The Annual Audit Letter for Kirklees Council

Year ended 31 March 2020

15 March 2021

Contents

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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Kirklees Council (the Council) for the year ended 31 March 2020 and its subsidiary and joint venture (the group).

This Letter is intended to provide a commentary on the results of our work to the group and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Corporate Governance and Audit Committee as those charged with governance in our Audit Findings Report on 24 November 2020.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council and group's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council and group's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £13,250,000, which is 1.28% of the Council's gross cost of services. We determined materiality for the audit of the group's financial statements to be £13,370,000, which is 1.29% of the group's gross cost of services.
Financial Statements opinion	We gave an unqualified opinion on the group's financial statements on 29 January 2021.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 29 January 2021.
Certificate	We certified that we have completed the audit of the financial statements of Kirklees Councilin accordance with the requirements of the Code of Audit Practice on 15 March 2021.

Working with the Council

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff, particularly given the challenging priorities they faced as a result of their work in responding to the Covid-19 pandemic. The Council’s collaborative approach enabled us to complete the 2019/20 audit by working remotely and holding virtual meetings with Council staff and the Corporate Governance and Audit Committee.

Grant Thornton UK LLP
March 2021

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the group's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the group financial statements to be £13,370,000, which is 1.29% of the group's gross cost of services. We determined materiality for the audit of the Council's financial statements to be £13,250,000, which is 1.28% of the Council's gross cost of services. We used this benchmark as, in our view, users of the group and Council's financial statements are most interested in where the group and Council has spent its revenue in the year.

We also set a lower level of specific materiality for Senior Officer Emoluments. This item merits a lower materiality than financial statement level materiality due to being of particular interest to the public.

We set a lower threshold of £20,000, above which we reported errors to the Corporate Governance and Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the group's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Covid–19 Authority and Group The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; - remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation - volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates - financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and - disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, and one of the most significant assessed risks of material misstatement.	In response to the risk identified we: • worked with management to understand the implications the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts, and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided on 31 July 2020; • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert and pension fund actuary; • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations; • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; and • engaged the use of auditor experts for higher risk audited bodies such as Kirklees Council for property asset valuations.	Management have included a material uncertainty in the financial statements regarding land and buildings valuation arising from the global pandemic as we would expect to see. Management have also included a material uncertainty regarding the Council's share of West Yorkshire Pension Fund property funds and personal equity investments within Note 5 (Estimation Uncertainty) arising from the audit. We have no other specific matters to report concerning the risk identified.

