Grant Thornton

The Audit Findings for Kirklees Metropolitan Council

Year ended 31 March 2019

Updated – 25 February 2020

Contents

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Kirklees Metropolitan Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements

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

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

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

The majority of our final accounts audit work was completed on site during June and July 2019 with further work relating to the valuation of Land and Buildings continuing until December 2019. Our findings are summarised on pages 4 to 18. We identified one material amendment to the financial statements that resulted in a £23m adjustment to the Council's net pension liability. This adjustment reflects a national legal case where a ruling in June 2019 altered the Council's initial accounting treatment. Officers have updated the draft financial statements based on a revised actuarial assessment which incorporates an estimate of the additional pension liability related to the ruling.

Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. At this stage we anticipate our audit opinion will be unqualified.

Our work is substantially complete, subject to the following outstanding matters:

- completion of our internal quality review procedures including final Engagement Lead review
- review of the final set of financial statements; and
- receipt of the management letter of representation.

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

In line with our planned approach we have challenged key elements of the Council's valuation of its land and buildings including:

- The Council revalues its land and buildings on a rolling five year basis. Because the Council's portfolio is significant this means that the carrying value of land and buildings not revalued in the year may be different to its current value. The Council has a range of processes in place to assess the potential difference and none of these identified a material difference. As part of our audit we have provided further challenge to this view and officers have now completed a more detailed review which has also identified that any uncertainty is not material. Going forward the Council should review its approach to valuing its Land and buildings and increase the frequency of the valuations to ensure the carrying value are not materially different to the current value of the assets.
- The Council's accounting policy states that investment properties are 'revalued annually'. Our audit identified that most Investment properties are formally revalued annually however those worth less than £250,000 are revalued on a five year cyclical programme. The Code states that "The fair value of investment property shall reflect market conditions at the end of the reporting period". For investment properties not revalued in the year we have confirmed the majority of these assets are long-term ground rents. We are satisfied the value is not materially misstated, however going forward the Council should review its approach to ensure compliance with the Code.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Kirklees Metropolitan Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2019 for those charged with governance.

Value for Money arrangements	**Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').**	We have completed our risk based review of the Council's value for money arrangements. Since OFSTED rated the Council's Children's services as inadequate in 2016, the Council has made improvements in the service provided. A strategic partnership was agreed with Leeds City Council and an Improvement Plan developed and implemented. The OFSTED monitoring report in January 2019 identified that 'significant improvement' had been made. OFSTED carried out a full re-inspection of the Council's Children's Services in June 2019, reported in August 2019, which resulted in a rating of 'Requires Improvement to be good'. The report confirms that 'steady progress has been made in strengthening the foundations for sustainable service improvement'. The report also concludes that there are still improvement to be made' and the Council is continuing to address these areas. We have concluded that Kirklees Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified value for money conclusion. Our findings are summarised on pages 19 to 21.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties and we have not received any questions or objections at audit. We note that KPMG, your previous auditors, have determined the outstanding objection and issued their audit certificates for 2016/17 and 2017/18. We have completed the majority of work under the Code but do not expect to be able to issue our completion certificate until we complete our work on the Whole of Government Accounts (WGA) return.

Acknowledgements

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

Summary

Overview of the scope of our audit

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

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

Audit approach

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

- an evaluation of the Group's internal controls environment, including its IT systems and controls;
- an evaluation of the Group component and specified procedures for Kirklees Neighborhood Housing's net pension fund liability and disclosures; and
- substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We have not had to alter or change our audit plan, as communicated to you on 26 February 2019.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding tasks set out below being resolved, we anticipate issuing an unqualified audit opinion. These outstanding tasks include:

- completion of our quality review procedures including final Engagement Lead review;
- review of the final set of financial statements; and
- receipt of the management letter of representation

Our approach to materiality

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

Materiality calculations remain the same as reported in our audit plan.

We detail in the table below our determination of materiality for Kirklees Metropolitan Council.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	17,300,000	17,200,000	• This equates to 1.75% of the previous year's gross cost of services expenditure and is considered to be the level above which the users of the accounts would wish to be aware in
Performance materiality	11,245,000	11,180,000	• Assessed to be 65% of financial statements materiality
Trivial matters	865,000	860,000	• Assessed to be 5% of financial statements materiality
Materiality for Officers Remuneration	20,000	20,000	• This item merits a lower materiality than financial statement level materiality due to being of particular interest to the public.

