The Audit Findings for Kirklees Council

Year ended 31 March 2022

DRAFT

14 November 2022

Contents

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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 Council 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.

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management and the Corporate Governance and Audit Committee.

[Key Audit Partner Signature]

Name : Jon Roberts

For Grant Thornton UK LLP

Date :

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Kirklees Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2022 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the group and Council's financial statements give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

The majority of our audit work was completed both on site and remotely during July - November. Our findings are summarised on pages 5 to 26. We have not identified any adjustments to the financial statements that have resulted in amendment to the draft outturn in the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C. We have raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion, shown at Appendix E or material changes to the financial statements, subject to the following outstanding matters;

- completion of a small number of closing audit procedures;
- completion of quality review process and clearance of points raised
- completion of value for money procedures;
- testing of infrastructure asset valuation which is subject to CIPFA confirmation;
- receipt of signed management representation letter – see Appendix F; and
- review of the final set of financial statements.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unqualified.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in Appendix G to this report. We expect to issue our Auditor's Annual Report by 31 December 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. In our Audit Plan communicated to you on 17 June 2022 we identified risks in respect of:

- management of the Council's DSG deficit relating to Special Educational Needs (SEND). We have updated our knowledge of progress made by the Council to seek a solution to the SEND overspend and retained deficit as part of the support offered by the DfE Safety Valve Group. This has involved assessing the Safety Valve's assessment of the SEND Transformation Plan; and
- the Council's consideration of a move from the Leader and Cabinet model of Governance to a Committee structure

Our review to date has not identified any issues in respect of the above risks.

During the review we have identified a new risk of significant weakness regarding the funding gaps contained in the Council's medium term financial plan. The Council has unallocated reserves of £47m, but cost pressures of £18.8m for 2022/23 identified in the quarter 1 monitoring report and a further £41.3m for 2023/24 identified in the MTFP update in September 2022. However, we understand that more up to date information means that both figures are likely to be worse than that. As a result, it is likely that without urgent action the unallocated reserves will be eliminated by the end of 2023/24. A further update on the financial outlook and potential use of reserves is due to be published on 8 November and we will update our conclusion based on that update.

Our findings are set out in the value for money arrangements section of this report.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit.

Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and the Corporate Governance and Audit Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council and group's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to significantly alter our audit plan, as communicated to you on 17 June 2022. Materiality was increased to reflect the increase in operating expenditure from that used at audit planning stage, as explained on page 6.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Corporate Governance and Audit Committee (CGAC) meeting on 25 November 2022, as detailed in Appendix E. These outstanding items include:

- completion of a small number of closing audit procedures;
- completion of value for money procedures;
- receipt of signed management representation letter – see Appendix F; and
- review of the final set of financial statements.

Whilst all other elements of our audit are likely to be complete, which would, in normal circumstances have allowed the audit to be signed following the November CGAC, testing of the Council's infrastructure asset valuation has been delayed nationally, pending a statutory override and amendment to the CIPFA Code. We will inform the November Committee of when we anticipate being able to sign our opinion, upon resolution of this national issue.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff.

2. Financial Statements

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels have increased from those reported in our audit plan on 17 June 2022 due to draft accounts reporting higher expenditure than forecast at audit planning stage. Expenditure is the benchmark used in calculating the materiality threshold.

We detail in the table alongside our determination of materiality for Kirklees Council and group.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	15,700,000	15,600,000	The threshold above which could reasonably be expected to influence the economic decisions of the reader of the financial statements.
Performance materiality	10,200,000	10,100,000	The amount set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality.
Trivial matters	800,000	800,000	Considered to be the threshold below which an error would be trivial to the overall financial statements.

2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override of controls – Council only 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. This was one of the most significant assessed risks of material misstatement.	We have: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence • Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Work is now complete. A risk-assessed selection of 52 journals was selected for testing. Our testing has not identified any evidence of inappropriate management override of controls.
ISA240 revenue and expenditure recognition risk – Council only	This risk was rebutted as explained in the Audit Plan. We did not identify any reason to reverse this rebuttal during the audit.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land, buildings, Council Dwellings and investment property – Council only Revaluation of land, buildings, Council Dwellings and investment property should be performed with sufficient regularity to ensure that carrying amounts are not materially different from those that would be determined at the end of the reporting period. Investment property and Council Dwellings should be revalued annually. Additionally, valuations are significant estimates made by management in the accounts. We have identified the valuation of land, buildings, Council Dwellings and investment property as a significant risk.	In response to this risk we have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the Council's valuation experts • written to the Council's valuers to confirm the basis on which their valuations were carried out • challenged the information and assumptions used by the valuers to assess completeness and consistency with our understanding • engaged an independent auditor's expert valuer to provide a further review of the reasonableness of the assumptions and approach taken by the Council's valuers • tested a sample of valuations at 31 March 2022 to understand the information and assumptions used in arriving at any revised valuations • tested revaluations made during the year to see if they had been input correctly into the Council's asset register • reviewed property valuations for assets not revalued by the Council's valuers • reviewed the social housing discount factor as applied to Council Dwellings We have carried out the planned audit procedures and raised challenge regarding the assumptions used by management and their expert valuers (Wilks Head Eve for land and buildings, District Valuation Service for Council Dwellings). The valuation date used by the valuer was 31 December 2021. We have received satisfactory responses to these enquiries, with the exception of a methodological query raised by our auditor's expert valuer, in relation to the application of useful life estimates to assets valued on the Depreciated Replacement Cost basis. Our firm view is that the Council's valuer does not adhere to the RICS guidance in this respect. As this is the second year our expert valuer has raised this issue, we have also included a recommendation to management in this regard- please see Appendix A to this report. We have also reviewed property values for the period 1 January 2022 – 31 March 2022, and have not identified any evidence to suggest that a material misstatement exists due to market factors between the valuation date and the balance sheet date. In undertaking our work we selected the following properties for detailed sample testing due to their high value and/or movement being different to our expectations based upon our expert valuer indexed movement: • Other land and buildings – 27 assets • Investment property – 16 assets • We also selected 15 Beacon classes of Council dwellings We have not identified any significant errors based upon our sample testing. Additionally, we have challenged management's assessment that assets not revalued in year are materially stated at the balance sheet date. Management have provided satisfactory responses **in respect of those assets revalued in previous financial years.** As part of this work we identified that a material value new leisure centre was brought into use in March 2022 and reclassified from 'Under Construction' to operational land and buildings. Under the Code this is required to be held at Current Value, rather than historical cost. We understand that this asset was not included in the 21/22 revaluation process due to the timing of the asset completion, however we are required to report that this asset is carried on the incorrect valuation basis in the financial statements. In order to satisfy ourselves that the asset value is not misstated, we requested management to perform a current value estimate, with input from the internal RICS valuer. From review of these workings we are satisfied that the asset's value is appropriately stated. Our audit testing has not identified any non-trivial errors.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of pension fund net liability – Council only The Council'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. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Council's pension fund net liability as a significant risk of material misstatement.	In response to this risk we have: • updated our understanding of the processes and controls put in place by management to ensure that the pension fund net liability is not materially misstated and evaluated the design of the associated controls • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • assessed the competence, capabilities and objectivity of the actuary who carried out the share of the pension fund valuation • assessed the accuracy and completeness of the information provided to the actuary to estimate the liability • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing additional procedures suggested within the report to ensure estimates are reasonable and consistent with the ranges set by the auditor's expert • tested 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 • obtained assurances from the auditor of the West Yorkshire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements Our audit work is substantially complete and audit procedures have not identified any material errors in the valuation of the net pension fund liability. The following points are noted: • We are satisfied that the £99m net pension liability associated with staff formerly employed by the Kirklees Neighbourhood Homes company has been accurately transferred and incorporated into the Council's main LGPS liability. • Actuarial assumptions used by the scheme actuary appear to be in line with our expectations based on PWC actuarial guidance provided to local audit firms nationally. Work to be concluded when the Pension Fund Auditor responds to enquiries.

