market, and that alternative funding has been considered. 2. The decision making should explicitly demonstrate and record that the Council has taken steps to consider all relevant issues that impact on the short, medium and long term, such as for example affordability, interest rate risk, refinancing risk, other risks to which the borrowing may expose the Council.	Awaiting management response ***Responsible Officer*** Awaiting management response ***Implementation Deadline*** Awaiting management response

Appendix 2:

Follow-up of prior year IT recommendations

The Authority has not implemented all of the recommendations raised through our previous IT audit.

We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency, to remove and reduce risks within the SAP application.

We do note that in a number of areas progress has been initiating activity to implement the recommendation however further activity is still required.

This appendix summarises the progress made to implement the IT recommendations identified in our *ISA 260 Report 2016/17* and re-iterates any recommendations still outstanding.

Number of recommendations that were	
Included in the original report	7
Implemented in year or superseded	0
Outstanding at the time of our audit	7

No.	Risk	Issue & Recommendation	Management Response	Status as at 01/05/2018
1	1	**SAP Privileged Profiles** ***2017 Risk*** The SAP application includes the ability to assign highly privileged profiles to user accounts (i.e. SAP_ALL). These profiles grant super user status to those accounts, allowing them control over all aspects of the system, including the ability to delete or amend all activity logs (including system changes). The following was noted in relation to this: — 26 user accounts hold the SAP_ALL were identified which had been assigned super user access for an extended period and where either there was no clear, current requirement, a lower privileged profile could be assigned or where the account type could be amended to a type that does not allow direct login. — To minimise risk good practice dictates that these profiles only be assigned for limited periods of time and always for a specific purpose. When required to be assigned to a system account for operational activity, if possible, the account should be set to an account type that does not allow direct login. — Where this level of privileged access assignment is not appropriately restricted it is not possible to confirm that no inappropriate changes have been made to the SAP system. This is due to the ability for changes to be made by users with this access level and then any record of the change to be removed. *[Continued to next page]*	**2017** Accepted An exercise to review all authorisation roles and user assignments is being undertaken to ensure appropriate authorisation assignment, starting with users assigned privileged profiles. It is anticipated the number of users with privileged profiles will reduce significantly. ***Responsible Officer*** Justin Nicholson ***Implementation Deadline*** July 2017 **2018** Accepted KPMG have identified 17 accounts with SAP_ALL. Analysis of these accounts reveals that 12 of these accounts are system accounts, used by functions and processes in SAP (not people). The other 5 accounts are the Basis team. *[Continued to next page]*	**Part Implemented** Since the 2017 SAP audit the Council have reduced the number of user accounts which hold super user access via the SAP_ALL profile from 26 to 17. It is however noted that holding this level of access for an extended period still poses a significant risk to the integrity of the system and data therein. It was also noted that within the audit period a number of temporary super user access assignments were made. In most cases the assignments were for short periods, however in two cases access was assigned for in excess of a month. In addition a formal and evidenced process for consistently granting approval for these temporary assignments is not in place. **Recommendation** Our recommendation to remove permanent assignment of this level of access remains the same as in the prior year. We also recommend developing a process to formally evidence approvals for temporary access assignment.

Follow-up of prior year recommendations (Cont.)

No.	Risk	Issue & Recommendation	Management Response	Status as at 01/05/2018
1	1	*[Continued to next page]* ***Recommendation*** A review should occur over all SAP user accounts which are currently assigned this level of access. This should confirm that in each instance there is a current requirement for this level of access and that a lower level of privileged cannot be used. For system accounts this should also include review of the option for the account to be set to an account type that does not allow direct user login. Periodic reviews should then occur to ensure that any changes to job roles or requirement are reflected in a timely manner.	*[Continued to next page]* This demonstrates a significant reduction in users with SAP_ALL to FIVE. However, we acknowledge that the allocation of SAP_ALL is considered bad practice and so we will remove it from all staff accounts. New authorisation roles for Basis and IT teams will be developed. SAP_ALL will be removed from all user accounts. A process for SAP_ALL assignment will be developed that will ensure evidence of reason for assignment and removal. Period reviews of all SAP users will be undertaken by functional areas and IT. In addition Internal Audit will be given the ability to monitor staff activity. ***Responsible Officer*** Justin Nicholson ***Implementation Deadline*** 25 July 2018	

Follow-up of prior year recommendations (Cont.)