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
1	**Fraudulent revenue transactions** Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	**Auditor commentary** We previously considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority. We have determined that the risk of fraud arising from revenue recognition can be rebutted because: • there is little incentive to manipulate revenue recognition • the culture and ethical frameworks of local authorities, including Kirklees Metropolitan Council, mean that all forms of fraud are seen as unacceptable • income streams are primarily derived from grants or formula based income from central government and tax payers; and opportunities to manipulate other revenue streams are very limited. **We therefore do not consider this to be a significant risk** We have however: • evaluated the Council's accounting policy for recognition of revenues for appropriateness; • performed substantive testing on material revenue streams; and • reviewed unusual significant transactions. We have not identified any issues during the course of our audit that would cause us to reconsider the previous rebuttal of the risk of improper recognition of revenue.
2	**Management override of controls** Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council continues to face financial pressures and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	**Auditor commentary** We have undertaken the following procedures in relation to this risk: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk or unusual journals • tested high risk / unusual journals recorded for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence • evaluated the rationale for changes in accounting policies, estimates or significant unusual transactions. Our audit work has not identified any issues in respect of management override of controls.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
3 **Valuation of land and buildings** The Council revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, the Council needs to ensure the carrying value of land and buildings in the Council's financial statements is not materially different from the current value or the fair value at the financial statements date, where a rolling programme is used. Council Dwelling valuations are based on Existing Use Value, discounted by a factor to reflect that the assets are used for Social Housing. And are revalued annually. 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. We therefore identified valuation of land and buildings, particularly revaluations, impairments and for dwellings the use of the social housing factor, as a significant risk and a key audit matter.	**Auditor commentary** We have undertaken the following work in relation to this risk: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation experts • written to the valuers to confirm the basis on which the valuations were carried out. • challenged the information and assumptions used by the valuers to assess completeness and consistency with our understanding • tested revaluations made during the year to see if they had been input correctly into the Council's asset register; and • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end; • for those assets revalued in 2018/19 with a valuation date of 1 April 2018, we have assessed whether there is likely to have been a material change in the valuation to 31 March 2019. In line with our agreed audit approach we have provided appropriate challenge and review to the Council's approach to valuing its Land and buildings. We have set out our view of the assumptions and methodology used in the valuation of land and buildings under the judgements and estimates section on pages 12 and 13.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
4 **Valuation of pension fund net liability** The pension fund net liability, as reflected in the group balance sheet as the retirement benefit obligations, represents a significant estimate in the financial statements and group accounts. The group's pension fund net liability is considered a significant estimate due to the size of the numbers involved (PY 648.5m) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the group and Council's pension fund net liability as a significant risk and a key audit matter.	**Auditor commentary** We have undertaken the following work in relation to this risk: • obtained an understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the assumptions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried your pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • sought assurances from the auditor of the West Yorkshire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. There are two significant matters arising in relation to our audit of the Pension fund net liabilities this year: • consideration of a prior period adjustment that has been identified as a result of an error identified from the work of the actuary in the previous year, and • review of an adjustment to the pension liability assessment arising from the recent McCloud legal ruling. Details of both of these matters are set out on page 11 of this report. Our audit work has not identified any other issues in respect of valuation of net pension liabilities.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
5 **PFI Schemes** The Council has a number of assets that are financed under PFI arrangements. PFI schemes are complex and material accounting transactions arising from these schemes are derived from detailed financial models in particular: • accounting treatment of the unitary charge • derivation of PFI Liabilities and accounting disclosures As this is Grant Thornton's first year of the audit of Kirklees Metropolitan Council we recognise this as a risk to be addressed in 2018/19.	**Auditor commentary** We have undertaken the following work in relation to this risk: • Obtained the operators model and confirmed this is to all material respects consistent with expectation by comparison with the Grant Thornton model. • Reviewed the accounting models for the four PFI schemes to confirm the appropriateness of each model in reflecting individual scheme arrangements. • Reviewed material transactions, balances and disclosures within the financial statements and confirm consistency with financial models. Our audit work has not identified any issues in respect of the recognition and accounting treatment of PFI schemes within the financial statements.

Significant findings arising from the group audit

Component	Findings	Group audit impact
Kirklees Neighbourhood Housing Limited (KNH)	We have reviewed the consolidation undertaken by the Council and carried out specified procedures on entries that are material to the financial statements of the Group, specifically the subsidiary's net pension fund liability and relevant disclosures.	• KNH have not revised the Net Defined Benefit Pension Liability within their financial statements for liabilities from the McCloud judgement but we are satisfied that the impact would not be material to the Group.
Kirklees Stadium Development Limited (Joint Venture)	The Council's Group financial statements are required to be prepared under the CIPFA Code which requires Property, plant and equipment is carried at current value. During the audit we identified that in recognising the Authority's 40% interest in the Joint Venture Company, the valuation of the Stadium complex had been recognised at historical cost and not adjusted to Depreciated Replacement Cost on the consolidation of the Council's investment interest in the group Accounts.	• Following the challenge raised during the audit the Council has provided further evidence about the likely Depreciated Replacement Cost of the Stadium and the potential impact on the Council's Group financial statements. We have reviewed the information provided and are satisfied that there is no material impact on Council's Group financial statements. It is likely that the value of Council's equity stake is approximately £2.8m higher than the amount reflected in the Group financial statements. • Going forward the Council should ensure that it obtains a full Code compliant valuation of the Stadium complex to enable appropriate adjustments to be made to the Joint Venture Company's accounts to enable the appropriate adjustment to be made on consolidation.

Significant findings - other issues

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

	Issue	Commentary	Auditor view
1	**Prior Year adjustment – Pension Net Liability** Whilst preparing the pension fund accounting results for the Council for 2018/19 the Actuary identified an error in the previous accounting information provided in 2017/18 (i.e. to 31 March 2018). The actuary identified that the previous years report had included pension fund assets that had transferred to Kirklees Neighbourhood Housing in the Council resulting in both the Council and group pension fund asset being overstated by around £66m (around 3.7% of the assets) and consequently the Net Liability relating to the pension scheme being understated by the same amount. The Actuary originally adjusted this error in the 2018/19 disclosure for Kirklees Council as a “remeasurement loss on assets” rather than adjusting the opening assets value for the start of the accounting period.	• We discussed this issue with the finance team and confirmed that this related to a material error in the prior year estimate of Pension assets and should therefore be recognised as a prior year adjustment in the 2018/19 financial statements. • The Council requested restated actuarial reports from the Actuary for 2017/18 and 2018/19 and these were received and processed, resulting in restated prior year comparative figure **CIES** • Remeasurement of the net defined benefit pension liability - £66,148k Balance Sheet • Long Term Liabilities + £66,148k • Unusable Reserves - £66,148k	**Auditor view** • We are satisfied that the error has been appropriately treated as a prior period adjustment. • We are satisfied there is no significant risk of such an error occurring in 2018/19 since there have been no transfers of staff during 2018/19.
2	**McCloud Judgement** The Court of Appeal has ruled that there was an age discrimination in the judges and firefighter pension schemes where transitional protections were given to some scheme members. The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy. The legal ruling around age discrimination (McCloud – Court of Appeal) has implications not just for those pension schemes involved in the case but also for other pension schemes where they have implemented transitional arrangements on changing benefits.	Discussion has been ongoing in the sector regarding the potential impact of the ruling on the financial statements of local government bodies. In our view there is sufficient clarity about the implications of the McCloud case that the increased liability should be reflected in the IAS 19 figures in the Council’s balance sheet. The Council has requested and obtained an updated valuation from their Actuary, Aon Hewitt which has increased the Past Service Cost, Other long term liabilities, any Pension Reserve by £23,017k, which has been reflected in the revised Accounts. (See amendments – Appendix C).	**Auditor view** • We have reviewed the report of the Actuary and are satisfied that the revised valuation has been appropriately recognised in the financial statements. • We have also noted the findings from our internal actuaries which has provided us with assurance over the assumptions and methods employed by Aon Hewitt in compiling the McCloud liability estimates.

Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
Land and Buildings (Council Housing) - £618m NBV	The Council owns 22,395 dwellings and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council continued to engage external valuer Cushman and Wakefield LLP to complete the valuation of these properties. The year end valuation of Council Housing was £617.8m a net increase of £18.5m, following additions of £18m.and disposals/transfers of £5.7m	From our work performed in this area we have gained assurance over the valuation of the Council's Housing Stock included within the financial statements: • We are satisfied that the valuer has prepared the valuation using the Stock Valuation Guidance issue by MHCLG. • We are satisfied that the external valuer's use of an adjustment factor of 36% for Existing Use Value – Social Housing, rather than the Stock valuation guidance (November 2016) discount factor for Yorkshire and Humber as 41% is appropriate based on their review local conditions and information. • Whilst the valuation was carried out at 1 April 2018, we are satisfied the valuation is not materially different to the carrying value at 31 March 2019 based on our review of the movement in relevant indices during 2018/19 and discussions with the Council's internal valuers.	● Green

Assessment

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

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Land and Buildings – Other - £496m NBV	The Council request their valuer for General Fund property (Wilks Head and Eve) to revalue other land and building (opening value £537m) on a 5 year cycle, using depreciated replacement cost (DRC) for specialised assets such as schools, libraries, galleries and leisure centres. Non-specialised operational other land and buildings are required to be revalued at existing use value (EUV) at the year end. Approximately 25% (£125.4m NBV) of other land and buildings were revalued during 2018/19 with a revaluation dated 1 April 2018. The valuation of properties valued by the valuer has resulted in a net decrease of £4.5m. Management has considered the year end value of non-valued properties to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties value. The total year end valuation of Other land and buildings was £495.6m a net decrease of £13.4m from 2017/18 (£509m).	• From the work performed in this area, we have gained assurance over the valuation of the Council's Other Land and Buildings included within the financial statements. • The external valuer has agreed clear terms of reference for the work with the Council in advance of the engagement, including the assumptions that were going to be applied to the work. • We have reviewed the assumptions applied by the Valuer, and have confirmed they are reasonable and appropriate given the nature of the assets held by the Council. • We have considered and challenged the work management has done in liaison with their internal valuer on those assets not valued in the year to provide further evidence that their current value is not materially different to their carrying value included within the Accounts. ➢ We provided further challenge to the Council's assumptions by applying indices to assets not revalued at 31 March 2019 and obtaining further explanations and confirmations that no material estimation uncertainty remains in the valuation of Other Land and buildings, particularly specialised assets valued at depreciated replacement cost. ➢ The finance team liaised with their internal valuer to apply relevant indices to the last revaluation and applying average age and obsolescence factors to arrive at an estimated DRC valuation at 31st March 2019. We are satisfied that this exercise demonstrates that their current value is not materially different to their carrying value. We also noted that the Council only revalues investment properties for individual assets under £250,000 on a 5 year cyclical bases, whilst we are satisfied that no material estimation uncertainty remains as many of these are long term 'ground rents' this approach is not in our view compliant with the Code. Going forward the Council should revalue all investment properties annually.	● Amber

Assessment

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

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Net pension liability – £783m	The Group's total net pension liability at 31 March 2019 is £783m (PY £648m), comprising the West Yorkshire Pension Fund Local Government defined benefit pension scheme obligations for the Council (£738m and Kirklees Neighbourhood Housing Limited (£49m) The Council and KNH use Aon Hewitt to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £66m actuarial loss to the Council during 2018/19.	• We have no concerns over the competency, capability and objectivity of the actuary used by the Council. • We have used the work of PWC, as auditor's expert to assess the methodology and assumptions made by the actuary. See below for consideration of the key assumptions used by the actuary.	● Green

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.4%	2.4 - 2.5%	●
Pension increase rate	2.2%	2.1 – 2.2%	●
Salary growth	3.45%	3.1 -3.7%	●
Life expectancy – Males: • currently aged:45 (future pensioners) • currently aged 65	 23.2 22.2	 23.0 -25.3 22.2 – 23.7	●
Life expectancy – Females: • currently aged 45 (future pensioners) • currently aged 65	 27.2 25.4	 25.9 – 28.1 24.1 – 26.3	●

- No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate
- There have been no changes to the valuation method since the previous year. However, the estimate has now been revised to include liabilities arising from the McCloud judgement.
- Our internal Grant Thornton actuaries have reviewed the approach Aon Hewitt have taken in estimating the liabilities arising from McCloud judgement and we are satisfied with the reasonableness of estimate.
- We are satisfied with the reasonableness of the Council's share of the West Yorkshire Pension Fund Assets based on the West Yorkshire Pension Fund draft financial statements.
- We have received satisfactory assurances from the auditor of the West Yorkshire Pension Fund
- We are satisfied with the adequacy of the disclosure of the estimate in the financial statements

Assessment

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

Significant findings - Going concern

Our responsibility

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

Going concern commentary

Management's assessment process	Auditor commentary
Management have a range of procedures in place to provide assurance that the Council remains a going concern including: • regular review of cash flow and Treasury Management; • regular review and reporting of financial performance against budget; • regular review and update of the Medium-Term Financial Plan; and • appropriate review, scrutiny and reporting of earmarked reserves and General Fund Balance.	• Management have undertaken a thorough review of the risks facing the Council including reduction in government funding and pressures on budgets. • Plans to address the risks are considered realistic and deliverable. • Overall management processes are considered to be sufficiently robust to demonstrate a well informed view of going concern.

Work performed

- We have reviewed the medium term financial plan and considered the reasonableness of the assumptions on which it is based.
- We noted your total general fund balance (including earmarked reserves) has increased by £16.2m in 2018/19 to £105m which is around 38% of your net revenue budget for 2019/20.
- Our work has not identified any events or conditions existing that may cast significant doubt on the Council’s ability to remain as a going concern

- **Concluding comments**
- We have identified no events or conditions in the course of the audit that we consider may cast significant doubt on your ability to continue as a going concern.
- We are satisfied with the appropriateness of management’s going concern assessment process. As such we plan to issue an unmodified audit report in respect of going concern.
- We are satisfied with management's assessment that the going concern basis is appropriate for the 2018-19 financial statements.