Audit of the Financial Statements

Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of land, buildings, dwellings and investment property – Authority The Authority re-values its land and buildings on a three-yearly basis. In the intervening years, such as 2019/20, to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, the Authority requests a desktop valuation from its valuation expert to ensure that there is no material difference. Where a rolling valuation programme is used, the Authority needs to ensure the carrying value of land and buildings in the financial statements that is not formally revalued during the year is not materially different from the current value or the fair value at 31 March 2020. 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, Council Dwelling valuations are based on Existing Use Value, discounted by a factor to reflect that the assets are used for Social Housing. The adjustment factor is prescribed in Government guidance, but this guidance indicates that where a valuer has evidence that this factor is different in the Authority's area, they can use their more accurate local factor. There is a risk that the Authority's application of these assumptions is not in line with the statutory requirements and that the valuation is not supported by evidence indicating that the social housing factor is not appropriate to use. Council dwellings and investment properties are revalued annually by management's expert to provide a Fair Value valuation. We identified valuation of land and buildings as a significant risk, and one of the most significant risks of material misstatement, and a key audit matter. Following issue of the Audit Plan, the significant risk was extended to include valuation of dwellings and investment property due to the high values and level of estimation involved.	Our audit work included, but was not restricted to: • evaluating management's assessment of the valuation of land, buildings, dwellings and investment property, gaining an understanding of the valuation process, including the key controls and assumptions used by management; • evaluating management's assessment that land and buildings not subject to the triennial valuation are not materially misstated at 31 March 2020; • critically assessing how key assumptions, such as the location, floor area, market vale, VAT recognition and the useful economic lives of the assets are determined by the Authority; • evaluating the competence, capabilities and objectivity of management's valuation experts; • challenging the information used by the valuer to assess its completeness and consistency with our understanding; • evaluating the beacons used for the council dwelling valuation in order to ensure that the classes used were appropriate and reflected the Authority's housing stock, as well as challenging the basis of valuation of such beacons. • challenging the social housing discount factor used by the Council in determining the value of dwellings; • engaging our own valuer to assess the instructions issued to the Authority's valuer by management, the valuer's report and the assumptions that underpin the valuation; and • testing, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register and financial statements.	As, disclosed in note 5 (Assumptions and Major Sources of Estimation Uncertainty) to the financial statements, in applying the Royal Institute of Chartered Surveyors (RICS) Valuation Global Standards 2020 ('Red Book'), the valuer has declared a material valuation uncertainty' in their valuation report. This is on the basis of uncertainties in the markets caused by Covid-19. The valuation exercise was carried out in December 2019 with a valuation date of 31 March 2020. The values in the valuation report have been used to inform the measurement of property assets at valuation in the financial statements. With the valuer having declared this material valuation uncertainty, the valuer has continued to exercise professional judgement in providing the valuation and management believes this remains the best information available to the Authority. We identified an overstatement of two care home valuations by £5m due to an error in the number of bedrooms used to derive the valuation. We have reviewed all care home valuations to ensure that the error does not extend beyond the two identified. Subject to the above adjustment, we have obtained sufficient audit assurance to conclude that: • the basis of the valuation of land, buildings, dwellings and investment property was appropriate; • the assumptions and processes used by management in determining the estimate of valuation of property were reasonable; and • the valuation of land, buildings, dwellings and investment property disclosed in the financial statements is reasonable.

Audit of the Financial Statements

Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of pension fund net liability – Authority and Group The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£824m in the Authority's 2019/20 balance sheet provided for audit) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter. Since issuing the Audit Plan we have also identified the Valuation of the pension fund liability as a significant risk to the Group due to the values and level of estimation involved regarding the share of the liability for Kirklees Neighbourhood Homes Ltd. This is however not considered a key audit matter for the Group.	Our audit work included, but was not restricted to: • evaluating the accounting policy for the Authority's membership of the West Yorkshire Pension Fund (WYPF) for appropriateness and compliance with the Code of Practice for Local Authority Accounting 2019/20; • gaining an understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability was not materially misstated and evaluating the design of the associated controls; • assessing the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation; • testing 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; • engaging with the auditors of WYPF to identify, document and evaluate the procedures and controls used by WYPF to establish the accuracy and completeness of the source data, and over the provision of this source data, to the actuary for the purposes of preparing the triennial valuation, updating our understanding of the Authority's agreement with WYPF; • evaluating the instructions issued by management to their management expert (an actuary) for these estimates and the scope of the actuary's work; • assessing the work of the subsidiary (KNH) auditor regarding the WYPF pension liability and review of the KNH assumptions in arriving at their net pension liability; • assessing the accuracy and completeness of the information provided to the actuary to estimate the liability; and • testing the Authority's membership information provided by WYPF to the scheme actuary to the underlying records.	Management adjusted the first draft version of accounts for audit to correct an error made in the pension fund valuation made by and identified by AoN, the scheme actuary. The Pensions disclosure note figures and related entries were amended for the AoN notified error. Areas amended include the Narrative Report, estimation uncertainty note 5, Note 25 Other LT liabilities, Note 27 Unusable reserves. This increased the net pension fund liability by £10.536m. During the course of the audit the WYPF external auditor notified that they were placing an emphasis of matter in their audit opinion regarding uncertainty in the valuation of level 3 direct and pooled property within the fund (£347m) and regarding level 3 private equity in the fund (£1,514m). As a result we requested that this estimation uncertainty is reflected in Note 5 to the Kirklees accounts (Assumptions and Major Sources of Estimation Uncertainty). The WYPF external auditors also identified an extrapolated overstatement of pension fund investments of £68.8m. Management have revisited their investment valuation with WYPF who approximate the Kirklees Council share of the overstatement to be £8.35m. Management have not adjusted the accounts for this error as it is not material and is based upon an estimated extrapolated value. This is reported at Appendix C. Subject to the amendments made by the Authority to the draft financial statements pre-commencement of the audit and the unadjusted misstatements referred to in the Audit Findings Report, we obtained sufficient audit assurance to conclude that: • the basis of the valuation of the net pension fund liability was appropriate and the assumptions and processes used by management in determining the estimate were reasonable; and • the valuation of the pension fund net liability disclosed in the financial statements is reasonable.

