

# Kirklees Council 2021-22 Audit Progress Report and Sector Update

**Year ended 31 March 2022**

21 September 2022



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Introduction

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This paper provides the Corporate Governance and Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a progress update on your 2021-22 audit;
- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Corporate Governance and Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications

<https://www.grantthornton.co.uk/en/services/public-sector-services/>

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

# Progress at September 2022

## Financial Statements Audit

In April 2022 we issued a detailed audit plan, setting out our proposed approach to the audit of the Authority's 2021/22 financial statements. This was presented to the June 2022 Corporate Governance and Audit Committee.

We undertook audit planning and interim audit in March and April 2022. Our year end audit fieldwork commenced in July 2022 and is expected to be substantially complete by the end of September 2022. The results of our work to date are included in this report. The majority of audit fieldwork will be completed by 30 September although we are unable to complete the financial statements audit until we receive confirmations from the Authority's Pension Fund and their external auditor regarding the pension fund liability, and completion of our audit work on infrastructure asset valuation.

The Accounts and Audit Regulations 2015 were amended by SI 2021 No. 263. The Department for Levelling Up, Housing and Communities (DLUHC) previously stated their intention to introduce secondary legislation to extend the deadline for publishing audited local authority accounts to 30 November 2022 for the 2021/22 accounts. This is enacted by The Accounts and Audit (Amendment) Regulations 2022 (SI 2022 No. 708) that came into force on 22 July 2022. The deadline for publishing audited local authority accounts for 2021/22 is extended to 30 November 2022 and thereafter changed to 30 September for years up to 2027/28.

We will provide a detailed Audit Findings Report to the 25 November 2022 Corporate Governance and Audit Committee and aim to give our opinion on the Statement of Accounts shortly after, subject to a national solution to valuation and audit of the infrastructure assets which is currently under review by CIPFA and DLUHC.

## Value for Money

The new Code of Audit Practice (the "Code") came into force on 1 April 2020 for audit years 2020/21 and onwards. The most significant change under the new Code was the introduction of an Auditor's Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations, if required.

The new approach is more complex, more involved and is planned to make more impact.

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies auditors are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation. The extended deadline for the issue of the Auditor's Annual Report is now no more than three months after the date of the opinion on the financial statements. Notwithstanding the extension, we anticipate issuing our Auditor's Annual Report in November 2022.

# Progress at September 2022 (cont.)

## Other areas

### Meetings

We meet weekly with the Finance team during the July to September fieldwork audit. We also met with the Service Director, Finance on 14 September to discuss our audit findings and the Authority's strategic priorities and plans as part of our quarterly liaison meetings.

### Events

We provide a range of workshops, along with network events for members and publications to support the Authority. Your officers attended our Accounts Workshop in January and February 2022, where we highlighted financial reporting requirements for local authority accounts and gave insight into elements of the audit approach.

Further details of the publications that may be of interest to the Authority are set out in our Sector Update section of this report.

## Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2021/22 is the fourth year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in the period 2018/19 to 2021/22 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, and have communicated fully with the Corporate Governance and Audit Committee.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

# Progress at September 2022 (cont.)

The main findings of our July to September year end audit fieldwork, and the impact of our findings on the accounts audit approach, are summarised in the table below (material balances only):

	Work performed	Conclusions and recommendations
<b>Property, Plant Equipment valuation (including Council Dwellings and Investment Property)</b>	<p>We have assessed the Council's external valuers for competence and approach taken. We have undertaken a detailed review of the instructions provided by the Council to their external valuers and the valuation methodology followed, including reference to our own expert valuer.</p> <p>We have selected samples of revalued assets to test for reasonableness as follows:</p> <ul style="list-style-type: none"> <li>27 operational property assets</li> <li>16 investment property assets</li> <li>15 Council dwelling valuations (beacons)</li> </ul> <p>Additionally we have reviewed the balance of assets not revalued to assess for reasonableness, including consideration of management's own assessment.</p> <p>We have also selected a sample of 20 capital additions for testing to source evidence.</p>	<p>Our work in this area is not yet complete as we await responses to audit queries. However no material matters have arisen based upon work to date.</p> <p>We are unable to conclude on the valuation of infrastructure assets as the disclosure and audit approach is under review by CIPFA and DLUHC.</p> <p>We have noted that investments properties with a total value of £3.7m were not revalued at 31 March 2022. This is inconsistent with the CIPFA Code which prescribes that all investment property should be revalued annually.</p>
<b>Cash &amp; Cash Equivalents</b>	We have obtained third party counterparty confirmations and reviewed bank reconciliations.	Our work has not identified any material weaknesses which are likely to adversely impact on the Authority's financial statements.
<b>Investments</b>	We have tested and obtained third party counterparty confirmations for a sample of 17 investments (long and short term).	Our work has not identified any material weaknesses which are likely to adversely impact on the Authority's financial statements.
<b>Debtors</b>	We have sample tested 25 debtor balances to supporting evidence (long and short term debtors).	Our work is largely complete and we will conclude once evidence is provided for the remaining sample items.
<b>Borrowings</b>	We have agreed a sample of borrowings to supporting evidence.	Our work has not identified any material weaknesses which are likely to adversely impact on the Authority's financial statements.
<b>Creditors</b>	We have sample tested 25 creditor balances to supporting evidence.	Our work is largely complete and we will conclude once evidence is provided for the remaining sample items.