Significant findings – matters discussed with management

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

	Significant matter	Commentary
1	Significant events or transactions that occurred during the year	• The implementation of new standards IFRS9 and IFRS15 were discussed with officers during 2018/19 and we were provided with appropriate evidence supporting management's view that there has not be any significant impact on the financial statements arising from IFRS9 and IFRS 15. • The financial statements do not contain any disclosure relating to the introduction of IFRS 15 and IFRS 9 as management maintain this is not material to the financial statements. In our view appropriate disclosures should have been included in the financial statements and should be made going forward.
2	Business conditions affecting the group, and business plans and strategies that may affect the risks of material misstatement	• No such issues were identified.
3	Concerns about management's consultations with other accountants on accounting or auditing matters	• No such issues were identified.
4	Discussions or correspondence with management in connection with the initial or recurring appointment of the auditor regarding accounting practices, the application of auditing standards, or fees for audit or other services	• We were appointed as auditors of Kirklees Metropolitan Council for five years from 2018/19. We issued our fee letter for 2018/19 on the 20 April 2018 and presented this to the Corporate Governance & Audit Committee on 30 July 2018. • We issued our 2018/19 Audit Plan on 27 February 2019 and presented this to the Audit, Risk and Governance Committee on 20 May 2019.
5	Significant matters on which there was disagreement with management.	• No such issues were identified.
6	Other matters that are significant to the oversight of the financial reporting process	• No such issues were identified.
7	Internal Control matters	• Our review of the Information Technology control environment identified a number of significant issues with access controls. These issues have been reported to the Corporate Governance and Audit Committee and are included at appendix A, together with an agreed Action Plan in place. We will follow up the recommendations as part of our 2019/20 audit. • Our early testing of Housing Benefit expenditure carried out to support our accounts opinion work identified one error case (from a sample of 17payments) where the claimant had been overpaid due to incorrect recognition of claimant Income of £53.43 per week. Whilst this amount cannot be extrapolated to identify any impact on the financial statements, more extensive testing will be carried out as part of the certification work on the Housing Benefit Subsidy claim later in the year.

Other communication requirements

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

	Issue	Commentary
1	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Corporate Governance and Audit Committee
2	**Matters in relation to related parties**	• From our work to date we are not aware of any related parties or related party transactions which have not been disclosed
3	**Matters in relation to laws and regulations**	• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	**Written representations**	• A letter of representation has been requested from the Council which is tabled as a separate item to the Corporate Governance and Audit Committee.
5	**Confirmation requests from third parties**	• We requested from management permission to send confirmation requests to all of the Council's counter parties for bank accounts, investments and Loans. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation. • We noted that one long-term loan to an educational institution had been subject to a 'payment holiday' agreement. We could not trace evidence within the Council or Committee minutes that this had been approved by members, however we have received assurance that this was done under officers powers of delegation with the knowledge of relevant Council members.
6	**Disclosures**	• Our review found no material omissions in the financial statements
7	**Audit evidence and explanations/significant difficulties**	• All information and explanations requested from management was provided. This is our first year of our audit of the Council and we will work with management to develop detailed working paper requests to facilitate a more efficient closedown process and audit in 2019/20.

Other responsibilities under the Code

	Issue	Commentary
1	**Other information**	• We are required to give an opinion on whether the other information published together with the audited financial statements (including the Narrative Report and Annual Governance Statement), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified.
2	**Matters on which we report by exception**	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters
3	**Specified procedures for Whole of Government Accounts**	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting threshold of £500m we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. At the date of issuing this report our work has not yet commenced. We will complete the planned procedures once we have completes our work on the Council's financial statements.
4	**Certification of the closure of the audit**	We do not expect to be able to certify the closure of the 2018/19 audit of Kirklees Council when we issue our Audit opinion. We are unable to certify the closure of the 2018/19 audit until we complete our work on the Whole of Government Accounts (WGA) return.

Value for Money

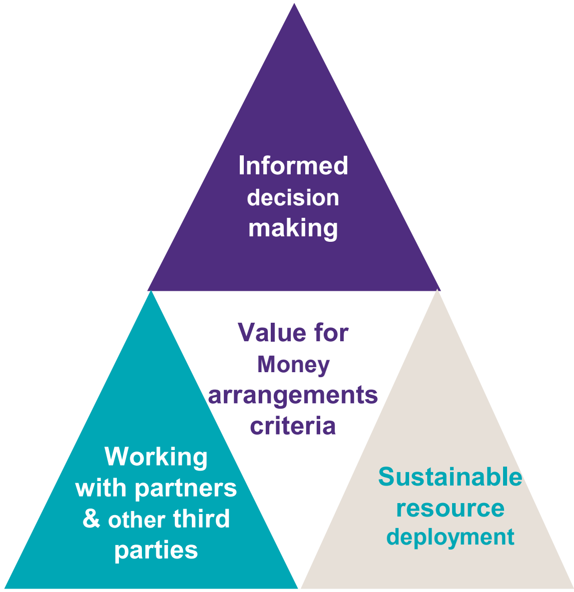
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in January 2019 and identified two significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 26 February 2019.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- **Financial sustainability** - delivery of the 2018-19 budget and savings plan and achievement of Medium Term Financial Plan (MTFP)
- **Children's services** – review of evidence from regulators (OFSTED) on progress in responding to the previous inspection report rating the Council's Children's services as 'Inadequate'.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 20 to 21.