2. Financial Statements - Other risks

Risks identified in our Audit Plan - For the avoidance of any doubt, these two risks have not been assessed as a significant risk at this stage, but we have assessed that there is some risk of material misstatement that requires an audit response.	**Commentary**
Accounting for grant revenues and expenditure correctly – Council only The Council (as with all other Local Authorities) has been the recipient of significant increased grant revenues during the 2021/22 financial year relating to COVID-19. In common with all grant revenues, the Council will need to consider for each type of grant whether it is acting as agent or principal, and depending on the decision how the grant income and amounts paid out should be accounted for.	We have: • Engaged with management to understand the different types of material grants received during 2021/22 and any conditions applicable; • Understood the conditions for payment out to other entities, businesses and individuals to identify whether the Council should be acting as agent or principal for accounting purposes; and • Tested material grant revenues to see whether the Council has accounted for these correctly. Our audit work has not identified any issues in respect of recognition and presentation of grant income.
Value of Infrastructure assets and the presentation of the gross cost and accumulated depreciation in the PPE note – Council only Infrastructure assets includes roads, highways, streetlighting and bridge assets. Each year the Council spends a material sum on Infrastructure capital additions. As at 31 March 2021, the net book value of infrastructure assets was £196m. In accordance with the Code, Infrastructure assets are measured using the historical cost basis, and carried at depreciated historical cost. With respect to the financial statements, there are two risks which we plan to address: The risk that the value of infrastructure assets is materially misstated as a result of applying an inappropriate Useful Economic Life (UEL) to components of infrastructure assets. The risk that the presentation of the PPE note is materially misstated insofar as the gross cost and accumulated depreciation of Infrastructure assets is overstated. It will be overstated if management do not derecognise components of Infrastructure when they are replaced.	The Code requires infrastructure to be reported in the Balance Sheet at depreciated historical cost, that is historic cost less accumulated depreciation and impairment. In addition, the Code requires a reconciliation of gross carrying amounts and accumulated depreciation and impairment from the beginning to the end of the reporting period. Kirklees Council has material infrastructure assets, at a gross and net value basis, there is therefore a potential risk of material misstatement related to the infrastructure balance. Our response will depend upon the outcome of the CIPFA consultation on accounting for infrastructure assets as set out on page 3 of this report, which we understand is likely to include an amendment to the Code, as well as Government putting in place a 'Statutory override' to address aspects of the issue. As a minimum we would expect to: • Reconcile the Fixed Asset Register to the Financial statements; • Using our own point estimate, consider the reasonableness of depreciation charge to Infrastructure assets; • Obtain assurance that the UEL applied to Infrastructure assets is reasonable; and • Document our understanding of management's process for derecognising Infrastructure assets on replacement and obtain assurances that the disclosure in the PPE note is not materially misstated. Audit work to be revisited and completed once the government publishes a Statutory Instrument together with a CIPFA Code amendment (expected late December 2022) regarding infrastructure valuation. This may impact our audit opinion once details are known.