# Progress at September 2022 (cont.)

	<b>Work performed</b>	<b>Conclusions and recommendations</b>
<b>Reserves</b>	We have agreed the reserves movements and disclosures in the financial statements with reference to the CIPFA Code requirements.	Our work has not identified any material weaknesses which are likely to adversely impact on the Authority's financial statements.
<b>Pension Fund Liability</b>	We have reviewed the assumptions made by the Pension Fund actuary for reasonableness and agreed entries made to the Kirklees accounts.	We are unable to conclude our work in this area until we receive responses from the pension fund external auditor, which will only be available once the pension fund auditor nears completion of their audit.
<b>Non-pay expenditure</b>	We have tested a sample of 78 non-pay expenditure to supporting evidence including cut-off requirements.	Our work is largely complete and we will conclude once evidence is provided for the remaining sample items.
<b>Pay expenditure</b>	We have undertaken a detailed substantive analytical review of payroll and payroll related costs to obtain assurance. We have also tested a sample of starters and leavers to payroll records.	Our work has not identified any material weaknesses which are likely to adversely impact on the Authority's financial statements.
<b>Grant income</b>	We have tested a sample of 21 items of grant income back to source records to provide assurance on accuracy and recognition criteria.	Our work is largely complete and we will conclude once evidence is provided for the remaining sample items.
<b>Fees and charges income</b>	We have tested a sample of 22 items of fees and charges income back to source records to provide assurance on accuracy and recognition criteria.	Our work has not identified any material weaknesses which are likely to adversely impact on the Authority's financial statements.
<b>Council tax income</b>	We have undertaken a detailed substantive analytical review of council tax income to obtain assurance. We have also tested a sample of council tax income.	Our work has not identified any material weaknesses which are likely to adversely impact on the Authority's financial statements.

# Progress at September 2022 (cont.)

	Work performed	Conclusions and recommendations
<b>NNDR income</b>	We have undertaken a detailed substantive analytical review of business rates tax income to obtain assurance. We have also tested a sample of business rates income.	Our work has not identified any material weaknesses which are likely to adversely impact on the Authority's financial statements.
<b>Collection Fund</b>	In addition to the comments made regarding council tax and NNDR income we have agreed the disclosures made in the Collection Fund together with agreeing values to third party precept notifications.	Our work has not identified any material weaknesses which are likely to adversely impact on the Authority's financial statements.
<b>Housing Revenue Account</b>	We have agreed the disclosures made in the Housing Revenue Account including dwelling numbers. We have undertaken a detailed substantive analytical review to agree rental income.	Our work has not identified any material weaknesses which are likely to adversely impact on the Authority's financial statements.
<b>Journals</b>	We identified a sample of 52 journals for substantive testing to using Info audit software which were either large or unusual in nature.	Our work is largely complete subject to quality review. Our work has not identified any material weaknesses which are likely to adversely impact on the Authority's financial statements
<b>Group</b>	We have reviewed management's Group boundary assessment. We have assessed the financial statements for the joint venture Kirklees Stadium Development Ltd (KSDL) including management's assessment of the stadium valuation.	Our work in this area is ongoing.
<b>Other Information</b>	We have reviewed the Narrative Report and Annual Governance Statement (AGS) for consistency with our knowledge of the Council, disclosure requirements and internal consistency within the financial statements. We also carry out a stand back review of the financial statements.	We have made a few minor observations to improve the presentation of the financial statements, Narrative Report and AGS. This is subject to final review.  We noted that the statutory public inspection period did not include the AGS, which has triggered a new inspection period.
<b>Review of information technology controls</b>	Our information systems specialist performed a high level review of the general IT control environment, as part of the overall review of the internal controls system.  IT (information technology) controls were observed to have been implemented in accordance with our documented understanding.	Our work has not identified any material weaknesses which are likely to adversely impact on the Authority's financial statements. Our IT specialist is preparing a separate report on IT controls which includes some recommendations for management. These will be incorporated into the Audit Findings Report once agreed with management.