Overall Conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Significant matters discussed with management

In our previous report in July 2019 we explained that we were unable to conclude our work as the OFSTED inspection of Children's Services would not be issuing their report until August 2019. The OFSTED report has now been issued and we have been able to complete our work. We did not identify any other significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

	Significant risks reported in the Audit Plan	Findings	Conclusion
1	**Financial sustainability** – delivery of the 2018-19 budget and savings plan and achievement of Medium Term Financial Plan (MTFP) The Council, in line with other local authorities, continues to operate under significant financial pressures. For 2018-19, the Council is planning to deliver a balanced outturn position but to achieve this, needs to deliver savings, whilst managing cost pressures within Child Protection and Family Support and Adult Social Care at a time of reduced funding. The Council's latest financial projections indicate it is expecting to deliver on budget. We will review the arrangements the Council has in place to ensure financial resilience, specifically that the Medium Term Financial Plan and saving plans appropriately recognises the financial risks and pressures facing the Council, assumptions are realistic and planned mitigations are robust.	For 2018/19 the Council's revenue spend was £275.0m against a net revenue budget of £275.2m. The Council planned to deliver £16.2m of savings in 2018/19 and whilst savings of £13.1m (81%) were achieved, a further £3.3m were only achieved on a non-recurrent unplanned basis. Significant pressures within the year arose from within Children and Families as 'High needs learning' cost outstripped the grant available by £8m. These ongoing demand pressures have been recognised in future budget plans. The Council agreed a balanced budget for 2019/20 in February 2019 as a net budget of £287.1m which includes planned savings in year of £10.9m. The Council's MTFP for 2019-2022 includes further savings of £6.2 m over the 2020/22 financial period. MTFP funding assumptions are prudent assuming further funding reductions of 2.5% over the final 2 years of the plan, whilst revenue spend assumptions are realistic recognising the ongoing cost and demand pressures arising from special educational needs and adult social care. The Council refreshed its reserves strategy as part of its MTFP to increase its financial resilience reserves level and at 31st March 2019 this was retained at £32.7m, accounting for around a third of the Council's General Fund balances. Overall General fund balances increased by £16.2m to £105m during the year, a significant proportion of the increase (£8.5m) was facilitated by the release of Minimum Revenue Provision 'overpayment'. As you will be aware the Comprehensive Spending Review, Fair Funding Review and outcome of Business Rates Retention review have been delayed. The delay has not helped council's (or other public sector bodies) ability to plan for the medium-term. The Council will therefore need to remain alert to emerging funding decisions and update budget planning when these are known. We have considered the Council's arrangements to ensure it is financially resilient to deal with budgetary pressures and overall we are satisfied that proper arrangements were in place for the delivery of the 2018/19 budget and savings plans.	We concluded that the Council has proper arrangements in place for ensuring sustainable resource deployment.

Significant risks reported in the Audit Plan	Findings	Conclusion
2 **Children's Services** 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 the issue of a statutory direction the Council formalised its developing partnership arrangements with Leeds City Council in a strategic partnership agreement The Action Plan in response to Ofsted's recommendations is monitored by the Kirklees Safeguarding Children's Board and Ofsted's monitoring reports have acknowledged that improvements continue to be made. We will: • consider the range of reports and information published and available from third parties including Ofsted. • review the up-to-date responses to the Action Plan to gain assurance that progress continues to be made and improvements embedded. We note the publication of the latest monitoring visit assessment which highlighted the 'significant progress' that has been made in improving the Council's initial response to children and young people who need help and protection.	In 2016/17 and 2017/18 the Council's VFM conclusion was qualified on the basis of the 'inadequate' rating given to the Council's Children's Services. A Children's Services Improvement Plan was prepared and provided appropriate focus and improved leadership following the development of the strategic partnership arrangements with Leeds City Council and the joint Director of Children's Services role became effective. The Ofsted monitoring report in January 2019 noted that there had been a significant improvement since the previous monitoring visit, which focused on the front door in November 2017, in relation to the initial response to children who need help and protection. In the cases seen, children are safe, and immediate risks are appropriately assessed using a multi-agency approach. Strengthened processes and effective management oversight is ensuring robust decision-making'. Ofsted's most recent inspection took place in June 2019 and was reported in August 2019 giving the Council an overall rating of 'requires improvement to be good'. There is therefore sufficient evidence to demonstrate the significant progress and achievements the Council has made since the Ofsted report in November 2016, and in particular since the formal arrangement with Leeds City Council began to take effect. In the Ofsted report HM Inspector reported that: 'Since March 2018, there has been steady progress in strengthening the foundations for sustainable service improvement. As a result, there are no widespread or serious failures that leave children at risk of harm'. The report concludes that there are still improvements to be made for Children's Services to be considered 'Good', however we are satisfied proper arrangements were in place for sound governance and informed decision making around Children's Services at the Council during 2018/19	We concluded that the Council had proper arrangements in place for sound governance and informed decision making around Children's services.

Independence and ethics

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

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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C.

Non-audit services provided prior to appointment

Ethical Standards require us to draw your attention to relevant information on recent non-audit additional services before we were appointed as auditor.

We confirm we have not provided any other services to the Council in 2017-18 prior to our appointment as external auditors to the Council

Independence and ethics

Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services have been identified as being charged in the current year or estimated as costs to the current year for proposed work, as well as the threats to our independence and safeguards that have been applied to mitigate these threats. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. None of the services provided are subject to contingent fees. (Fees marked * are estimated at this stage.)

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefit Subsidy Claim	£12,000 + £2,130 / 40+	Self-Interest (this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is a fixed fee of £12,000, with variable fees of £2,130 per additional 40+ workbook and not significant in comparison to the total fee for the audit of £122,221 and in particular to Grant Thornton UK LLP's overall turnover. Further there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Teachers Pension Return	£5,000*	Self-Interest (this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is small in comparison to the total fee for the audit of £122,221 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Housing Capital receipts grant	£2,000*	Self-Interest (this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is small in comparison to the total fee for the audit of £122,221 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
NCTL Initial Teacher Training (not yet started)	£5,000*	Self-Interest (this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is small in comparison to the total fee for the audit of £122,221 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Skills Funding Agency Compliance (not yet started	£2,000*	Self-Interest (this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is small in comparison to the total fee for the audit of £122,221 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

Independence and ethics

Non-audit services

Service	Fees £	Threats identified	Safeguards
Non-audit related			
PFI Contract Payment Review	8,096	None	This was the review of the payment mechanism on an established PFI contract and was a backward looking engagement. It related to a non-controversial element of the accounts and the amounts involved are not material. No significant threats have been identified.
CFO Insights	10,000 - 12,500 pa*	Self-Interest (this is a recurring fee)	This is an online software subscription service that enable users to rapidly analyse data sets. CFO Insights is a Grant Thornton & CIPFA collaboration giving instant access to financial performance, service outcomes and socio-economic indicators. It is the responsibility of management to interpret the information. The scope of our service does not include making decisions on behalf of management or recommending or suggesting a particular course of action. These factors mitigate the perceived self-interest threat. The fee for the work is negligible in comparison to the total fee for the audit.