No.	Risk	Issue & Recommendation	Management Response	Status as at 01/05/2018
2	1	**SAP System opening** ***2017 Risk*** The SAP system allows for the live system to be opened or unlocked to allow direct changes to be made, intended for use in the event of an emergency change or fault which cannot be fixed through the normal processes. The following was noted in relation: — No automated logging is in place to record when the system was opened or unlocked. — It is therefore not possible to verify that for each instance of the system being opened that the system was then closed in a timely manner, that each instance was appropriately approved and that additional measures were taken to avoid other users making changes inappropriately whilst open (i.e. locking out all other users). — This means that we cannot confirm that during this period no inappropriate or unauthorised changes were not made to the system or the data contained therein. — Whilst there is no evidence that changes were made, the lack of evidence for testing means it is not possible to rely on the system for audit purposes. ***Recommendation*** Automated logging of all changes to the open status of the system (including both opening and closing) should be enabled. In addition when the system is opened the option for automated logging of all activity should be selected to provide additional evidence that only approved, appropriate changes have occurred.	**2017** Accepted. The logging of both opening and closing of production systems is being enabled. Access to the logs will be given to the council's Internal Audit department. In addition, a pro forma will be used for all opening requests to capture the business justification. We will log the user's activity during the period the system is open. ***Responsible Officer*** Justin Nicholson ***Implementation Deadline*** September 2017 **2018** Accepted. As recommended by KPMG, the logging of system opening and closing has been implemented. Logging of users during open periods will be implemented. A process for requesting and approving the opening of the system will be developed. A new for requests to open the system will be developed, which will capture relevant information about the business need of the change required. An IT ticket will be raised for all requests. Once approved the user making the change will have all activity logged during the system opening. This will be saved and stored against the IT ticket for audit purposes. ***Responsible Officer*** Justin Nicholson ***Implementation Deadline*** 30 June 2018	**Part Implemented** Since the 2017 SAP audit automated logging has been enabled to record all instances where the live system has been unlocked. However we noted that there is currently no formal process for system unlocks to be requested and approved in a consistently documented and auditable manner. In total 4 instances of unlocking the live system were identified for the audit period, we noted for 1 instance no documentation was available including evidence of approval or record of changes made. **Recommendation** A defined process to consistently record requests and approval for unlocking of the system should be introduced. In addition when the system is opened the option for automated logging of all changes made should be selected to provide additional evidence that only approved, appropriate changes have occurred.

Follow-up of prior year recommendations (Cont.)

No.	Risk	Issue & Recommendation	Management Response	Status as at 01/05/2018
3	2	**SAP Privileged Transactions** ***2017 Risk*** The SAP application also includes the ability to assign privileged access at a more granular 'transaction' level. This enables user accounts to have high levels of privilege in relation to certain functions and activities (i.e. user account maintenance, changes to the system setup, batch job operations). The following was noted in relation to this: — 58 user accounts were identified which had this level of privileged access assigned for one or more system areas. In a number of instances it was confirmed that there was not a current requirement linked to the users job role. — To minimise risk these privileged transactions should only be assigned when required based on the users job role or for a specific operational purpose. When required to be assigned to a system account for operational activity the account should, if possible, be set to an account type that does not allow direct login. — Where privileged access is not appropriately controlled the risk is increased that changes to the system, user accounts and data are made without appropriate review and approval. — This creates the risk that changes could be made that could impact on the integrity of system functionality, reporting and data held within SAP. ***Recommendation*** A review should occur over transaction level privileged access assigned to all SAP user accounts. This should confirm that in each instance there is a current requirement for this level of access. Periodic reviews should then occur to ensure that any changes to job roles or requirement are reflected in a timely manner.	**2017** Accepted An exercise to review all authorisation roles and user assignments is being undertaken to ensure appropriate authorisation assignment, Functional leads are reviewing role authorisations and user assignment for appropriateness. Changes to roles and user assignments will then be made as required. Access to table maintenance in production systems has been removed. ***Responsible Officer*** Justin Nicholson / SAP Functional Leads ***Implementation Deadline*** December 2017 **2018** Accepted The review of SAP authorisation roles has been planned for some time, but requires expert functional resource being released for a significant period of time to review roles, transactions and data access. In recognition that this will take some time to organise and deliver, we will address the immediate risk by removing privileged transactions from those identified as not requiring it. These are mostly users in HD One. In addition, authorisations for IT staff will be reviewed and amended to ensure non-essential privileged access is removed *[Continued to next page]*	**Not Implemented** Since the 2017 SAP audit there has been limited progress to address this item with a number of legacy roles with excessive permissions still assigned to active users. The following individuals were identified that did not require the specific privileged access for their job role: - 115 user accounts were identified with privileged access to maintain users, create and maintain profiles, maintain tables and perform mass user access changes. - 61 users were identified with access to migrate changes into the live system. - 17 users were identified with access to execute or run batch jobs Note: The testing undertaken has been updated for the 2018 audit in line with good practice, therefore number of results output are not fully comparable. **Recommendation** Our recommendation therefore remains the same as the prior year.

