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APPENDIX A

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20<sup>th</sup> July 2020

Dear Eamonn,

**Kirklees Council Financial Statements for the year ended 31 March 2020**

To comply with International Auditing Standards, we need to establish an understanding of the management processes in place to prevent and detect fraud and to ensure compliance with laws and regulation. We are also required to make inquiries of both Management and the Corporate Governance and Audit Committee as to their knowledge of any actual, suspected or alleged fraud. International Auditing Standards also place certain obligations on auditors to document Management's view on some key areas affecting the financial statements

To assist us in meeting these requirements, I would be grateful if you would consider and formally respond to the matters set out in the attached Appendix. In completing this task, you may wish to take into account the views of other members of staff where you think appropriate. The Appendix relates to operational issues as well as the financial statements.

In preparing your responses, it would assist me greatly if you could include a summary of evidence that you have relied on to inform your responses, and the sources of assurance that you have that the relevant management controls have operated effectively through the financial year to date and will operate up to the date the accounts are approved.

I would be grateful for a response by 31 August 2020, and please contact me if you wish to discuss anything in relation to this request.

Yours sincerely

*SRNixon*

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**Chartered Accountants**

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## Appendix

### Responses from Management:

Auditor question	Response
<b>Changes in 2019/20</b>	
What do you regard as the key events or issues that will have a significant impact on the financial statements for 2019/20?	High Needs budgetary pressures, Minimum Revenue Provision in-year 'unwind', long-term net pension liability and asset valuations. COVID pandemic impact: increased estimation uncertainty e.g. asset valuations, reflected in 'material valuation uncertainty' disclosures in the SoA notes.
Have you considered the appropriateness of the accounting policies adopted by the Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	Accounting Policies are reviewed annually for continuing appropriateness. Updates are made as necessary to bring in to line with Code requirements. For 19-20 FS, changed to 3 yearly asset valuations from 5 years.
Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?	No
<b>Internal Control</b>	
How would you assess the quality of the Council's internal control processes?	The Council has an internal audit function that reports to the Corporate Governance & Audit Committee (CGAC), & to management, which operates in compliance with Public Sector Internal Audit Standards(PSIAS). There is an agreed, risk based audit plan, which is reported on quarterly and is subject on an annual opinion. Although there were some qualifications, the 2019/20 IA opinion was that internal control arrangements are sound. CGAC also received information on audit work in the subsidiary organization, Kirklees Neighbourhood Housing Ltd, (KNH) in year, which is carried out as a part of the councils overall assessment of assurance and internal audit. The annual governance statement & quarterly review of the action plan are reported through CGAC.
How would you assess the process for reviewing the effectiveness of internal control?	There is the following; a fit for purpose accounting function, with senior managers challenging operational activity, an Internal Audit function, and Audit Committee CGAC, senior management (Executive Team or ET) A monitoring officer, and legal team, and, Cabinet oversight of the Council's information management, governance and control environment, and broader Council oversight on key financial information; external audit and other external advice e.g. treasury

	management, HMRC, corporate tax advisors, BACS Bureau, on the effectiveness of internal control processes. Budget control and budget monitoring, performance statistics.
How do the Council's risk management processes link to financial reporting?	Risk management processes identify and look to mitigate risk. Corporate risk matrices are created by senior managers, approved by Cabinet and council and linked into the budget making process at Annual Council. In year activity risk monitoring is undertaken by executive team and Cabinet(LMT), alongside discussion of performance and budget monitoring
<b>Fraud and Ethics</b>	
How would you assess the Council's arrangements for identifying and responding to the risk of fraud?	The council has a routine internal audit plan designed to provide assurance a part of which is assessment of fraud risk. IA investigate internal and supplier fraud. There is a fraud team that investigates customer fraud.
What has been the outcome of these arrangements so far this year?	Some identification of fraud/suspected fraud or inappropriate behaviours
Are you aware of allegations of fraud, errors, or other irregularities during the period?	As above
What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	Treasury management –borrowing; (high risk high control) Customer fraud Cash fraud Mandate fraud (payment fraud subset) Tenancy fraud Covid related grant and rebate fraud
Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	All Whistleblowing or those of the nature of WB are investigated, including those that are anonymous.
Have any reports been made under the Bribery Act?	No
As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	Issues would be investigated by IA and reported to CGAC if seen as “routine”. A very significant fraud would be reported through senior management, Cabinet and Council on an urgent as appropriate basis.
As a management team, how do you communicate to staff and employees your views on business practices and ethical behaviour?	The Councils employee handbook sets out expectation on staff conduct and ethical behaviour (issued to all new staff, on council intranet). KNH have same or similar processes. There is a whistleblowing arrangements that are (reasonably well) publicised and used. There are procedures intended to detect inappropriate actions, such as money laundering , and terrorism (as required by legislation)