2. Financial Statements – new issues and risks

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

Issue	Commentary	Auditor view
IFRS 16 implementation Following consultation and agreement by FRAB, the Code will provide for authorities to opt to apply IFRS 16 in advance of the revised implementation date of 1 April 2024. If management elect to implement IFRS 16 from April 2022 (early adoption) then in 2021/22 accounts as a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases, along with the estimated impact of IFRS 16 on the accounts	Kirklees Council is not intending to exercise early adoption of IFRS16 for 2022/23 and therefore no additional disclosure is required in 2021/22.	We have no further comments, although management will need to include additional IFRS 16 disclosures in the 2022/23 financial statements as that will be the year prior to adoption.
IT Control deficiencies The audit included an assessment of the relevant Information Technology (IT) systems and controls operating over them which was performed as part of obtaining an understanding of the information systems relevant to the Council's financial reporting.	The following IT systems were reviewed: • SAP • Northgate	Management has been provided with a separate report detailing our assessment over SAP and Northgate. The report raised five control improvement recommendations of which two were rated as high priority. These included user access levels, user access requests and segregation of duties. We concluded that the deficiencies were not likely to lead to material error in the financial statements. The recommendations are reported at Appendix A of this report.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – Values at 31 March 2022: Other Land & Buildings: £545.462m (PY £515.089m)	**Other Land and buildings and Investment Property:** Other land and buildings comprises £442m of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£103m) are not specialised in nature and are required to be valued at existing use value (EUV) at year end. The Council has engaged Wilks Head and Eve to complete the valuation of properties as at 31 December 2021 on a three yearly cyclical basis. 39.5% of total Land and Buildings assets were revalued during 2021/22. Management has considered the year end value of non-revalued properties, and the potential valuation change up to 31 March 2022 for assets revalued at 31 December 2021, to determine whether there has been a material change in the total value of these properties at the Balance Sheet date. Management concluded that there was no material movement in valuation between the valuation date of 31 December and the Balance Sheet date of 31 March 2022.	• We have assessed the Council's external valuer, Wilks Head and Eve, to be competent, capable and objective. We have however identified one instance in which we believe that the RICS guidance is not being followed. This is in respect of assumptions made by WHE about continuous asset maintenance where there is no direct knowledge of capital spend over many years. This has led to aged assets such as schools being given extended useful economic lives without clear evidence of their state of repair. This may not lead to material error in the financial statements but is not in line with the RICS guidance for the valuation of specialised assets. • We have carried out completeness and accuracy testing of the underlying information provided to the valuer used to determine the estimate, including floor areas and location factors • The Council has moved to a triennial valuation cycle from 2019/20 onwards which provides more robustness to the five yearly cycle that operated previously • Valuation methods remain consistent with the prior year • In relation to assets not revalued in the year, we have compared against the Gerald Eve (valuation specialists) report and held discussions with our own valuation expert. We also challenged the Council's valuation specialist on valuation differences identified through our sensitivity analysis work using other indices. There are no significant matters to report from this analysis. • As part of this work we identified that a new material leisure centre was brought into use in March 2022 and reclassified from 'Under Construction' to operational land and buildings. Under the Code this is required to be held at Current Value, rather than historical cost. We understand that this asset was not included in the 21/22 revaluation process due to the timing of the asset completion, however we are required to report that this asset is carried on the incorrect valuation basis in the financial statements. • We also challenged management's assessment that there was no material movement in valuation between the 31 December 2021 valuation date and the Balance Sheet date of 31 March 2022. We do not disagree with management's assessment. Testing to be completed and matters arising to be reported.	Blue

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Investment Property Valuation: £103.67m (PY £97.335m)	The Council has engaged Wilks Head Eve to complete an annual revaluation of investment properties as at 31 March 2022.	• We have assessed the Council's external valuer, Wilks Head and Eve, to be competent, capable and objective • We have carried out completeness and accuracy testing of the underlying information provided to the valuer used to determine the estimate, including property leases, rentals and yields • Valuation methods remain consistent with the prior year • Investment properties are required to be revalued annually in accordance with the CIPFA Code. At 31 March 2022 there were 45 investment properties totalling £3.7m which had not been subject to revaluation, contrary to the requirements of the CIPFA Code. Management assert that investment properties below £250k are deminimus and therefore not revalued.	Light purple
Council Dwellings Valuation: £784.236m (PY £720.632m)	The Council owns 21,949 dwellings and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council engages an external valuer, the District Valuation Service to complete the valuation of these properties.	• The Council's RICS qualified external valuer valued the entire housing stock using the beacon methodology, in which a detailed valuation of representative property types was then applied to similar properties. • Our work indicated that this methodology was applied correctly during 2021/22 valuation. • We have compared the valuation movements with our auditor's valuation expert (Gerald Eve) report and held discussions with our valuation expert. These discussions have concluded and we are now performing the final review process. • We have assessed the Council's valuer, to be competent, capable and objective in carrying out the valuations • We have carried out completeness and accuracy testing of the underlying information provided to the valuer used to determine the estimate and have no issues to report • Management apply a social housing discount factor of 41% after upward indexation. The discount factor is in line with the extant DCLG Stock Valuation Guidance 2016, and after discussing this with our auditor's valuation expert, we confirm we are satisfied with the factor used • We have agreed the HRA valuation report to the Statement of Accounts and we can confirm that HRA valuation report balance has being correctly accounted for in the financial statements.	Light purple

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Council net pension liability: £780.831m (PY £998.57m)	The total net pension liability comprises the West Yorkshire Pension Fund defined benefit Local Government pension scheme obligations relating to Kirklees Council. The Council uses AoN to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed at 31 March 2019, utilising key assumptions such as life expectancy, discount rates, salary growth and investment returns. A roll forward approach is used in the intervening years. The valuation undertaken at 31 March 2022 will be reflected in the 2022/23 financial statements. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. The Council has seen a £217.7m net decrease in Net Liability Related to Defined Benefit Pension Scheme during 2021/22. The 2021/22 liability also includes members from Kirklees Neighbourhood Housing Ltd which was brought within the Council's from 1 April 2021.	• We have assessed the Council's actuary, AoN, to be competent, capable and objective • We have performed additional tests in relation to accuracy of contribution figures, benefits paid, and investment returns to gain assurance over the 2021/22 roll forward calculation carried out by the actuary and have no issues to raise. • We have used PwC as our auditor expert to assess the actuary and assumptions made by the actuary – see table below for our comparison of actuarial assumptions: (see table below) • We have confirmed the controls and processes over the completeness and accuracy of the underlying information used to determine the estimate • We have confirmed there were no significant changes in 2021/22 to the valuation method • We are satisfied with the reasonableness of estimate of the net pension liability Audit work to be finalised upon response from PF auditor	Light purple