Audit of the Financial Statements

Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Management override of controls - Authority 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 Authority faces external scrutiny of its spending 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.	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 and unusual journals recorded for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied 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 review of journal postings made by officers did not raise any matters requiring further investigation. For 2019/20 management adopted a triennial revaluation cycle for land and buildings replacing the five yearly cycle that operated previously. We consider that this change will lead to more responsiveness to valuation movements and consequently a more accurate valuation in the balance sheet. Management also revisited their disclosure in Note 5 Assumptions and Major Sources of Estimation Uncertainty. Reference to Provisions was removed as not considered to be a source of material estimation uncertainty. Otherwise, our audit work has not identified any issues in respect of management override of controls which we wish to bring to your attention.
Improper revenue recognition - Authority 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.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we determined at the planning stage that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Kirklees Metropolitan Council, mean that all forms of fraud are seen as unacceptable.	The presumed risk was rebutted at the planning stage of the audit for the reasons given.

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the group's financial statements on 29 January 2021. This was later than the target date of 30 November 2020 to enable sufficient audit evidence to be gathered in response to the significant risk regarding the valuation of the net pension fund liability and other closing matters.

Preparation of the financial statements

The Council presented us with draft financial statements in July 2020 in accordance with the MHCLG deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.
Due to the Covid-19 pandemic the audit was conducted remotely and using virtual contact with the finance team.

Issues arising from the audit of the financial statements

We reported the key issues from our audit, as set out in the Report to the Council's Corporate Governance and Audit Committee on 24 November 2020 and provided an update to the Committee on 20 January 2021.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website alongside the draft Statement of Accounts in July 2020.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carry out a review of the Council's Group consolidation pack in line with instructions provided by the NAO. We issued an assurance statement which did not identify any issues for the group auditor to consider on 15 March 2021.
The work was delayed due to technical issues with HM Treasury's OSCAR system, used to submit WGA information for audit. These issues are not unique to Kirklees Council but are now resolved.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Kirklees Council in accordance with the requirements of the Code of Audit Practice on 15 March 2021.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

We identified one significant risk regarding the financial pressures faced by the Council in setting and achieving its 2019/20 budget and medium term financial plan. Since issuing the 2019/20 audit opinion, the full Council has met on 10 February 2021 and approved a balanced revenue budget for 2021/22 together with forecast spending plans for the 2022-26 period. The four years following 2021/22 reflect budget gaps which the Council needs to address based upon the financial funding regime for future years.

The risk we identified and the work we performed is set out overleaf. No further risks were identified during the course of our audit. This includes thorough consideration of the impact of Covid-19 on the Council and Group.

We reported our Value for Money conclusion work to the Council in our Audit Findings Report which was presented to the Corporate Governance and Audit Committee in November 2020 and again in January 2021.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