# Audit Deliverables

2021/22 Deliverables	Planned Date	Status
<p><b>Audit Plan</b></p> <p>We are required to issue a detailed audit plan to the Corporate Governance and Audit Committee setting out our proposed approach in order to give an opinion on the Authority's 2021/22 financial statements and to report on the Authority's value for money arrangements in the Auditor's Annual Report.</p>	June 2022	Completed (17 June 2022 CGAC)
<p><b>Audit Progress</b></p> <p>We provide detailed audit progress reports and sector updates throughout the audit year together with a detailed report on progress at the end of the July to September audit fieldwork period.</p>	September 2022	Presented to 30 September 2022 CGAC
<p><b>Value for Money audit</b></p> <p>Our value for money audit is to be undertaken throughout August to November by the Firm's specialist value for money auditors, under the supervision of the local audit team. Findings will be reported in the Auditor's Annual Report.</p>	November 2022	Not yet due
<p><b>Audit Findings Report</b></p> <p>The Audit Findings Report will be reported to the November Corporate Governance and Audit Committee.</p>	November 2022	Not yet due
<p><b>Auditors Report</b></p> <p>This includes the opinion on your financial statements.</p>	November 2022	Not yet due
<p><b>Auditor's Annual Report</b></p> <p>This report communicates the key outputs of the audit, including our commentary on the Authority's value for money arrangements.</p>	November 2022	Not yet due

# Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

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Public Sector

A dark purple rectangular button with the text "Local government" in white, sans-serif font, centered within the button.

Local  
government

# The Value of Internal Audit – CIPFA

One of the key elements of good governance is an independent and objective internal audit service. Some organisations engage fully and reap significant benefits from the assurance, insight and expertise they bring whilst others pay lip-service to them and see their work as an administrative burden.

CIPFA's recent report, Internal Audit: Untapped Potential, lifts the lid on internal audit in public services. For some chief financial officers and chief executives, this report confirms the value and contribution of internal audit teams with 87% of respondents recognising the contribution internal audit makes to their organisation. However, some leadership teams saw internal audit as providing a basic service at minimal cost.

Getting the most out of the function requires honest conversations and long-term planning. Maintaining appropriate skills and knowledge within the function is necessary to ensure high quality internal audit in public services are retained.

## Culture and governance

The Audit Committee should monitor the delivery of internal audit and their output will be a key part of the annual work-plan. However, internal audit is not a substitute for risk management and should enhance the overall assurances received by management. Executives and Officers should engage with internal audit recommendations to ensure the organisation gains maximum value from reviews.

## Capacity

Reducing internal audit days can lead to a lack of 'corporate grip' and not identifying issues at an early stage. This report raises concerns over the capacity of internal audit across the public sector. The profession needs to be valued and invested in to make it more attractive to new blood and for bodies to be able to attract the best candidates to their service.

## Expectations

To maximise the impact of internal audit, a clear and aligned strategic audit plan and annual audit plan should be in place. This should be agreed with all stakeholders.

## Future plans

Internal audit needs to adapt to the changing landscape, including risks such as climate change, digital and technological developments, cyber-security and ongoing financial and service pressures within their planning processes. For financial resilience and medium- and long-term financial strategies internal audit can provide vital independent assurance to decision makers to allow them to take on more risk and be more ambitious. Leadership teams need to be clear on what assurances they will require going forward.

For more information, Rob Whiteman share his views on this report.



# Audit and Risk Assurance Committee effectiveness tool – NAO

The National Audit Office (NAO) has published this tool which supports Audit Committees in assessing their effectiveness.

The NAO comment “Audit and Risk Assurance Committees (ARACs) play a crucial role in supporting the effective governance of central government departments, their agencies and arm’s-length bodies.

ARACs are operating in a highly challenging context. Government organisations are managing many short- and long-term risks and are required to be resilient to a number of pressures. This has created an environment where ARACs need to be dynamic and responsive to the changing risk profiles and demands of their organisations. ARACs can see this as an opportunity to work out how they can most proactively work with the Board and accounting officer.