Follow-up of prior year recommendations (Cont.)

No.	Risk	Issue & Recommendation	Management Response	Status as at 01/05/2018
3	2		*[Continued to next page]* 1.Authorisation roles for users with privileged transactions will be reviewed and transactions removed as appropriate. 2. Linked with issue 1, authorisation roles for IT staff will be reviewed and non-essential access will be removed. 3. In addition Internal Audit will be given the ability to monitor the activity of staff with elevated access in SAP. 4. A full review of authorisation roles will be planned and managed. ***Responsible Officer*** Justin Nicholson ***Implementation Deadline*** Actions 1-3 25 July 2018 Action 4 TBD	
4	2	**SAP Passwords and System Configuration** ***2017 Risk*** The SAP system allows for configuration at a detailed level over the structure of user passwords, as well as number of additional system settings in relation to user access. The following was noted in relation to this: — User passwords used for direct login to the SAP system (i.e. not via Windows Single Sign On authentication) are not required to be complex and to be changed periodically. — In addition the parameter within the SAP system configuration that blocks a built-in system account, when deleted being recreated with the widely known default password has not been configured correctly. *[Continued to next page]*	**2017** Accepted The password settings for manual login will be amended to conform to standards with Active Directory. This will require consultation and communication with users prior to implementation. System parameters for built-in accounts will be amended to fulfil recommended security requirements ***Responsible Officer*** Justin Nicholson / HD one ***Implementation Deadline*** September 2017	**Part Implemented** Since the 2017 SAP audit password configuration has improved and this is now aligned to good practice. However the parameter within the SAP system configuration that blocks a built-in system account, when deleted being recreated with the widely known default password has not changed and still poses a risk to system integrity. **Recommendation** The SAP system configuration in relation to the built-in system account should be reviewed and updated to align with good practice. Should the decision be taken to not align with good practice a risk assessment should be undertaken to assess the risk created.

Follow-up of prior year recommendations (Cont.)

No.	Risk	Issue & Recommendation	Management Response	Status as at 01/05/2018
4	2	*[Continued to next page]* Where passwords and system configuration are not set up in line with good practice the risk is increased that inappropriate or unauthorised access to the system could occur and allow for the activity that may then compromise the integrity of the system and data held therein. ***Recommendation*** The SAP system configuration should be reviewed, where possible it should be aligned with good practice in relation to passwords and user access controls.	**2018** Accepted As KPMG state, SAP password configuration has improved and is now aligned to good practice. However, a further configuration change is required to prevent the auto-regeneration of SAP built-in accounts The required configuration change has been made in SAP. ***Responsible Officer*** Justin Nicholson ***Implementation Deadline*** Completed	
5	2	**SAP Change Segregation of Duty** ***2017 Risk*** The SAP system includes functionality for user access to be segregated to ensure that an individual is only able to create or approve changes to the live system. This is to ensure that no individual is able to make changes to the system without independent approval. The following was noted in relation to this: — During the financial year a significant number of changes (520) were developed and approved for movement into the live system by the same person. — It was noted that where a small SAP support team exists this maybe required to ensure the system continues to operate and avoid delays, there is however currently no compensating process for a independent review to ensure all changes made in this manner can be linked either to an approved change request or formally recorded incident. *[Continued to next page]*	**2017** Accepted The Development and Basis teams will ensure that transports into production are not performed by the originator of the change. Internal Audit will be granted access to review changes as recommended. ***Responsible Officer*** Justin Nicholson ***Implementation Deadline*** August 2017 **2018** Accepted Since the last audit an instruction was given to all SAP staff, clarifying that an originator of a change must not move a change into production. This resulted in a significant reduction in offending changes. However, it did not completely reduce the number, or reduce to an acceptable minimum. *[Continued to next page]*	**Part Implemented** Since the 2017 SAP audit we noted that a smaller number of changes (142) were created and approved by the same person. We did however identify that 18 user accounts have the required combination of privileges create and approve changes into the live system. We also noted that a compensatory process, such as periodic management review of changes with the same creator and approver has not been implemented. **Recommendation** Our recommendation is the same as prior year.