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Value for Money conclusion

Value for Money Risk

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Sustainable Resource Deployment - Financial Sustainability The Council in common with other councils, continues to operate under significant financial pressures. For 2019/20, the Council planned to deliver a balanced outturn position but to achieve this, needed to deliver planned savings. We identified the risk that the Council does not meet its 2019/20 budget position or have appropriate arrangements in place to review its savings plans and take full account of the Covid-19 related expenditure and income in the Medium-Term Financial Plan.	Our audit work included, but was not restricted to: • evaluating the arrangements the Council had in place to achieve its 2019/20 balanced budget; • reviewing the achievement of planned savings during 2019/20; and • assessing whether the Medium-Term Financial Plan (MTFP) and savings plans appropriately recognise the financial risks and pressures facing the Council, including the financial impact of Covid-19 on the Council's finances.	The Council operates under significant financial pressures, however, it continues to have effective arrangements in place to routinely monitor its budget and take appropriate action to mitigate against any significant variances or additional calls on resources. The Council originally agreed a net revenue budget for 2019/20 of £294.7m. Subsequently, following a net transfer to reserves of totalling £7.6m, the revised budget was £287.1m and this was achieved by the Council. The Council planned to deliver £7.7 million savings in 2019/20 as part of the 2020-23 Medium Term Financial Plan (MTFP). The actual savings delivered were £6.5m. The balance was met through unplanned non-recurrent savings. Whilst the Council has a savings target for 2020/21 of £3m, it has a good record of delivering the savings required and considers the savings targets are achievable. Covid-19 had a significant impact on the Council from mid March 2020, with additional costs to support operational services, lost income, and implications of potential reduced council tax and business rates payments. For the majority of 2019/20 the Covid-19 impact was limited given it commenced during March 2020. The cost impact for 2020/21 has been estimated by the Council at £26.5m which is met by government support. However there is also a forecast Covid-19 income loss pressure of £11.4m which is not fully met by government support. The 2020/21 Q2 budget report shows an overspend of £5.5m against the revised General Fund revenue budget of £305.9m. Of this, £3.7m was Covid-19 related income losses. The Council continues to effectively manage its financial position and is dealing with the impact of Covid-19. The Council has not had to contemplate an emergency budget to offset the impact of Covid-19 and has plans in place to deal with the expected cost of Covid-19. We therefore concluded that there are appropriate arrangements in place for sustainable resource deployment. This supports our proposed 'clean' unqualified VFM conclusion.

Appendix A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and provision of non-audit services.

Reports issued

Report	Date issued
Audit Plan	May 2020
Audit Findings Report	January 2021
Annual Audit Letter	February 2021

Fees

	Planned £	Actual fees £	2017/18 fees £
Statutory audit	152,222	175,555	137,721
Total fees	**152,222**	**175,555**	**137,721**

Audit fee variation

As outlined in our Audit Plan, the 2019/20 scale fee set by PSAA Ltd was £122,221. This was increased to a fee of £152,222 proposed in the Audit Plan due to further audit work required and assumed that the scope of the audit does not significantly change. The scope of the audit changed further, which has led to additional work and fee of £22,833. The full reconciliation between PSAA scale fee and final fee charged is set out in the following table.

Area	Reason	Fee proposed £
PSAA Scale fee		122,221
Public Interest Entity (PIE) status	Additional work required to produce and Enhanced Audit Report due to PIE status.	4,000
Raising the bar	Increased audit challenge required by the Financial Reporting Council, including a lower level of materiality	9,000
Pensions – IAS19	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	3,500
PPE Valuation – work of experts	As above, 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.	11,000
Covid-19 impact	Additional time to address the impact of Covid-19 on the Council's accounts, and the additional time required to operate the audit remotely.	22,834
Group consolidation – work of experts	Pass through cost of auditor's expert valuer to assess the Council's valuation of the KSDL stadium.	3,000
Total		**175,555**

A. Reports issued and fees continued

Fees for audit and non-audit services

Service	Fees £
Audit related services	
- Housing benefits subsidy certification	34,000
- Teachers' pension certification	5,000
- Housing pooled capital receipts certification	2,000
- NCTL teacher training bursary certification	5,000
Total	**46,000**
Non-Audit related services	
- CFO Insights subscription	11,500

Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The table across summarises all non-audit services which were identified.

- We have considered whether non-audit services might be perceived as a threat to our independence as the group's auditor and have ensured that appropriate safeguards are put in place.

The non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.

Grant Thornton