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APPENDIX B

Councillor Will Simpson
Chair of Corporate Governance and Audit Committee
Kirklees Council
Civic Centre
High Street
Huddersfield
HD1 2TG

Grant Thornton UK LLP
4 Hardman Square
Spinningfields
Manchester
M3 3EB

20 July 2020

Dear Councillor Simpson,

**Kirklees Council Financial Statements for the year ended 31 March 2020 -
Understanding how the Corporate Governance and Audit Committee gains
assurance from management**

To comply with International Auditing Standards, we need to establish an understanding of how the Governing Body gains assurance over management processes and arrangements.

I would be grateful, therefore, if you could write to me in your role as Chair of the Corporate Governance and Audit Committee, with your responses to the following questions in respect of the financial statements.

- 1 How does the Governing Body oversee management's processes in relation to:
 - carrying out an assessment of the risk the financial statements may be materially misstated due to fraud or error
 - identifying and responding to the risk of breaches of internal control
 - identifying and responding to risks of fraud in the organisation (including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist)
 - communicating to employees its views on appropriate business practice and ethical behaviour (for example by updating, communicating and monitoring against the codes of conduct)?
- 2 Do you have knowledge of any actual, suspected or alleged frauds? If so, please provide details.
- 3 How does the Governing Body gain assurance that all relevant laws and regulations have been complied with?
- 4 Are you aware of any actual or potential litigation or claims that would affect the financial statements?

Chartered Accountants

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I have attached a separate schedule which explores these areas in more detail, and this is included as an Appendix. Could you please complete this schedule and return it to me by 31 August 2020.

Yours sincerely

SRNixon

Stephen Nixon
Senior Manager
For Grant Thornton UK LLP
E: Stephen.r.nixon@uk.gt.com

Appendix

Response from Chair of the Audit and Standards Committee

Fraud risk assessment

Auditor Question	Response
Has the Council assessed the risk of material misstatement in the financial statements due to fraud?	Yes.
What are the results of this process?	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 processes does the Council have in place to identify and respond to risks of fraud?	The council has an internal audit (IA) function with a long term strategy and short term (annual) audit plan designed to assess core risks to business operations, including fraud risk. The council also has customer fraud investigation arrangements. Specific issues would be investigated by IA (or fraud team) 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.
Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?	There are certain customer fraud areas that are seen as particularly vulnerable. The government grant scheme to small businesses linked to coronavirus (started in 2019/20, but payments made in 20/21) is particularly vulnerable to some forms of fraud.
Are internal controls, including segregation of duties, in place and operating effectively?	The Council has an accounting, payroll, creditors and debtors system (SAP) which is generally structured to avoid the ability of individuals to create and authorise transactions. As with all such systems, however, a small number of individuals - in the IT function - have the ability to act as "super users" with the potential to manipulate records. IA work always looks to check arrangements for internal check, internal control and separation of duties, although some business activities may depend on a single or small number of individuals.
If not, where are the risk areas and what mitigating actions have been taken?	The external auditor's recent interim audit included an action plan of recommendations around IT access controls and management actions to ensure compliance with said recommendations.
Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	This risk of override of controls is deemed minimal. Senior Management are not incentivised based on financial performance. Also senior management (the Executive Team) do not have direct access to input (journal) on to the financial ledger. There is also a strong culture of honesty and integrity.

Are there any areas where there is a potential for misreporting?	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.
How does the Governing Body exercise oversight over management's processes for identifying and responding to risks of fraud?	As a part of routine review of accountancy and internal audit activity, and specifically, 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.
What arrangements are in place to report fraud issues and risks to the Governing Body?	See response above.
How does the Council communicate and encourage ethical behaviour of its staff and contractors?	<p>The Council's employee handbook sets out expectation on staff conduct and ethical behaviour (issued to all new staff on the council intranet). KNH have the same or similar processes.</p> <p>There is a whistleblowing arrangements that are (reasonably well) publicised and used.</p> <p>There are procedures intended to detect inappropriate actions, such as money laundering and terrorism (as required by legislation).</p> <p>Contractual documents, tenders etc, recognise the importance of fraud mitigation and control, and procurement staff have specific training regarding this matter.</p>
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	<p>Whistleblowing Procedures. (Records are available for inspection).</p> <p>Customer complaints processes.</p> <p>Whistleblowing, subject to triage, assessment, investigation and reporting back.</p> <p>Annual reporting of whistleblowing is reported to CGAC.</p>
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	Related parties are recognised and assessments made. The nature of the related parties should not create any unusual risk of fraud as related party transactions are generally performed in accordance with normal council procedures.
Are you aware of any instances of actual, suspected or alleged, fraud, either within the Council as a whole or within specific departments since 1 April 2019?	Yes - reported as a matter of routine to CGAC (and in other government return).

Laws and Regulations

Auditor Question	Response
What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?	The Director of Legal, Governance Risk and Commissioning and the Head of Legal services have procedures in place to monitor statutory compliance on all obligations, proposals and initiatives.
How does management gain assurance that all relevant laws and regulations have been complied with?	By reporting from the above to the Council, Cabinet and Executive Team.
How is the Governing Body provided with assurance that all relevant laws and regulations have been complied with?	As above (not directly).
Have there been any instances of non-compliance or suspected non-compliance with laws and regulations since 1 April 2019?	Yes, relating to non-compliance with FPRs; laws and regulations; and cases of fraud. These have been reported to Council/Cabinet/Executive Team/CGAC.
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	The Monitoring Officer and colleagues in Legal Services and Insurance provide updates on ongoing and potential litigation and claims.
Is there any actual or potential litigation or claims that would affect the financial statements?	No items that would materially affect the 19-20 accounts.
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance?	Yes. Legal services to provide details on request.