Action plan

We have identified the following recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk	Recommendations
1	●	**SAP User access rights** The users that have been granted privileged access rights are not appropriate. As an example, 15 users are granted a powerful permission that allows users to create other users and assign profiles to them and allows users access to all SAP functionality. The users are The BASIS support team and 6 Generic accounts which by their nature do not have traceability as they are not allocated to individuals. There are other transactions which allow users to perform actions which bypass the SAP authorisation concept and allow unauthorised access. **Access to the privileged transactions allows users full access to SAP functionality, which could give virtually full system rights, bypassing the SAP Authorisation concept.**	**Recommendation** • Management should ensure where the support team require access to the system, this access is monitored and granted appropriately. • Generic accounts used by third party users should be locked and access granted on an “as needed basis”. • Review of all privileged accesses should be undertaken and assigned only to users with a business need or removed. Since the audit a review has been carried out and is ongoing to identify users who require privileged access. **Management Response** The SAP_ALL and SAP_NEW profiles have been removed from all dialogue accounts. Generic accounts used by third parties have been locked and will be unlocked when suppliers request access. All activity for those accounts will be logged and monitored. A review of users with privileged access is taking place. Access to the high risk transactions listed will be removed.
2	●	**Firefighter ID’s** The Council does not currently utilise firefighter ID’s, to assist in the provision of support in the SAP environments. A Firefighter ID is a temporary user ID that grants the user exception-based, yet regulated access to perform tasks in an emergency or extraordinary situation. The ‘Versa’ firefighter application tracks, monitors and logs of all activity each Superuser performs under the privileged user ID. **The current arrangement of not using temporary firefighter IDs creates a risk that the mode of change may be used inappropriately potentially leading to program instability or unauthorised changes to data.**	**Recommendation** • Management should adopting the use of Firefighter ID’s in the various SAP environments. **Management Response** The concept of Firefighter IDs and roles, along with Versa, is part of the SAP Governance, Risk and Compliance (GRC) module which is not implemented in Kirklees Council. However we acknowledge that the concept of using restricted accounts with a high level of access for critical support issues is good practice. The BASIS team will be assigned elevated access accounts to be used on an exception basis when required. The activities of these accounts will be logged and monitored.

Controls

- ● High – Significant effect on control system
- ● Medium – Effect on control system
- ● Low – Best practice

Action plan

	Assessment	Issue and risk	Recommendations
3	●	**IT developers have access rights to production client** There are 7 users who can make changes to customised objects directly in the production environment and 10 users who have access to USR02 and DEVACCESS. ***Developers with access to the production environment are able to make changes directly in the production environment, bypassing the change management process and with the absence of user activity logging, changes made may go undetected.***	**Recommendation** The change management process include restricting access to developers who can make changes directly in the production environment. This in conjunction with using access logging would prevent any unauthorised changes being implemented without the correct approvals **Management Response** Access to make changes directly in production will be removed from all staff. All users involved in change activities will have activity logged and monitored.
4	●	**Logging of user activities using SCC4 has not been turned on** The setting of 'rsau/enable' has not been turned on in the SAP master settings, this is the security log which enables the following activities to be recorded. • Successful and unsuccessful RFC logon attempts • Successful and unsuccessful dialog logon attempts • RFC calls to function modules • Changes to user master records • Successful and unsuccessful transaction starts • Changes to the audit configuration Where the SAP support team are allocated, as 'standard', SAP_ALL, the activities are not monitored and trackable. ***Where activities are undertaken without the ability to identify who has performed them, what they have done and why they were processed, fraudulent or unauthorised transactions could be made within the system.***	**Recommendation** The SCC4 logs should be turned on and regular formal reviews of the logs should be undertaken by a suitably qualified and experienced person. It is understood that since the audit has been performed, management has turned the logging function on for this control. **Management Response** SCC4 is the transaction used to manage clients within a SAP system and is not related to security logs. SAP security logs are configured in SM19 and analysed in SM20. The parameter "rsau/enable" has been set, and security audit logging has been enabled in SM19 for all users. A monitoring strategy for SAP users with elevated access will be developed and implemented.
5	●	**Idle Login Sessions within Northgate** Login sessions within Northgate have an automated logout which disconnects after a period of 3 hours of inactivity which creates the following risks: ***a) Misuse of unattended login sessions by other valid users of the system, leading to loss of accountability of actions performed.*** ***b) Misuse of unattended login sessions by unauthorized personnel, leading to unauthorized data disclosure or data tampering.***	**Recommendation** Idle login sessions within Northgate should automatically terminate after a predefined, risk-based period of inactivity has elapsed (e.g., 15 minutes). **Management Response** Recommendation to Customer & Exchequer Senior Management Team to reduce Idle Login Sessions within Northgate from 3 hours. Once agreed setting will be updated on the Server by Technical Infrastructure.