Follow-up of prior year recommendations (Cont.)

No.	Risk	Issue & Recommendation	Management Response	Status as at 01/05/2018
5	2	*[Continued to next page]* ***2017 Risk*** — Where changes are developed and implemented by a single individual without independent approval or review the risk is increased that a change is made to the live system which has not followed the agreed process and which could compromise the integrity of the system and data. ***Recommendation*** A review should be undertaken over all SAP user accounts which are able to both develop and implement changes to ensure that this access is required based on team structure and current job roles. Where this level of access is deemed appropriate by management a process should be implemented whereby periodic reviews of all such changes occur to validate their authenticity and ensure no misuse of privilege is occurring.	*[Continued to next page]* Therefore the ability to move changes into production will be removed from all staff except the Basis team. It should be noted however, that there will be occasions where the same member of Basis will move a change through the landscape and into production. These occasions will be rare, but due to staffing limitations they cannot be complete avoided. Authorisation roles of HD One staff and IT staff will be reviewed, and the ability to move changes into production will be removed. Access to review changes will be given to Internal Audit staff so they can monitor and review changes for appropriateness. ***Responsible Officer*** Justin Nicholson ***Implementation Deadline*** 25 July 2018	Since the 2017 SAP audit we noted that a smaller number of changes (142) were created and approved by the same person. We did however identify that 18 user accounts have the required combination of privileges create and approve changes into the live system. We also noted that a compensatory process, such as periodic management review of changes with the same creator and approver has not been implemented. **Recommendation** Our recommendation is the same as prior year.

Follow-up of prior year recommendations (Cont.)

No.	Risk	Issue & Recommendation	Management Response	Status as at 01/05/2018
6	2	**SAP Built in Accounts** ***2017 Risk*** The SAP system contains a number of built-in, system accounts which are used for specific purposes such as initial system setup and version upgrades. The following was noted in relation to this: — Two privileged built-in system accounts were both active and not set to a user type that would block direct login occurring. Further it was noted that a non-privileged built-in account was active within the live system and had not had its password changed from the commonly known default. — Where default accounts are not controlled appropriately (including being disabled when not required and changing default passwords) the risk is increased of inappropriate access — Further due to the nature of these accounts the risk is increased due to the lack of direct accountability to a named individual or group of individuals for any activity undertaken, Where accounts are privileged this risk is further increased. ***Recommendation*** A review should be undertaken over all built-in system accounts to confirm a current requirement. Where there is no current requirement the account should be locked, where the account is required but does not require direct user access the account type should be updated to one that does not allow direct login. Any default passwords identified as in use should be changed immediately.	**2017** Accepted. SAP built-in accounts will be reviewed and locked where possible. Changes to prevent direct login will also be made. All default passwords will be changed. ***Responsible Officer*** Justin Nicholson ***Implementation Deadline*** August 2017 **2018** All built-in SAP accounts have had their passwords changed and where appropriate have been locked. The one remaining account is in a SAP client not used by staff. This account will have the password changed and be locked. SAP account Earlywatch will have password changed and be locked. ***Responsible Officer*** Justin Nicholson ***Implementation Deadline*** 25 July 2018	**Part Implemented** Since the 2017 SAP audit one of two of privileged built-in accounts identified is no longer active. However the other is still active on the live system and not set to a user type that would block direct login. The non-privileged built-in account was noted to still be active within the system and continues to use the commonly known default password. We do however note that this account is locked so the risk is decreased. All other privileged built-in accounts remained aligned with good practice **Recommendation** Our recommendation therefore remains the same as in the prior year.

Follow-up of prior year recommendations (Cont.)