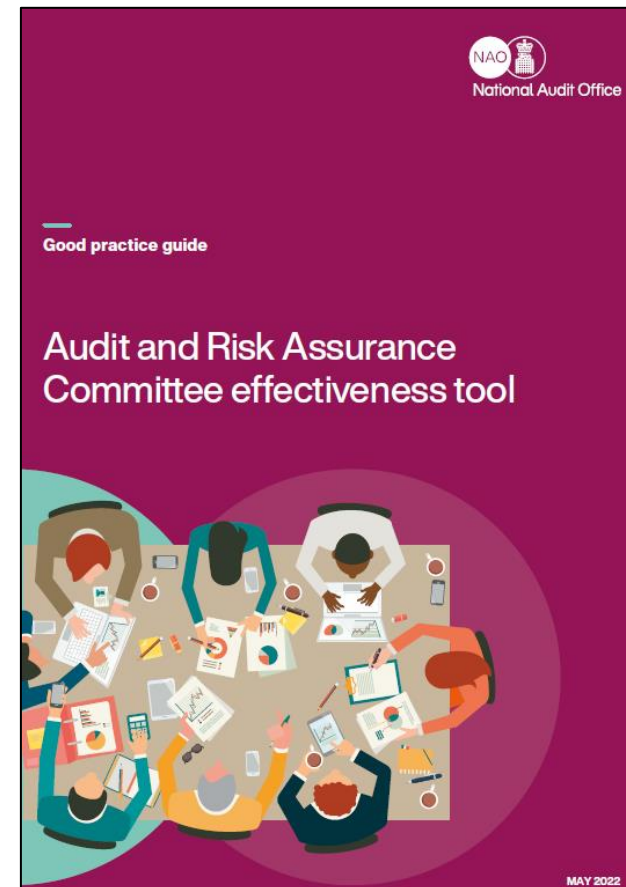
Against this background, the NAO’s effectiveness tool provides a way for ARACs to assess their effectiveness against more than just the basic requirements. It provides aspects of good practice to give ARACs greater confidence and the opportunity to meet the requirements of their role.

The NAO’s effectiveness tool is a comprehensive way for ARACs to assess their effectiveness on a regular basis.”

The tool covers:

- Membership, independence, objectivity and understanding
- Skills and experience
- Roles and responsibilities
- Scope
- Communication and reporting

Although the tool is designed for central government Audit Committees it is also relevant to local government.



The guide can be found here:

[Audit and Risk Assurance Committee effectiveness tool - National Audit Office \(NAO\) Report](#)

# Guide for audit and risk committees on financial reporting and management during COVID-19 – NAO

The National Audit Office (NAO) has published this guide which aims to help audit and risk committee members discharge their responsibilities in several different areas, and to examine the impacts on their organisations of the COVID-19 outbreak

The NAO comment “Audit and risk committees are integral to the scrutiny and challenge process. They advise boards and accounting officers on matters of financial accountability, assurance and governance, and can support organisations, providing expert challenge, helping organisations focus on what is important, and how best to manage risk.

Each organisation will have existing risk management processes in place, but risk appetite may have changed as a result of COVID-19, for the organisation to operate effectively and respond in a timely manner. This may result in a weakening of controls in some areas, increasing the likelihood of other risks occurring. Organisations will need to consider how long this change in risk appetite is sustainable for.”

The guide includes sections on:

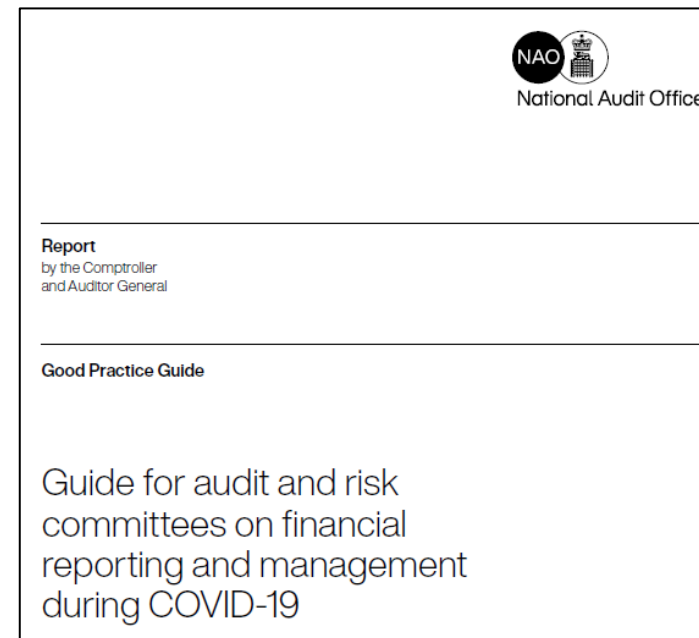
- Annual reports
- Financial reporting
- The control environment
- Regularity of expenditure

The guide can be found here:

<https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/>

The guide includes a number of key questions covering areas such as:

- Property valuations
- Pension scheme valuations
- Completeness of liabilities
- Events after the reporting period
- Control environment
- Fraud and error





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