Controls

● High – Significant effect on control system ● Medium – Effect on control system ● Low – Best practice

Action plan

Assessment		Issue and risk	Recommendations
6	Medium	**Automated Notifications of Leaver and Mover Activity** Security administrators of SAP, Northgate and Active Directory were not being provided automated, proactive notifications of anticipated HR mover and leaver activity, nor were they being provided automated per-occurrence notifications of unanticipated HR mover and leaver activity. It is understood that the introduction of AD Manager which was undergoing UAT testing at the time of the review should be implemented shortly. ***a) Access to information resources and system functionality may not be restricted on the basis of legitimate business need*** ***b) Enabled, no-longer-needed user accounts may be misused by valid system users to circumvent internal controls*** ***c) Terminated employees may continue to access information assets through enabled, no-longer-needed user accounts*** ***d) Revocation of access rights may not be performed accurately, comprehensively, or on a timely basis***	**Recommendation** Security administrators of Northgate and Active Directory should be provided with: (a) timely, proactive notifications from HR of leaver and mover activity for anticipated activity; and (b) timely, per-occurrence notifications for unanticipated mover and leaver activity. Security administrators of Northgate and Active Directory should then use these notifications to either: (a) end-date user accounts associated with anticipated leavers or (b) immediately disable user accounts associated with unanticipated leavers. These security administrators should then use these notifications amend and/or remove logical access belonging to movers and leavers. **Management Response** AD Manager has been running approximately behind schedule. The process for the disabling the AD accounts has been set up based upon the current SAP report and prior to 'go live' for AD manager the process is manual and monthly.
7	Medium	**Reviews of Information Security Logs Created by Northgate and Active Directory** Logs of information security activity within Northgate and Active Directory were not being formally, proactively, and routinely reviewed. ***Without formal, proactive, and routine reviews of security event logs, inappropriate and anomalous security activity (e.g., repeated invalid login attempts, activity violating information security policies) may not identified and addressed in a timely manner.***	**Recommendation** Logs of information security events (i.e., login activity, unauthorized access attempts, access provisioning activity) created by these systems should be proactively, formally reviewed for the purpose of detecting inappropriate or anomalous activity. These reviews should ideally be performed by one or more knowledgeable individuals who are independent of the day-to-day use or administration of these systems. **Management Response** Post Year end processing on Northgate for Council Tax, Business Rates and Benefits we will work with Northgate to identify opportunities to audit unauthorised access / activity. There are additional plans in the Service to undertake a full review of user access levels.

Controls
- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Action plan

Assessment	Issue and risk	Recommendations
● (High)	**Revaluation of 'Other Land and Buildings'** The Council's current revaluation cycle of 5 year's for 'Other Land and Buildings' whilst compliant with the Code creates material estimation uncertainty, particularly where the replacement cost of specialised assets may have changed since the last revaluation, This necessitates a substantial amount of work by both finance staff, and auditors to demonstrate that for non revalued assets the current value is not materially different from the carrying value.	**Recommendation** The frequency of revaluation of individual assets, particularly specialised asset, should be reviewed to ensure the level of non-revalued assets does not create material estimation uncertainty over the carrying value of Other Land and Buildings on the balance sheet. **Management Response** The revaluation of 'Other Land and Buildings' will be carried out on a three year cycle starting in 2019/20.
● (Medium)	**Recognition of Investment in KSDL (Valuation of Stadium)** The valuation of the Stadium complex had been recognised at historical cost and not adjusted to Depreciated Replacement Cost on the consolidation of the Council's investment interest in the group accounts.	**Recommendation** The Council should ensure that it obtains a full Code compliant valuation of the Stadium complex to enable appropriate adjustments to be made to the Joint Venture Company's accounts to enable the appropriate adjustment to be made on consolidation **Management Response** We will review the recommendation for a full valuation of the Stadium complex along with a review of the use of insurance valuations as an appropriate method of asset valuation.
● (Medium)	**Valuation of Investment Properties** The Council only revalues investment properties for individual assets under £250,000 on a 5 year cyclical bases. Whilst we are satisfied that no material estimation uncertainty remains as many of these are long term 'ground rents' this approach is not in our view compliant with the Code.	**Recommendation** The Council should revalue all investment properties annually in compliance with the Code.. **Management Response** There are a large number of investment properties (88) that are valued below £250k. At 31st March these represented £7.2m, which is not material. As such the limit for individual pieces of land will remain at £250k. We will however revalue these pieces of land on a 3 year revaluation cycle and those not valued will be reviewed for any potential movement by our internal valuer.

Risk

- ● High – risk of material misstatement
- ● Medium – risk of non material misstatement or non compliance with Code
- ● Low – Best practice

Audit Adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
1	**Update Pension Fund liabilities – McCloud judgement** As mentioned earlier in the Report, the Council have updated their IAS19 figures to reflect the impact of the McCloud judgement on the Past Service Costs, which has increased the overall Net Pension Liability by £23m. The impact of these costs is reversed out via the Movement in Reserves Statement to the Pensions Reserve. **Increase in the Council's Pension Fund deficit arising from the McCloud judgement**			
	Cr Net Pension Liability		£23,016	
	Dr Cost of Services (Central Budgets)	£23,016		£23,016
	Overall impact	£23,016	£23,016	£23,016
2	**Overstatement of both Income and Expenditure relating to returns on Investment Properties**		NIL	NIL
	Cr Cost of Services (Central Budgets) Expenditure	£8,160		
	Dr Cost of Services (Central Budgets) Income	£8,160		
	Overall impact	NIL	NIL	NIL

Impact of unadjusted misstatements

We have not identified any unadjusted misstatements

Impact of prior year unadjusted misstatements

We are not aware of any prior year unadjusted misstatements.

Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and issues identified during the audit and whether these have been corrected.

	Detail	Auditor recommendations	Adjusted?
Misclassification	Short-term borrowing of £5m has been misclassified as long-term borrowing	Reclassify on Balance sheet and Note 19 • Long term borrowing - £5,000k • Short borrowing + £5,000k	✓
Disclosure	Note 15 Capital Commitments: - Capital commitments have been disclosed as the amounts included in the Councils capital programme, rather than contractual committed expenditure	• Amend to include 'true' capital commitments of £12.8m and the equivalent prior year figure	✓
Disclosure	Group Accounts Pensions Disclosure Omission - Group accounts disclosure notes do not include the group/KNH Pensions disclosure which are materially different to the Council's disclosure note..	Include additional Group note on Pension Disclosures	✓
Disclosure	Note 15 Financial Instruments	Amend note 19 for the issues identified	✓
	• The note refers to financial assets and financial liabilities carried at contract cost, rather than amortised cost	**Management Response** The issues identified are not material disclosure and the compilation of this note will be reviewed in detail for 2019/20.	X
	• short term financial assets includes statutory debtors £9,434k and prepayments £10,539k, which are not financial instruments.		X
	• short term financial liabilities includes statutory creditors £364k, receipts in advance £12,936k & leave accrual £11,077k, which are not financial instruments		X
	• Market risk interest sensitivity incorrect states 'A 1% change in interest rates with all other variables held constant would increase or decrease interest costs by £94m' a significant overstatement.		X
	• The categories of financial instrument disclosed are not compliant with the requirements of IFRS9.		
	• The CIPFA Code, section 7.3.3, requires the Council to disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the authority is exposed at the end of the reporting period and how they have been managed. Note 19 includes limited information about the nature of the Council's borrowing, particularly whether it is fixed or variable, relevant interest rates, specific values, maturity dates and LOBO options exercise dates.		X

Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and issues identified during the audit and whether these have been corrected.