No.	Risk	Issue & Recommendation	Management Response	Status as at 01/05/2018
7	2	**SAP and Northgate user access** ***2017 Risk*** Through our testing of user access for individuals at all levels in both the SAP and Northgate systems we identified that there were a number of users who still had access to elements of the systems that they no longer required in their specific job role/function and one person still had access but had left the Council. Through discussions with management we identified that access rights reviews are not undertaken on a regular basis due to resource constraints. There is a risk that individuals could be accessing areas of the system that are inappropriate for their job role. ***Recommendation*** A review should be undertaken over all Northgate user accounts on a periodic basis to check whether this level of access is appropriate based on team structure and current job roles. At a minimum, when an individual moves to a new job role a review should be undertaken to determine whether any access rights that they currently have need to be removed. Access rights for leavers should be removed as part of their exit process.	**2017** Accepted. Details of Customer & Exchequer leavers and transfers will be sent to the SAP Support Team and IT where action will taken to review their Northgate access rights. A process is also being established to disable accounts of users who have not logged in for a determined period. In addition, regular reports including job roles will be sent to Customer and Exchequer to allow for manual inspection/review of current staff access rights. ***Responsible Officer*** Justin Nicholson ***Implementation Deadline*** SAP user access –action complete Northgate –December 2017 **2018** XXXX ***Responsible Officer*** XXX ***Implementation Deadline*** XXX	**Not Implemented** Our testing identified that user access controls have not been implemented since our recommendation in the prior year. **Recommendation** Our recommendation therefore remains the same as in the prior year.

Appendix 3:

Audit differences

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Corporate Governance and Audit Committee).

We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

A number of minor amendments focused on presentational improvements have also been made to the 2017-18 draft financial statements. The Finance team is committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

Adjusted audit differences – Authority

Our audit did not identify any material adjusted audit misstatements.

Unadjusted audit differences - Authority

The following table sets out the uncorrected audit differences identified by our audit of Kirklees Council's financial statements for the year ended 31 March 2018. These differences are individually below our materiality level of £[X]. Cumulatively, the impact of these uncorrected audit differences is £[x]. We have also considered the cumulative impact of these unadjusted audit differences on the Authority's financial statements in forming our audit opinion.

Table 1: Unadjusted audit differences – Authority (£'000)

No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
1	Dr Account […]	Cr Account […]				[Record details of the issue identified ensuring that it is drafted in a way to be understood by Members]
2		Dr Account […]	Cr Account […]			[Record details of the issue identified ensuring that it is drafted in a way to be understood by Members]
	Dr/Cr […]	**Dr/Cr […]**	**Dr/Cr […]**	**Dr/Cr £[…]**	**Dr/Cr […]**	**Total impact of adjustments**

Presentational adjustments - Authority

We identified a number of minor presentational adjustments required to ensure that the Authority's financial statements for the year ending 31 March 2018 are fully compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 ('the Code').

The only significant presentational adjustment of £12.6m related to the disclosure of Fair Value of Long-Term Loans and Loan Stock which was overstated due to inclusion short term borrowings. These loans are held at amortised cost on the Authority's Balance Sheet and therefore this represents a presentational change to the disclosure and not a misstatement and has been corrected by the Authority.

Appendix 4:

Materiality and reporting of audit differences

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.

Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.

Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our *External Audit Plan 2017-18*, presented to you in April 2018 for the Authority. Materiality is set at £11.5 million. Performance materiality is £7.475 million. Our triviality limit is £0.575 million.

For the Group we set materiality at £15 million. We set performance materiality at £10 million and we set our triviality limit at £0.750 million.

Reporting to the Corporate Governance and Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Corporate Governance and Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, an individual difference is considered to be clearly trivial if it is less than £0.575 million for the Authority.

In the context of the Group, an individual difference is considered to be clearly trivial if it is less than £0.750 million for the Authority.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

Appendix 5:

Required communications with the Corporate Governance and Audit Committee

We have provided below at-a-glance summary of the information we are required to report to you in writing by International Accounting Standards.