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.7%	2.70%-2.8%	Within range
Pension increase rate	3%	2.8% to 3.1%	Within range
Salary growth	4.25%	3.5%-5.5%	Within range
Life expectancy – Males currently aged 45 / 65	21.8 – 22.5 years	20.1-22.7 years	Within range
Life expectancy – Females currently aged 45 / 65	24.6 -25.7 years	22.9-24.9 years	Within range

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £8.027m (PY £6.634m)	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance The year end MRP charge was £8.027m, a net increase of £1.393m from 2020/21 reflecting the council's capital investment plans for Huddersfield town centre. The MRP charge is net of £13.7m previous overprovisions of MRP to offset the budget gap. This relates to an exercise during 2017/18 when it was deemed prudent to unwind a £91m overprovision of MRP over a 10 year period which management considered prudent at the time.	• The Council's calculation of MRP has been calculated in line with the statutory guidance and management assess the MRP charge to remain prudent • There have been no changes in the Council's policy for calculation of since the policy was approved by full Council in 2018/19 • The unwinding of the previous overprovision of MRP dates back to an overpayment of £91m in 2017/18 which was originally planned to offset budget gaps over a 10 year period. The planned offset for 2021/22 was increased from £9.1m to £13.7m to meet budget pressures. The £13.7m unwinding expires after 2023/24.	Light purple
Business rates appeals provision- £1.593m (PY £2.583m)	Following the introduction of the Business Rates Retention Scheme in April 2013, Local Authorities are liable for a share of the cost of successful appeals by businesses against their rateable value in 2021/22 and earlier financial years. A provision has therefore been recognised in the statement of accounts. The estimated provision has been calculated using the latest Valuation Office Agency (VOA) ratings list of ratings appeals and the analysis of successful appeals to date.	• Management have calculated the provision value using the latest information from the VOA listings. • Management have not included an estimate for as-yet un-lodged claims, however we are satisfied from discussions with management that the provision is not understated in this regard. • We have reviewed appeals activity in 22-23 to date and this has not given any indication that the 21-22 provision is understated. • There have been no changes to the Council's method for calculating the provision since the prior financial year.	Light purple

2. Financial Statements - Internal Control

Assessment	Issue and risk	Recommendations
● (amber)	A separate report has been produced by the Grant Thornton IT auditor identifying some deficiencies in arrangements and this has been circulated to Those Charged With Governance.	See separate report for detailed findings and recommendations. Recommendations are summarised at Appendix A of this report for completeness.

This section provides an overview of results from our assessment of the relevant Information Technology (IT) systems and controls operating over them which was performed as part of obtaining an understanding of the information systems relevant to financial reporting. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

			ITGC control area rating		
IT system	**Level of assessment performed**	**Overall ITGC rating**	Security management	Technology acquisition, development and maintenance	**Technology infrastructure**
Northgate	Detailed ITGC assessment (design effectiveness only)	● (amber)	● (amber)	● (green)	● (green)
SAP	Detailed ITGC assessment (design effectiveness only)	● (red)	● (red)	● (red)	● (green)

Assessment
- ● Significant deficiencies identified in IT controls relevant to the audit of financial statements
- ● Non-significant deficiencies identified in IT controls relevant to the audit of financial statements / significant deficiencies identified but with sufficient mitigation of relevant risk
- ● IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- ● Not in scope for testing

2. Financial Statements - Internal Control

Transaction cycle	Effectiveness of the system of internal control	Basis of assessment
Revenue (the presumed significant risk is rebutted)	Assessment not applicable - no significant risk identified and no control assessment performed.	Assessment not applicable - no significant risk identified and no control assessment performed other than a refresh of business process documentation.
Expenditure (not a significant risk however internal control assessed to assist substantive assurance procedures)	Designed effectively No control deficiencies identified	From discussions with management, financial accountants and accounts payable service accountants, we have identified key controls within the expenditure and payables processes and performed walkthrough procedures to confirm that these are designed effectively and are implemented as designed. We have performed a segregation of duties review and have not identified any control deficiencies from this. From the work of our IT auditor, we have not noted any significant control deficiencies at IT General Control level that would impact on our ability to conclude that the activity level controls are not designed effectively.

2. Financial Statements - matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

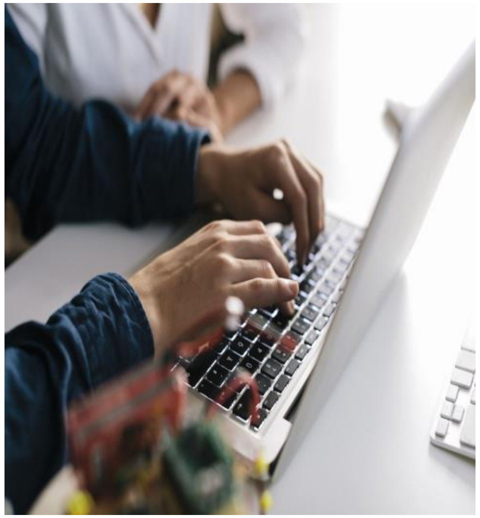
Significant matter	Commentary	Auditor view
Prior to 2021/22 the Council produced Group accounts which consolidated Kirklees Neighbourhood Homes Ltd (KNHL) as a 100% owned subsidiary. On 1 April 2021 KNHL was disaggregated from the Group and the assets and liabilities, and staff transferred back within Kirklees Council.	Management engaged early with the audit team to discuss and agree the proposed transactions to bring KNHL back into the Council's financial statements and the impact in the Council's reserves.	We are satisfied that the transactions to transfer KNHL back into the Council's accounts are correctly processed.

2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Corporate Governance and Audit Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, which is shown at Appendix F.

