

Informing the audit risk assessment for Kirklees Council 2022/23

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Purpose

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

Background

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

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

Communication

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

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

Purpose

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

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2022/23?	Cost of living crisis and resulting budgetary pressures (especially energy costs, food & fuel inflation and pay award along with increased costs of borrowing). High Needs budgetary pressures, Minimum Revenue Provision in-year 'unwind', long-term net pension liability and asset valuations.
2. Have you considered the appropriateness of the accounting policies adopted by Kirklees Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?	Accounting Policies are reviewed annually for continuing appropriateness. Updates are made as necessary to bring in to line with Code requirements.
3. Is there any use of financial instruments, including derivatives? If so, please explain	No complex financial instruments are used. See Stat Accounts disclosures
4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?	No

General Enquiries of Management

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

General Enquiries of Management

Question	Management response
9. Have any of the Kirklees Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details	No
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Treasury Management (Arling Close) and Tax advice (PWC for VAT).
11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details	Yes, see detailed year-end working papers.

Fraud

Matters in relation to fraud

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

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

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

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

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

We need to understand how the Corporate Governance and Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Corporate Governance and Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Kirklees Council's management.

Fraud risk assessment

Question	Management response
<p>1. Has Kirklees Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Authority's risk management processes link to financial reporting?</p>	<p>There are limited areas where accounting judgements and estimates are used. These areas are identified and reviewed in conjunction with the external auditor, to mitigate the risk.</p> <p>The council has a routine internal audit plan designed to provide assurance a part of which is assessment of fraud risk.. IA and its fraud team investigate customer fraud, internal and supplier fraud.</p> <p>Risk management processes identify and look to mitigate risk. Corporate risk matrices are created by senior managers, approved by Cabinet and council and linked into the budget making process at Annual Council. In year activity risk monitoring is undertaken by executive team and Cabinet(LMT), alongside discussion of performance and budget monitoring.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Treasury management –borrowing; (high risk high control)</p> <p>Customer fraud- means tested activity</p> <p>Cash fraud</p> <p>Mandate fraud (payment fraud subset)</p> <p>Tenancy fraud- RtB, unauthorised occupancy</p> <p>Supplier fraud/(Collusion with officers)</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Kirklees Council as a whole, or within specific departments since 1 April 2022? If so, please provide details</p>	<p>Issues would be investigated by IA and reported to CGAC if seen as “routine”. A very significant fraud would be reported through senior management, Cabinet and Council on an urgent as appropriate basis.</p> <p>There were two employee frauds that has been subject to internal disciplinary action.</p>

Fraud risk assessment

Question	Management response
<p>4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>Issues would be investigated by IA and reported to CGAC if seen as “routine”. A very significant fraud would be reported through senior management, Cabinet and Council on an urgent as appropriate basis</p> <p>Fraud risk panel recently established to ascertain and address fraud risk</p>
<p>5. Have you identified any specific fraud risks? If so, please provide details</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Kirklees Council where fraud is more likely to occur?</p>	<p>See above</p>
<p>6. What processes do Kirklees Council have in place to identify and respond to risks of fraud?</p>	<p>The council has a routine internal audit plan designed to provide assurance a part of which is assessment of fraud risk. IA investigate internal and supplier fraud. There is a fraud team that investigates customer fraud.</p>

Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for Kirklees Council, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details</p>	<p>The Council has an internal audit function that reports to the Corporate Governance & Audit Committee (CGAC), & to management, which operates in compliance with Public Sector Internal Audit Standards(PSIAS). There is an agreed, risk based audit plan, which is reported on quarterly and is subject on an annual opinion. Although there are anticipated to be some qualifications, the 2022/23 IA opinion is that (financial) internal control arrangements are sound. The annual governance statement & quarterly review of the action plan are reported through CGAC.</p> <p>The council has a routine internal audit plan designed to provide assurance a part of which is assessment of fraud risk. IA and its fraud specialist investigate suspected fraud and suspicions.</p> <p>This risk of override of controls is deemed minimal. Senior Management are not incentivised based on financial performance. Also senior management (the Executive Team) do not have direct access to input (journal) on to the financial ledger. There is also a strong culture of honesty and integrity.</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>See answer above (Q2), but the risk of material misstatements is deemed small.</p>

Fraud risk assessment

Question	Management response
<p>9. How do Kirklees Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details</p>	<p>The Council's employee handbook sets out expectation on staff conduct and ethical behaviour (issued to all new staff on the council intranet).</p> <p>There is a whistleblowing arrangements that are (reasonably well) publicised and used.</p> <p>There are procedures intended to detect inappropriate actions, such as money laundering and terrorism (as required by legislation).</p> <p>Contractual documents, tenders etc, recognise the importance of fraud mitigation and control, and procurement staff have specific training regarding this matter.</p> <p>Whistleblowing Procedures. (Records are available for inspection).</p> <p>Customer complaints processes.</p> <p>Whistleblowing, subject to triage, assessment, investigation and reporting back.</p> <p>Annual reporting of whistleblowing is reported to CGAC.</p> <p>Nothing of material significance reported in year- other than as noted elsewhere</p>
<p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Treasury management employees –borrowing; (high risk high control)</p> <p>Any roles handling cash</p> <p>Procurement roles/ contractor supervision</p> <p>Roles involving allocation or management of property (tenancies),</p> <p>Roles involving the awarding of means tested benefits, grants or assistances(individuals or corporate)</p>
<p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>Related parties are recognised and assessments made. The nature of the related parties should not create any unusual risk of fraud as related party transactions are generally performed in accordance with normal council procedures.</p>

Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Corporate Governance and Audit Committee?</p> <p>How does the Corporate Governance and Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>Reported as a matter of routine to CGAC (and in other government return). See earlier responses..</p>
<p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>All Whistleblowing or those of the nature of WB are investigated, including those that are anonymous.</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>No</p>

Law and regulations

Matters in relation to laws and regulations

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

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

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

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

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Kirklees Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Authority's regulatory environment that may have a significant impact on the Authority's financial statements?</p>	<p>The Monitoring Officer (Director of Legal, Governance and Commissioning) and the Head of Legal services have procedures in place to monitor statutory compliance on all obligations, proposals and initiatives.</p> <p>The Monitoring Officer and colleagues in Legal Services and Insurance provide updates on ongoing and potential litigation and claims.</p> <p>No.</p>
<p>2. How is the Corporate Governance and Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>By reporting from the above to the Council, Cabinet and Executive Team.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2022 with an on-going impact on the 2022/23 financial statements? If so, please provide details</p>	<p>Yes, relating to minor matters relating to failure to comply with FPRs; laws and regulations; These have been reported to Council/Cabinet/Executive Team/CGAC as appropriate. We are not aware that any of these will have any material ongoing impact on the financial statements for 2022/23</p>
<p>4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details</p>	<p>No items that would materially affect the 22/23 accounts.</p>

Impact of laws and regulations

Question	Management response
5. What arrangements does Kirklees Council have in place to identify, evaluate and account for litigation or claims?	The Monitoring Officer and colleagues in Legal Services and Insurance provide updates on ongoing and potential litigation and claims.
6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details	No

Related Parties

Matters in relation to Related Parties

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

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

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

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

Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in Kirklees Council's 2021/22 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> • the nature of the relationship between these related parties and Kirklees Council • Whether Kirklees Council has entered into or plans to enter into any transactions with these related parties • the type and purpose of these transactions 	<p>See 2021/22 financial Statements. Work to re-confirm related parties and transactions to support disclosures in the 2022/23 Financial Statements is in progress.</p>
<p>2. What controls does Kirklees Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>Forms to disclose Directorships. Letters to all councillors (or emails as appropriate) to remind them annually to update interests.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>As there are limited real associated parties- these controls arise through the normal course of business and by normal decision making- eg through Cabinet – in all other cases (eg KSDL)</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>The Council does not undertake transactions outside of the normal course of business.</p>

Going Concern

Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, 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 body'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.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

Going Concern

Question	Management response
1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Kirklees Council will no longer continue?	<p>The Council has set a balanced budget for 2023/24. Although there are significant reductions in usable reserves (as a result of the 22/23 expected overspend and to balance the 23/24 budget) overall reserves levels are considered adequate at this stage. Savings target will need to be achieved and progress against this will be monitored.</p> <p>Monthly financial monitoring will be produced, alongside KPI monitoring and specific monitoring on a rag rating basis for the delivery of savings.</p>
2. Are management aware of any factors which may mean for Kirklees Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?	<p>No. Although officers are currently in discussion with DfE about the continued participation in the safety valve (SV) programme in light of the council currently being off target, and we wont know until the summer the outcome of any ministerial decision pending submission of our revised plans. If Govt decide not to continue to support through the SV programme at that point, they will discontinue £16.5m funding in relation to statutory SEND services we provide that had been otherwise earmarked to the council over the remainder of the SV Programme, to 26/27.</p>
3. With regard to the statutory services currently provided by Kirklees Council, does Kirklees Council expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for Kirklees Council to cease to exist?	<p>Yes, (subject to point made above in Q2) the Council expects to continue delivery of all statutory services.</p>
4. Are management satisfied that the financial reporting framework permits Kirklees Council to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial	<p>Yes, management are satisfied that the Council continues to be a going concern. Please see detailed disclosures in the S151 Positive Assurance statement in the recent Council Budget report for 2023/24.</p>

Accounting estimates

Matters in relation to accounting estimates

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

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

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

Specifically do Audit Committee members:

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

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

Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	Valuation, depreciation and impairment of non-current assets (including PFI). Valuation of defined benefit net pension liability.
2. How does the Authority's risk management process identify and address risks relating to accounting estimates?	Annual risk assessment, identifying and addressing risks as part of closedown processes.
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	Use of guidance materials: CIPFA Code of Practice, RICS.
4. How do management review the outcomes of previous accounting estimates?	Assessed as part of annual closedown procedures. Historic valuations assessed against subsequent sales proceeds as part of year-end assurance/valuation process.
5. Were any changes made to the estimation processes in 2022/23 and, if so, what was the reason for these?	None as yet.

Accounting Estimates - General Enquiries of Management

Question	Management response
6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?	Technical experts utilised where appropriate eg use of in-house (or external if required) experts for land/property valuations.
7. How does the Authority determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	In discussion internally within the finance function and externally with regional technical accountants groups and audit.
8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	Management review the output and the underlying assumptions underpinning them, challenging any discrepancies.
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: <ul data-bbox="98 844 697 989" style="list-style-type: none">- Management's process for making significant accounting estimates- The methods and models used- The resultant accounting estimates included in the financial statements.	Accounting estimates are discussed at Corporate Governance & Audit Committee, as part of the approval of financial statements. External audit reports also provide a focus on the key areas (asset valuations and pensions liability). Financial Statements training sessions provided to members have also incorporated these areas.

Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those considered in the separate estimates paper)? If so, what are they?	No new items for 2022-23 Financial Statements. Ongoing issues re non-current asset valuations.
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in the separate estimates paper, are reasonable?	Accounting estimates are kept under review throughout the year by the central accountancy team and, formally reviewed each year by the Head of Accountancy and Service Director- Finance in preparation of the financial statements.
12. How is the Corporate Governance and Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Covered as part of the external audit work and reporting.



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