Required Communication	Commentary
Our draft management representation letter	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 December 2018.
Adjusted audit differences	We have identified no adjusted audit differences.
Unadjusted audit differences	The net impact of unadjusted audit differences on the [surplus / deficit] on provision of services would be £[X]. In line with ISA 450 we request that you adjust for these items. However, they will have no effect on the opinion in the auditor's report, individually or in aggregate. See Appendix 3 for further details.
Related parties	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit Committee	There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	We have not identified any significant control deficiencies during our financial statements audit other than the IT deficiencies identified in the previous year and followed up on this year. Control deficiencies were identified in the IT control environment in the 2016/17 year and still remain this year. See Appendix 2 for further detail.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	We identified no actual or suspected fraud involving the Authority's Member or officers with significant roles in internal control, or where the fraud resulted in a material misstatement in the financial statements.
Significant difficulties	No significant difficulties were encountered during the audit.
Modifications to auditor's report	There are no modifications to our financial statements audit report. A modification has been made to our opinion on the Authority's Value For Money arrangements.
Disagreements with management or scope limitations	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.

Appendix 5:

Required communications with the Corporate Governance and Audit Committee (cont.)

Required Communication	Commentary
Other information	No material inconsistencies were identified related to other information in the Narrative Report or Annual Governance Statement. These reports were found to be fair, balanced and comprehensive, and compliant with applicable requirements.
Our declaration of independence and any breaches of independence	No matters to report. The engagement team and others in the firm, as appropriate, the firm and, when applicable, KPMG member firms have complied with relevant ethical requirements regarding independence. See Appendix 6 for further details.
Accounting practices	Over the course of our audit, we have evaluated the appropriateness of the Authority's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate. We have set out our view of the assumptions used in valuing pension assets and liabilities at page 10.
Significant matters discussed or subject to correspondence with management	The following significant matters arising from the audit which were discussed, or subject to correspondence, with management: — Valuation of PPE; — Valuation of pension liability; — Delivery of budgets; and — Children's Services arrangements.
Key audit partner	We identified each key audit partner at page 22 in our *External Audit Plan 2017-18* presented to you in April 2018.
Independence of external experts engaged by KPMG and non-KPMG auditors	We have not engaged external experts for the performance of any aspects of our audit.
Communications with audit committee and management	We have described the nature, frequency and extent of communication with the audit committee and management at page 20 in our *External Audit Plan 2017-18* presented to you in April 2018.
Scope and timing of the audit	We have described the scope and timing of the audit at page 20 in our *External Audit Plan 2017-18* presented to you in April 2018.
Audit methodology	Our audit methodology is described in our *External Audit Plan 2017-18*.

Appendix 5:

Required communications with the Corporate Governance and Audit Committee (cont.)

Required Communication	Commentary
Valuation methods	On pages 8, 9, 11 and 12, we have discussed valuation methods applied to the financial statements.
Going concern assessment	There are no significant matters affecting the entity's ability to continue as a going concern.
Requested explanations and documents	No matters to report. All requested explanations and documents were provided by management.
Materiality	Quantitative materiality applied to the audit of the financial statements as a whole and materiality for balances/disclosures affected by qualitative factors is set out at page 9 in our *External Audit Plan 2017-18* presented to you in April 2018. See also Appendix 4 of this report.
Non-compliance with laws and regulation or articles of association	No actual or suspected non-compliance with laws and regulation or articles of association were identified during the audit
Management's approach to consolidation	We report on management's approach to consolidation on page [X]. It is consistent with the requirements of the Code. The consolidated financial statements include all material subsidiaries. TO UPDATE

Appendix 6:

Declaration of independence

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF KIRKLEES COUNCIL

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Limited's ('PSAA's') Terms of Appointment relating to independence, the requirements of the FRC Ethical Standard and the requirements of Auditor Guidance Note 1 - General Guidance Supporting Local Audit (AGN01) issued by the National Audit Office ('NAO') on behalf of the Comptroller and Auditor General.

This Statement is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

— General procedures to safeguard independence and objectivity;

— Independence and objectivity considerations relating to the provision of non-audit services; and

— Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

— Instilling professional values

— Communications

— Internal accountability

— Risk management

— Independent reviews.

The conclusion of the audit engagement leader as to our compliance with the FRC Ethical Standard in relation to this audit engagement is subject to review by an engagement quality control reviewer, who is a partner not otherwise involved in your affairs.

We are satisfied that our general procedures support our independence and objectivity.

Declaration of independence (cont.)