2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send a confirmation request to the Council's bankers and a sample of investment counterparties. This permission was granted and the requests were sent and responded to with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

2. Financial Statements - other communication requirements

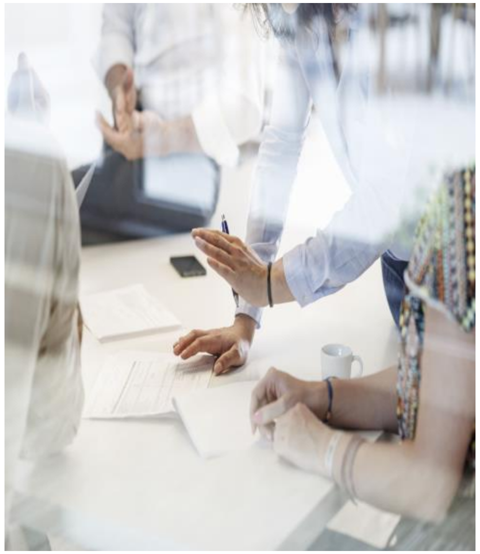
Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate • management's assessment that their joint venture KSDL remains a going concern is supported by appropriate evidence.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified other than minor presentational matters, the majority of which have been adequately rectified by management. These are reported at Appendix C. We plan to issue an unmodified opinion in this respect as reported at Appendix E.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money. We have nothing to report on these matters, although the Value for Money work is underway and not due to be completed until December 2021.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting threshold we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. • Note that this work is not yet completed. The NAO requires the work to be completed once the audit opinion is provided on the financial statements and has not yet released data collection instructions
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2021/22 audit of Kirklees **Council** in the audit report, as detailed in Appendix E, until we have completed our work on the WGA consolidation exercise mentioned above and completed our Value for Money responsibilities with the issue of the Auditor's Annual Report.



3. Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix G to this report. We expect to issue our Auditor's Annual Report by 31 December 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified risks 1 and 2 set out in the table below. We have performed further procedures in respect of these risks and have completed this element of our VFM work. Our conclusions are detailed below. We have also identified a risk of significant weakness documented at risk 3 below.

Risk of significant weakness	Procedures undertaken	Conclusion	Outcome
1. Financial Sustainability: Dedicated Schools Grant (DSG) overspend. The Council has a significant DSG SEND (Special Educational Needs) overspend which is held in an unusable negative DSG reserve at 31 March 2021 and 31 March 2022 under statutory override. At the end of 2020/21 the Dedicated Schools Grant (DSG) deficit was £25.1m, due to pressures in the High Needs Block. The deficit is forecast to increase to at least £35m at the end of 2021/22. The statutory override expires after 2021/22 and the Council must identify a solution to the financial pressure.	We have updated our knowledge of progress made by the Council to seek a solution to the SEND overspend and retained deficit as part of the DfE Safety Valve Group. This has involved assessing the Safety Valve's assessment of the SEND Transformation Plan.	No significant weakness in arrangements has been identified.	We have no recommendations to make to the Council.
2. Governance: Proposed change to governance structure at the Council The Council is considering a move from the Leader and Cabinet model of Governance to a Committee structure and is receiving support from the LGA to arrive at the most suitable model for the Council. There is a risk that the Council does not arrive at the most suitable governance structure unless the decision is properly considered and supported by evidence.	We have reviewed the process followed by the Council to determine why a change in structure may be required and also the evidence to support any decision made.	No significant weakness in arrangements has been identified.	We have no recommendations to make to the Council.
3. Financial sustainability: Funding gaps in the medium term financial plan During the review we have identified a new risk of significant weakness regarding the funding gaps contained in the Council's medium term financial plan. The Council has unallocated reserves of £47m, but cost pressures of £18.8m for 2022/23 identified in the quarter 1 monitoring report and a further £41.3m for 2023/24 identified in the MTFP update in September 2022. However, we understand that more up to date information means that both figures are likely to be worse than that. As a result, it is likely that without urgent action the unallocated reserves will be eliminated by the end of 2023/24. A further update on the financial outlook and potential use of reserves is due to be published on 8 November	We have made enquiries of the Service Director - Finance regarding the options being considered to address the funding gaps. We await information from the update to the financial outlook on 8 November and will comment further at that point	A significant weakness in arrangements has been identified.	The draft Auditor's Annual Report contains the following Key Recommendation: [to be provided following receipt of the updated financial outlook on 8 November]

4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We have received confirmation that Gerald Eve LLP, the auditor valuation expert engaged for this audit is independent of the Council.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council and group. No non-audit services were identified which were charged from the beginning of the financial year to the date of this report.

Appendices

A. Action plan – Audit of Financial Statements

We have identified 2 recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
High	The draft financial statements including the Annual Governance Statement (AGS) are required to be published on the Council's website for public inspection and comment. The draft AGS was not included with the initial publication.	For 2022/23 ensure that public inspection requirements are met. **Management response** [...]
Medium	In 2020/21 our auditor's expert for valuations work noted that the Council's General Fund valuer had not followed the expected RICS guidance in performing DRC valuations for specialised assets. Specifically, the Council's valuer does not allow for age-related reductions in the useful lives of buildings, nor is there a mechanism for capital expenditure to affect the remaining lives of the building as components are replaced or renewed. Upon review of the 2021/22 valuations we noted that this issue still exists and therefore warrants the attention of Those Charged with Governance. We do not however consider there to be a material misstatement occurring as a result of this methodological issue.	For 2022/23 communicate with the General Fund valuer to understand and ensure they are following the national RICS guidance for valuations. **Management response** [...]

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

A. Action plan – IT controls findings

Assessment | **Issue and risk** | **Recommendations**

1.

Users with debug access in SAP production

During our audit, we observed three accessible SAP user accounts had been provided with DEBUG access in production in the financial year (via the S_DEVELOP SAP authorisation object). Specifically, the following accounts:

- ABSOFT_APPS
- ABSOFT_BASIS
- DDIC

We understood that two of the accounts (ABSOFT_APPS, and ABSOFT_BASIS) belong to third party SAP support, and one account (DDIC) was used for applying patches in the production environment.

