

Informing the audit risk assessment for Kirklees Council 2021/22

Stephen Nixon
Senior Manager
T 0161 234 6362
E stephen.r.nixon@uk.gt.com



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Purpose

The purpose of this report is to contribute towards the effective two-way communication between Kirklees Council's external auditors and Kirklees Council's Corporate Governance and Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Corporate Governance and Audit Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Corporate Governance and Audit Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Corporate Governance and Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Corporate Governance and Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Corporate Governance and Audit Committee and supports the Corporate Governance and Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Authority's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from Kirklees Council's management. The Corporate Governance and Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2021/22?	Ongoing COVID pandemic impact, loss of income and increased expenditure. High Needs budgetary pressures, Minimum Revenue Provision in-year 'unwind', long-term net pension liability and asset valuations.
2. Have you considered the appropriateness of the accounting policies adopted by Kirklees 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.
3. Is there any use of financial instruments, including derivatives?	No complex financial instruments are used. See Stat Accounts disclosures
4. Are you aware of any significant transaction outside the normal course of business?	No

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	No.
6. Are you aware of any guarantee contracts?	See Contingent Liabilities working papers
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No.
8. Other than in house solicitors, can you provide details of those solicitors utilised by Kirklees Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	Solicitors instructed are primarily selected from the WYLA and EMLawshare framework panels of solicitors and a panel of insurance specialist lawyers chosen by or in agreement with our insurers

General Enquiries of Management

Question	Management response
9. Have any of Kirklees Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	No
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Treasury Management (Arling Close) and Tax advice (PWC for VAT).

Fraud

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Corporate Governance and Audit Committee and management. Management, with the oversight of the Corporate Governance and Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Corporate Governance and Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Kirklees Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Corporate Governance and Audit Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Corporate Governance and Audit Committee oversees the above processes. 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. These areas have been set out in the fraud risk assessment questions below together with responses from Kirklees Council's management.

Fraud risk assessment

Question	Management response
<p>1. Have Kirklees Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Authority's risk management processes link to financial reporting?</p>	<p>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.</p> <p>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. Activity during 21/22 was restricted somewhat by coronavirus restrictions and a somewhat reduced audit plan has concentrated on providing core assurance. Fraud resources have been deployed significantly on business rate grant fraud, in addition to routine tenancy matters</p> <p>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.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Treasury management –borrowing; (high risk high control)</p> <p>Customer fraud- means tested activity</p> <p>Cash fraud</p> <p>Mandate fraud (payment fraud subset)</p> <p>Tenancy fraud- RtB, unauthorised occupancy</p> <p>Covid related grant and rebate fraud</p> <p>Supplier fraud/(Collusion with officers)</p>

Fraud risk assessment

Question	Management response
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Kirklees Council as a whole or within specific departments since 1 April 2021? As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>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.</p> <p>There were widespread suspicions of fraud on business rate based national grant schemes, mainly detected and not paid. Successful court action against one perpetrator of complex; some other investigations continue</p>
<p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Kirklees Council where fraud is more likely to occur?</p>	<p>See above</p>
<p>5. What processes do Kirklees Council have in place to identify and respond to risks of fraud?</p>	<p>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..(to operate more closely with IA from 1/4/22)</p>

Fraud risk assessment

Question	Management response
<p>6. How do you assess the overall control environment for Kirklees Council, including:</p> <ul style="list-style-type: none">• the existence of internal controls, including segregation of duties; and• the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>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)?</p>	<p>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 are some qualifications, the 2021/22 IA opinion is that internal control arrangements are sound. The annual governance statement & quarterly review of the action plan are reported through CGAC. ...</p> <p>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.</p> <p>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.</p>
<p>7. Are there any areas where there is potential for misreporting?</p>	<p>See answer above (Q2), but the risk of material misstatements is deemed small.</p>

Fraud risk assessment

Question	Management response
<p>8. How do Kirklees Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p>	<p>The Council's employee handbook sets out expectation on staff conduct and ethical behaviour (issued to all new staff on the council intranet).</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> <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> <p>Nothing of material significance reported in year- other than as noted elsewhere</p>
<p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Treasury management employees –borrowing; (high risk high control)</p> <p>Any roles handling cash</p> <p>Procurement roles/ contractor supervision</p> <p>Roles involving the allocation of property(tenancies),</p> <p>Roles involving the awarding of means tested benefits, grants or assistances(individuals or corporate)</p>
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>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.</p>

Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Corporate Governance and Audit Committee? How does the Corporate Governance and Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What has been the outcome of these arrangements so far this year?</p>	Reported as a matter of routine to CGAC (and in other government return). See earlier responses..
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	All Whistleblowing or those of the nature of WB are investigated, including those that are anonymous.
<p>13. Have any reports been made under the Bribery Act?</p>	No

Law and regulations

Issue

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Corporate Governance and Audit Committee, is responsible for ensuring that Kirklees Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Corporate Governance and Audit Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Kirklees Council have in place to prevent and detect non-compliance with laws and regulations? Are you aware of any changes to the Authority's regulatory environment that may have a significant impact on the Authority's financial statements?</p>	<p>The Monitoring Officer (Director of Legal, Governance and Commissioning) and the Head of Legal services have procedures in place to monitor statutory compliance on all obligations, proposals and initiatives.</p> <p>The Monitoring Officer and colleagues in Legal Services and Insurance provide updates on ongoing and potential litigation and claims</p>
<p>2. How is the Corporate Governance and Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>By reporting from the above to the Council, Cabinet and Executive Team.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2021 with an on-going impact on the 2021/22 financial statements?</p>	<p>Yes, relating to non-compliance with FPRs; laws and regulations; and cases of fraud. These have been reported to Council/Cabinet/Executive Team/CGAC as appropriate.</p>
<p>4. Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>No items that would materially affect the 21/22 accounts.</p>

Impact of laws and regulations

Question	Management response
5. What arrangements does Kirklees 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.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No

Related Parties

Issue

Matters in relation to Related Parties

Kirklees Council are required to disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by Kirklees Council;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the Authority;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Authority, or of any entity that is a related party of the Authority.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Authority's perspective but material from a related party viewpoint then the Authority must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in Kirklees Council's 2020/21 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> • the nature of the relationship between these related parties and Kirklees Council • whether Kirklees Council has entered into or plans to enter into any transactions with these related parties • the type and purpose of these transactions 	<p>See 2020/21 financial Statements. Work to re-confirm related parties and transactions to support disclosures in the 2021/22 Financial Statements is in progress.</p>
<p>2. What controls does Kirklees Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>Forms to disclose Directorships. Letters to all councillors (or emails as appropriate) to remind them annually to update interests.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>As there are limited real associated parties- these controls arise through the normal course of business and by normal decision making- eg through Cabinet – in all other cases (eg KSDL)</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>The Council does not undertake transactions outside of the normal course of business.</p>

Accounting estimates

Issue

Matters in relation to Related Accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Corporate Governance and Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Corporate Governance and Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	Valuation, depreciation and impairment of non-current assets (including PFI). Valuation of defined benefit net pension liability.
2. How does the Authority's risk management process identify and addresses risks relating to accounting estimates?	Annual risk assessment, identifying and addressing risks as part of closedown processes.
3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	Use of guidance materials: CIPFA Code of Practice, RICS.
4. How do management review the outcomes of previous accounting estimates?	Assessed as part of annual closedown procedures. Historic valuations assessed against subsequent sales proceeds as part of year-end assurance/valuation process.
5. Were any changes made to the estimation processes in 2021/22 and, if so, what was the reason for these?	None as yet.

Accounting Estimates - General Enquiries of Management

Question	Management response
6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?	Technical experts utilised where appropriate eg use of in-house (or external if required) experts for land/property valuations.
7. How does the Authority determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	In discussion internally within the finance function and externally with regional technical accountants groups and audit.
8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	Management review the output and the underlying assumptions underpinning them, challenging any discrepancies.
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: <ul data-bbox="98 844 697 986" style="list-style-type: none">- Management's process for making significant accounting estimates- The methods and models used- The resultant accounting estimates included in the financial statements.	Accounting estimates are discussed at Corporate Governance & Audit Committee, as part of the approval of financial statements. External audit reports also provide a focus on the key areas (asset valuations and pensions liability). Financial Statements training sessions provided to members have also incorporated these areas.

Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement?	No new items for 2021-22 Financial Statements. Ongoing issues re non-current asset valuations.
11. Are the management arrangements for the accounting estimates considered reasonable?	Accounting estimates are kept under review throughout the year by the central accountancy team and, formally reviewed each year by the Head of Accountancy and Service Director- Finance in preparation of the financial statements.
12. How is the Corporate Governance and Audit Committee provided with assurance that the arrangements for accounting estimates are adequate?	Covered as part of the external audit work and reporting.



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