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the authority and its controlled entities for professional services provided by us during the reporting period. We have detailed the fees charged by us to the authority and its controlled entities for significant professional services provided by us during the reporting period in Appendix 7, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2018 can be analysed as follows:

	2017-18 (planned fee) £	2016-17 £
Audit of the Authority	158,729	158,729
Additional work relating to SAP IT control weakness	-	5,820
Additional work on objections to the accounts *(note 1)*	TBC	TBC
Total audit services	**158,729**	**164,267**
Audit related assurance services- housing benefits	28,301	37,718
Audit related assurance services- assurance reports	15,000	15,000
Total Non Audit Services	**43,301**	**52,718**

We are required by AGN 01 to limit the proportion of fees charged for non-audit services (excluding mandatory assurance services) to 70% of the total fee for all audit work carried out in respect of the Authority under the Code of Audit Practice for the year. The ratio of non-audit fees to audit fees for the year was 0:1 as none of the services provided count towards the cap. We therefore do not consider that the total of non-audit fees creates a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out table on the following page.

Note:

1. The additional fees relating to our work on the two objections to the Council's 2016/17 accounts will be discussed and agreed with officers once that work has been completed. Our additional fee requests will require approval from PSAA.

Appendix 6:

Declaration of independence (cont.)

Analysis of Non-audit services for the year ended 31 March 2018

Description of scope of services	Principal threats to independence and Safeguards applied	Basis of fee	Estimated value of services committed but not yet delivered £
Audit-related assurance services			
Assurance reports provided for grant claims and returns no longer within the PSAA regime. • Teachers Pensions return • Pooling of Housing Capital Receipts • NCTL teacher training return • Skills Funding Agency subcontracting Arrangements	**Self-interest:** These engagements are entirely separate from the audit through separate contracts. The fee rates are low in comparison to the audit fees and they are not contingent on any outcomes from the assurance work. **Self-review:** The nature of this work is to provide an independent assurance report to the relevant external body. This does not impact on our other audit responsibilities and there is no threat of our work under these engagements being reviewed through our audit. **Management threat**: This work provides a separate assurance report and does not impact on any management decisions. **Familiarity**: This threat is limited given the scale, nature and timing of the work. This is the second year we have completed these assurance reports. **Advocacy:** We will not act as advocates for the Council in any aspect of this work. The output is an independent assurance report to the relevant external body applying an approach issued by that body. **Intimidation:** not applicable to these areas of work.	Fixed Fee	15,000
Mandatory assurance services			
Grant Certification – Housing Benefit Subsidy Return	The nature of this mandatory assurance service is to provide independent assurance on each of the returns. As such we do not consider it to create any independence threats.	Fixed Fee	28,301

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit Committee.

Declaration of independence (cont.)

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

[add electronic signature]

KPMG LLP

Appendix 7:

Audit fees

As communicated to you in our *External Audit Plan 2017-18*, our scale fee for the audit is £158,729 plus VAT (£158,729 in 2016/17), which is consistent the prior year.

Our work on the certification of the Authority's Housing Benefit Subsidy return is planned for September 2018. The planned scale fee for this is £28,301 plus VAT (£37,718 in 2016/17). The estimated fees for other grants and claims which do not fall under the PSAA arrangements amount to £15,000 plus VAT (£15,000 in 2016/17), see further details below.

Component of the audit	2017-18 Planned Fee £	2016-17 Actual Fee £
Accounts opinion and value for money work		
PSAA Scale fee (Kirklees Council)	158,729	158,729
Additional work relating to SAP IT control weakness	-	5,820
Additional work on objections to the accounts *(note 1)*	TBC	TBC
Total audit services	**158,729**	**164,549**
Mandatory assurance services		
Housing Benefits Certification (work planned for September)	28,301	37,718
Total mandatory assurance services	**28,301**	**37,718**
Audit-related assurance services	15,000	15,000
Teachers' Pension Return		
Pooling of Housing Capital Receipts		
NCTL teacher training		
Skills Funding Agency subcontracting arrangements		
Total audit-related assurance services	**15,000**	**15,000**
Total non-audit services	**43,301**	**52,718**
Grand total fees for the Authority	**202,030**	**217,267**

All fees quoted are exclusive of VAT.

The key contacts in relation to our audit are:

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Rashpal Khangura, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to Andrew.Sayers@kpmg.co.uk. After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

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