Risk

The assignment of DEBUG access within SAP, allows users to alter system source code and logic directly in the production environment. This therefore potentially allows users to bypass the configured transport route and change controls in place. This increases the risk of inappropriate and unauthorised changes being made to the system.

Where this access is granted either for an extended period or to users outside of IT the risk is further increased.

As part of our audit testing, we reviewed system records and observed that the account DDIC and PORTALADMIN had not been logged into during the audit period.

We also noted that a monthly review on DEBUG access is in place since March 2022. DEBUG access from 01 Nov 2021 were retrospectively checked in the first review.

Recommendations

Management should review the assignment of this access and ensure that DEBUG access is removed from all dialog and service users in the production environment. If this access is required in the future, it should be granted for as short a period of time as possible with a risk assessment completed to identify any required supporting controls.

Management response

- Debug access has now been removed from both Absoft accounts
- DDIC is a standard SAP system account that applies upgrades; it cannot be used to log in – account only used for patching and set to a service account; this account hasn't been used since 2019. This account has now been locked.

Assessment

- Significant deficiency – ineffective control/s creating risk of significant misstatement within financial statements and / or directly impact on the planned financial audit approach.
- Deficiency – ineffective control/s creating risk of inconsequential misstatement within financial statements and not directly impacting on the planned financial audit approach
- Improvement opportunity – improvement to control, minimal risk of misstatement within financial statements and no direct impact on the planned financial audit approach

A. Action plan – IT controls findings - SAP

	Assessment	Issue and risk	Recommendations
2.	Red	**Lack of formal process in managing SAP self-assigned access request** During our audit, we noted that there was no formal process in managing self-assigned access request within the SAP BASIS team. We observed that users in SAP BASIS team had assigned new access roles to their own SAP accounts. Such accesses were requested and approved verbally without formal documentation. Although audit logging was enabled, there was no proactive log review in place during the year except for DEBUG access. **Risk:** User access may not be appropriately aligned to job role requirements which may lead to inappropriate access within the application or underlying data.	Management should ensure that all access requests are formally documented and approved. Where feasible, logging and monitoring should be extended beyond debug access. **Management response** • We will review the process and put in place authorization mechanism – target end December 22
3.	Amber	**Segregation of duties conflicts between SAP change develop and implementer access** During our audit, a segregation of duties conflict was observed for three users (ABSOFT_APPS, BYRNEC and NICHOLSONJ) who are assigned a SAP development key along with ABAP developer access in the development environment (via SAP t-code SE38) and transport access in the production and quality environments (via t-code STMS with S_TRANSPRT and S_RFC authorisations). We also observed that there was no proactive monitoring in place to verify the appropriateness of any developers also implementing their own changes. We reviewed the STMS import history and observed there were 270 transports implemented in production. By comparing the STMS import history from development environment, we noted that no transport was developed and implemented by same user in FY2021/22. **Risk** The combination of access to develop changes and the ability to implement those changes in production is a segregation of duties conflict that could lead to an increased risk of inappropriate or unauthorised changes to data and programs being made.	Management should review these access assignments to ensure developers do not also have access to transport utilities in the production environment that would allow changes to be implemented. Where management believes for operational reasons, this access cannot be fully segregated a risk assessment should be undertaken and other mitigating controls considered (i.e. periodic monitoring of changes to identify those with the same developer and implementer and verify appropriateness). **Management response** • Will remove developer keys from these accounts – end Dec 22

A. Action plan – IT controls findings - SAP

	Assessment	Issue and risk	Recommendations
4.	●	**Business user with inappropriate SM19 access (audit log configuration)** During our review, we noted that 7 business users, including: - Head of Risk, - 2 Audit Managers, - 2 Senior Finance Officers, - Assistant Finance Officer, and - Internal Auditor have the ability to configure audit log (via SAP transactions SM19). **Risk** Access to audit log configuration (via SM19) within SAP gives users the ability to create, modify or delete audit logs owned and configured by other users. Where this ability is not appropriately restricted, audit logs may not be sufficiently maintained. Sufficient logs may not be available in the event of investigations for error or fraud detection.	Management should review the assignment of this access. Where possible, limit users with these privileges assigned to members of the IT and related support teams. Any users that do not require these privileges in an ongoing manner to perform their job role should have this level of access removed. Where this level of access is required for a specific task or purpose it should be assigned via a Fire Fighter ID. **Management response** • Access to be removed for SM19 (target end September 22)
5.	●	**Inadequate privileged generic user account management** During our audit, we observed 5 generic dialog accounts that had privileged access within SAP. Of these, two accounts were used by third party support consultants, while three were managed by the SAP Basis team. We noted that the activities performed via these generic accounts were not proactively monitored by management to ensure they were only used by appropriate individuals and for approved reasons. **Risk** Activities performed via shared generic accounts may not be linked to specific individuals, eroding accountability. Unauthorised transactions performed via these accounts may not be detected.	Management should consider performing an evaluation of the appropriateness and necessity of the generic accounts identified. This should include consideration of whether: (a) Activity could be performed through individually named users accounts with generic accounts reduced and only used for specific pre-approved activity; and (b) Accounts within the SAP application could be made into 'SYSTEM' user type, to allow them to run batch jobs but not be directly accessible for login. (c) If accounts are obsolete or not-in-use and if they could be disabled or deleted. Management should also consider whether compensating controls could be implemented to mitigate the risk created (i.e. passwords held within a password safe tool with logging of access or proactive monitoring of access with periodic review to validate an appropriate requirement). Where these controls will be owned / operated by external organisations management should consider disabling the accounts and only enable these accounts on need. Activities performed by the third parties should be monitored. **Management response** • This refers to accounts named: SAPSupport & PortalAdmin (service account), DDIC, Absoft (x2) • All these accounts will be kept locked unless required.