	Detail	Auditor recommendations	Adjusted ?
Disclosure	HRA H8 Housing Stock – omission of comparative numbers of housing stock	Include comparative figures for Housing stock in Note H8 to the Housing Revenue Account **Management Response** There has not been a significant change in Housing stock numbers in 2018/19 however this disclosure will be considered for the 2019/20 financial statements.	X
Disclosure	Members allowances - omission of disclosure of members allowances (required by the Code)	Include a note disclosing the total amount of members allowances and expenses. **Management Response** This note had previously been removed on the basis of materiality. This disclosure will be considered for the 2019/20 financial statements	X
Disclosure	Note 2 Prior year adjustments - Group Account note G4 net liability related to defined benefit pension column 1 (reported in 2017.18 accounts) should be -£582,389K instead of -£545,634k and column 3 (restated balance sheet) should be -£648,537k instead of -£611,782k.	Amend note 2 for the issues identified. **Management Response** Do not intend to amend as figures consistent with single entity figures.	X
Disclosure	Note 4 Critical Judgements- the note includes judgements in relation to Grants and Provisions which, in the audit teams view, are immaterial to the Council's financial statements and should be removed from this note. The note also includes judgements relating to Group Accounts, PFI, Leases and Schools. The disclosures made in relation to these areas do not fully disclose the critical judgements made by management.	Remove judgements in relation Grants and Provisions. Expand disclosures made in relation to Group Accounts, PFI, Leases and Schools to better articulate the judgements made. **Management Response** Disclosure will be considered for the 2019/20 financial statements	X
Disclosure	Note 5 Assumptions and Major Sources of Estimation Uncertainty- the note does not fully address the disclosure requirements of Code 3.4.2.90 and IAS 1:1.125-131. The disclosure in relation to PPE does not disclose the carrying value of PPE. The note includes Provisions and Fair Value Equity Instruments, which in the audit teams view, are not major sources of estimation uncertainty, and should be removed from this note. The Fair value measurements disclosure does not reflect a range of reasonable possible outcomes or give examples of the sensitivity of the carrying amounts to the methods/ assumptions/ estimates underlying their calculation .	Remove disclosure in relation to Provisions and Fair Value Equity Instruments. Include Carrying Value of PPE. Expand disclosure in relation to Fair Value Measurement. **Management Response** Disclosure will be considered for the 2019/20 financial statements	X

Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and issues identified during the audit and whether these have been corrected.

	Detail	Auditor recommendations	Adjusted ?
Disclosure	Introduction to Group Accounts- this incorrectly references the acquisition method as the method of consolidation for Kirklees Neighbourhood Housing Limited. Note G1 incorrectly references IAS27 'Consolidation and Separate Financial Statements'. Neither are relevant to the consolidation of a subsidiary.	Remove references from introduction to Group Accounts and Note G1 **Management Response** Disclosure will be considered for the 2019/20 financial statements	X
Disclosure	Group CI&E – The 2018/19 figures for Integration, Access & Community Plus included in wrong line. Also comparatives for Commissioning, Quality & Performance included in wrong line.	Amend Group CIES for these errors.	✓
Disclosure	Group Note G5 Unusable reserves – Council's pension reserve should be £611,782k instead of £545,634k. Totals also need to be amended	Amend note G5 for this error.	✓
Disclosure	Group Note G6 Related Party transactions – Other work payments totalling £17.9m to Kirklees Neighbourhood Housing Limited not disclosed in this note.	Amend note G6 for the issue identified	✓
Disclosure	Note 34 Officers Remuneration - We have found an error whereby an employee was included in the incorrect banding (they were included in 95,000 - 99,999 instead of 100,000 - 104,999).	Amend note 34 for this error.	✓
Disclosure	Note 34 Senior Officers emoluments - Comparatives did not agree with previous year's audited accounts as posts/officers no longer in place in 2018/19 had been removed from comparatives.	Amend note 34 comparatives.	✓

Fees

We confirm below our final fees charged for the audit.

Audit Fees

	Proposed fee	Final fee	2017/18 fee (predecessor auditor)
Council Audit	£122,221	£137,721	£158,729
Total audit fees (excluding VAT)	**£122,221**	**£137,721**	**£158,729**

Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £122,221 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table. The additional fees are subject to approval by Public Sector Audit Appointments Ltd.

Area	Reason	Fee proposed
Assessing the impact of the McCloud ruling	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	3,000
Additional audit procedures on Pensions liabilities	Additional procedures now required in response to the Financial Reporting Council's feedback on audit work on Pensions liabilities.	3,000
PPE Valuation	The Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this and have had to undertake additional procedures to review the work non-revalued assets.	6,000
Public Interest Entity – additional fee	As previously raised, your categorisation as a Public Interest Entity means that there are additional procedures that we are required to complete as part of the audit. In particular there are additional requirements at both the planning and the reporting & communications stage of the audit, culminating in the longer-form audit report.	3,500
Total		**15,500**

Fees

We confirm below our fees for the provision of non audit services.

Non Audit Fees

Fees for other services	Fees £
Audit related services:	
• Housing Benefit Certification	29,040
• Certification of Teachers Pension Return	5,000*
• Certification of Pooling of Capital Receipts Return	2,000*
• Certification of NCTL	5,000*
• Skills Funding Agency compliance	2,000*
Non-audit services	
• PFI Contract Payment Mechanism	8,096
• CFO Insights	10,000*
	£61,136*

* Estimated fees