	Whistleblowing records available for inspection. Whistleblowing subject to triage/assessment/investigation, and reporting back
What are your policies and procedures for identifying, assessing and accounting for litigation and claims?	See Contingent Liabilities/ Provisions working papers
Please provide your assessment of how your financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.	There are limited areas where accounting judgements and estimates are used. These areas are identified and reviewed in conjunction with the external auditor, to mitigate the risk
What are your processes for identifying and responding to the risks of fraud. Have you identified any specific risks of fraud and/or areas where the risks of fraud are likely to exist?	See response above
How do you communicate with those charged with governance regarding your processes for identifying and responding to the risks of fraud?	See response above
How do you communicate with your employees regarding business practices and ethical behaviour?	See response above
<b>Other Accounting Areas</b>	
Is there any use of financial instruments, including derivatives?	No complex financial instruments are used. See Stat Accounts disclosures
Are you aware of any significant transaction outside the normal course of business?	No
Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	No
Are you aware of any guarantee contracts?	See Contingent Liabilities working papers
How do you identify transactions, events and conditions that may give rise to the need for accounting estimates to be recognised or disclosed in the financial statements?	See Accounting policies in the Statutory Accounts for details on specific areas. No changes to methodologies used in the year.
Are there changes in circumstances that may give rise to new, or the need to revise existing, accounting estimates?	No
<b>Going Concern</b>	
Is the going concern basis of accounting a fundamental principle in the preparation of the financial statements?	Yes
Has a preliminary assessment of the Council's ability to continue as a going concern been performed?	Yes
What is the basis for your intended use of the going concern assumption, and do conditions exist that, individually or collectively, may cast significant doubt on the Council's ability to continue as a going concern?	The presumption of going concern was reviewed as part of the accounts production process & that presumption is valid based on Reserves & Budgets/ MTFS.
<b>Laws and Regulations</b>	
What are your policies and procedures for identifying, assessing and accounting for litigation and claims?	The Monitoring Officer and colleagues in Legal Services and Insurance provide updates on ongoing and potential litigation and claims

Can you provide details of those solicitors utilised by the Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	The WYLAW and EMLawshare panels of local authority solicitors and a panel of insurance specialist lawyers chosen by or in agreement with our insurers
Can you provide details of other advisors consulted during the year and the issues on which they were consulted?	Treasury Management (Arling Close) and Tax advice (PWC for VAT).
Have any of the Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	None which were material
Are you aware of any instances of non-compliance with laws or regulations or is the Council on notice of any such possible instances of non-compliance?	None which were material
Have there been any examinations, investigations or inquiries by any licensing or authorising bodies or the tax and customs authorities?	Yes, periodic VAT audit.
Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No
<b>Litigation and Claims</b>	
Have you identified any possible litigation and claims which may give rise to a risk of material misstatement?	See Statutory Accounts disclosures/working papers
<b>Related Parties</b>	
Please can you confirm who are the Council's related parties, including any changes from the prior period?	See Statutory Accounts disclosures/working papers
Please can you confirm the nature of the relationships between the entity and these related parties?	See Statutory Accounts disclosures/working papers
Has the Council entered into any transactions with these related parties in the period and if so please can you confirm the type and purpose of the transactions?	See Statutory Accounts disclosures/working papers