A. Action plan – IT controls findings - SAP

	Assessment	Issue and risk	Recommendations
6.		**Inadequate restrictions on the production client settings** During our audit, we observed the following weaknesses in SAP system configuration related to direct modification in production: - The parameter Protection: Client Copier and Comparison Tool was set to “Protection level 0: No restriction”. This allows production data to be overwritten by a client copy from other clients. - The parameter CATT and eCATT Restrictions was set to “eCATT and CATT only Allowed for 'Trusted RFC”. This allows automated test scripts to be run in the production client via an RFC procedure. **Risk** Limited or no restriction in direct modification of data in production client and corruption of data if unsafe test scripts are run.	Management should consider reviewing the production client settings and configure them as follows: • The parameter “Protection: Client Copier and Comparison Tool ” should be set to “Protection level 1: No overwriting”. • The parameter “CATT and eCATT Restrictions” should be set to “eCATT and CATT Not Allowed” **Management response** • These settings have been implemented (September 2022)
7.		**No formal process for changes in SAP batch jobs** During our audit, we noted that there was no formal process to manage the changes in relation to SAP batch changes (via SM36). **Risk:** A lack of consistent change management processes and controls regarding batch jobs could lead to a loss of data integrity, processing integrity and/or system down-time.	Management should establish a change management policy and associated procedures for changes in relation to SAP batch jobs, to ensure changes are consistently logged, tested, approved and monitored throughout the change lifecycle. **Management response** • Batch jobs are BAU tasks and risks are accepted as normal operating procedures. All access is audited within the system. • A separate process for recording any changes will be reviewed (target December 2022)

A. Action plan – IT controls findings - Northgate

	Assessment	Issue and risk	Recommendations
8.	●	**Lack of proactive review on appropriateness of activities performed by generic accounts** We noted that there was no proactive periodic access monitoring, for activities performed by generic administrative accounts in Northgate. Although a monthly activity report of account "RB" is produced, and an access log of using this ID is maintained, there was no review on both files to detect any abnormal or improper activities happened. In addition, there was no proactive review performed for account "FRC", another generic administrative account used in Northgate. **Risk:** Without formal and routine reviews of security event logs, inappropriate and anomalous activity may not be detected and resolved in a timely manner. Additionally, unauthorised system configuration and data changes made using privileged accounts may not be detected.	Management should ensure that security event logs are reviewed on a regular basis, ideally by a personnel/ team who are independent of those administrating Northgate and its underlying database. Any issues identified within these logs should be investigated and mitigating controls implemented to reduce the risk of reoccurrence. **Management response** • Monthly reviews have been scheduled (starting September 2022) and will be carried out by the Team Manager

B. Follow up of prior year recommendations

We identified the following issues in the audit of Kirklees Council's 2020/21 financial statements, which resulted in 5 recommendations being reported in our 2020/21 Audit Findings report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Note 4 Critical Judgements** The disclosure note includes items which are not considered material and critical to the compilation of the financial statements and does not fully explain what the judgement itself is. The note should not be a description of the accounting policy.	From our audit work performed, we consider this recommendation to have been substantially addressed in 2021/22.
x	**Note 17 Investment Property** Investment properties are required to be revalued annually in accordance with the CIPFA Code. At 31 March 2021 there were investment properties totalling £4.7m which had not been subject to revaluation.	Management have not revalued investment properties at 31 March 2022 which fall below their de-minimus value. At 31 March 2022 there were investment properties totaling £3.7m which had not been subject to revaluation.
✓	**Note 36 Related Party Transactions** We have identified weaknesses in management's arrangements for capturing related party transactions within the Council and for carrying out a full assessment of whether control exists between bodies. The process for capturing Member's interests also requires revisiting, including to obtain confirmation if there is no change from the prior year.	From our audit work performed, we consider this recommendation to have been substantially addressed in 2021/22.
✓	**GRNI accruals (Repeat recommendation from 2019/20 – see Appendix B)** Audit testing of GRNI accruals identified items that should have been cleared out as paid and should not be reported as creditors.	From our audit work performed, we consider this recommendation to have been substantially addressed in 2021/22.
x	**IT General controls** A separate IT Audit Findings Report has been produced containing eleven recommendations to improve the design effectiveness of the IT General Controls as they affect the financial statements for the year ended 31 March 2021. Each of the eleven recommendations were agreed with management with actions.	Five of the eleven 2020/21 recommendations were not fully addressed and these matters are repeated at Appendix A.

Assessment

✓ Action completed

X Not yet addressed

C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2022.

No adjusted misstatements have been identified to date.

C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Auditor recommendations	Adjusted?
Note 15 Property, Plant and Equipment	A £19m buildings asset (leisure centre) was transferred at historical cost from Assets under Construction to Other Land and Buildings in March 2022 upon completion of the building. Under the Code this is required to be held at current value, rather than historical cost. Following discussions we are satisfied that the difference in valuation is not material.	X
Note 17 Investment Property	Investment properties are required to be revalued annually in accordance with the CIPFA Code. At 31 March 2022 there were investment properties totalling £3.7m which have not been revalued. Management assert that investment properties below £250m are de-minimus and therefore not revalued.	X
Note 32 External Audit Costs	Note amended to reflect the forecast total cost of the external audit £213k (being scale fee of £132k and additional charges of £81k)	
Going Concern	We consider it good practice to include an explanatory going concern note in the financial statements.	X
Other information	Some presentational amendments to the Narrative Report and Annual Governance Statement were agreed with management.	✓

C. Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. The Corporate Governance and Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Balance Sheet Bank overdraft should be identified separately on the balance as a liability rather than netted off the cash balance.	0	Dr Cash 3.935m Cr Bank Overdraft (3.935m)	0	Not material and classification only with no overall impact
Total	0	0	0	

C. Audit Adjustments

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2020/21 financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting	Impact on 2021/22 financial statements
Balance Sheet Bank overdraft should be identified separately on the balance as a liability rather than netted off the cash balance.	0	Dr Cash 1,059 Cr Bank Overdraft (1,059)	0	Not material and no overall impact	Disclosure matter – not actioned for 2021/22 as £3.935m overdraft reported within note 32 Cash and Cash Equivalents
Note 15 Property Plant Equipment Incorrect accounting entries for surplus assets reclassified from investment properties.	Dr Cost of Services 3,050 Cr Surplus on revaluation of PPE (3,050)	0	0	Not material	No impact as specific to 2020/21
Note 41 Pensions Disclosures An extrapolated error relating to private equity holdings was reported by the WYPF auditor, 12% of which is attributable to Kirklees Council.	Dr Actuarial movement 2,229	Cr Pension Liability (2,229)	0 (Statutory override in place)	Based upon an extrapolation from an error raised in the WYPF accounts and not material	No impact as specific to 2020/21

D. Fees

We confirm below our final fees charged for the audit. We confirm there were no fees for the provision of non audit or audit related services.

Audit fees	Proposed fee	Final fee
Council Audit	£222,971	£212,971
Total audit fees (excluding VAT)	£222,971	£212,971*

* Final fee to be confirmed. Note there is a reduction in planned fee due to efficiencies of on-site working £5k and reduced Group audit procedures £5k with the demise of KNH Ltd .

The external audit fee agrees to Note 32 of the Financial Statements.

The variation from PSAA Ltd scale fee is set out below:

Audit fee breakdown	
2019/20 Scale fee published by PSAA	£122,221
Recurrent increases to scale fee first identified in 2019/20 (reported to Corporate Governance & Audit Committee)	
Raising the bar / regulatory factors / Public Interest Entity (PIE) status / reduced materiality	£23,375
Enhanced audit procedures for Property, Plant and Equipment (which includes the cost of the auditors experts)	£12,500
Enhanced audit procedures for Pensions Liabilities (IAS19)	£4,375
Additional work on Value for Money (VfM) under new NAO Code	£20,000
Increased audit requirements of revised auditing standards	£6,000
Additional work required for Group accounts	£10,000
Additional work required on housing benefit related expenditure	£3,000
New issues for 2021/22	
Increase in fee due to enhanced FRC review and infrastructure for 2021/22	£6,500
Additional cost of partial remote working	£5,000
Increased work to address local VFM risks	£10,000
Total planned audit fee for 2021/22 (excluding VAT)	**£222,971**

E. Audit opinion

Our audit opinion is included below.

We anticipate we will provide the group with an unmodified audit report

See separate document upon completion of the audit

F. Management Letter of Representation

Grant Thornton UK LLP

2 Glass Wharf

Temple Quay

Bristol

BS2 0EL

[Date] – {TO BE DATED SAME DATE AS DATE OF AUDIT OPINION]

Dear Sirs

Kirklees Metropolitan Borough Council

Financial Statements for the year ended 31 March 2022

This representation letter is provided in connection with the audit of the financial statements of Kirklees Metropolitan Council and its subsidiary undertaking Kirklees Stadium Development Ltd for the year ended 31 March 2022 for the purpose of expressing an opinion as to whether the group and Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the group and Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the group and Council and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the group and Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include land, buildings & investment property valuation and pension liability valuation. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

vii. Except as disclosed in the group and Council financial statements:

a. there are no unrecorded liabilities, actual or contingent

b. none of the assets of the group and Council has been assigned, pledged or mortgaged

c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

F. Management Letter of Representation

xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached below. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end and are disclosure misclassifications only. The financial statements are free of material misstatements, including omissions.

xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiv. We have updated our going concern assessment. We continue to believe that the group and Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that :

a. the nature of the group and Council means that, notwithstanding any intention to cease the group and Council operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements

b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and

c. the group and Council's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the group and Council's ability to continue as a going concern need to be made in the financial statements.

xv. We have considered whether accounting transactions have complied with the requirements of the Local Government Housing Act 1989 in respect of the Housing Revenue Account ring-fence.

xvi. The group and Council has complied with all aspects of ring-fenced grants that could have a material effect on the group and Council's financial statements in the event of non-compliance.

xvii. We have made sufficient enquiries to be satisfied that the Council's joint venture Kirklees Stadium Development Ltd remains a going concern.

Information Provided

xviii. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the group and Council's financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. access to persons within the Council via remote arrangements, from whom you determined it necessary to obtain audit evidence.

xix. We have communicated to you all deficiencies in internal control of which management is aware.

xx. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xxi. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xxii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and Council, and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xxiii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xxiv. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxv. We have disclosed to you the identity of the group and Council's related parties and all the related party relationships and transactions of which we are aware.

xxvi. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

F. Management Letter of Representation

Annual Governance Statement

xxvii. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

xxviii The disclosures within the Narrative Report fairly reflect our understanding of the group and Council's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Corporate Governance and Audit Committee at its meeting on 25 November 2022.

Yours faithfully

Name……………………………

Position…………………………..

Date……………………………..

Name……………………………

Position…………………………..

Date……………………………..

Signed on behalf of the Council

Appendix – Schedule of unadjusted errors -

G. Audit letter in respect of delayed VFM work

Councillor Y Hussain
Chair of Corporate Governance and Audit Committee
Kirklees Council
Civic Centre
Market Street
Huddersfield
HD1 2EY

28 September 2022

Dear Councillor Hussain

The original expectation under the approach to VFM arrangements work set out in the 2020 Code of Audit Practice was that auditors would follow an annual cycle of work, with more timely reporting on VFM arrangements, including issuing their commentary on VFM arrangements for local government by 30 September each year at the latest. Unfortunately, due to the on-going challenges impacting on the local audit market, including the need to meet regulatory and other professional requirements, we have been unable to complete our 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.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We expect to publish our report no later than 31 December 2022.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

JD Roberts

Jon Roberts

Partner

Grant Thornton

grantthornton.co.uk