Kirklees Council external audit plan

Year ended 31 March 2023

Kirklees Council

July 2023

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Your key Grant Thornton team members are:

Jon Roberts
Key Audit Partner
T 07919 380840
E Jon.Roberts@uk.gt.com

Aaron Gouldman
Manager
T 0161 214 3678
E Aaron.R.Gouldman@uk.gt.com

Sam Danielli
Audit In-charge
T 0161 214 6384
E Sam.M.Danielli@uk.gt.com

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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.

Key matters

Council developments

The Council has set a balanced budget for 2023/24 in the backdrop of significant financial challenges in the medium-term. The Council is embarking on a transformational savings programme, requiring rigorous monitoring, but which aims to restore financial balance and avoid the depletion of reserves to an unsustainable level.

The Council continues to participate in the Safety Valve Programme in order to reduce its Dedicated Schools Grant (DSG) deficit in the medium term. The net overspend against the DSG funding allocation in 2022/23 was reported in June 2023 as £6.4m, mainly relating to High Needs, and this leaves the Council with an overall carry-forward deficit on £28.9m at 31 March 2023 (£22.3m at 31 March 2022).

We continue to hold regular meetings with the senior finance team at the Council. During these meetings we discuss a range of key issues regarding the Council's general developments, current and projected financial performance and emerging auditing and financial reporting issues.

We also endeavour to attend each meeting of the Corporate Governance and Audit Committee to provide audit updates to members and to gain a clear understanding of matters concerning risk management at the Council and relevant matters from internal audit reports.

National context

For the general population, rising inflation rates, in particular for critical commodities such as energy, food and fuel, is pushing many households into poverty and financial hardship, including those in employment. At a national government level, recent political changes have seen an emphasis on controls on spending, which in turn is placing pressure on public services to manage within limited budgets.

Local Government funding continues to be stretched with increasing cost pressures due to the cost-of-living crisis, including higher energy costs, increasing pay demands, higher agency costs and increases in supplies and services. Local authority front-line services play a vital role in protecting residents from rising costs; preventing the most vulnerable from falling into destitution and helping to build households long-term financial resilience. At a local level, councils are also essential in driving strong and inclusive local economies, through their economic development functions and measures like increasing the supply of affordable housing, integrating skills and employment provision, and prioritising vulnerable households to benefit from energy saving initiatives. Access to these services remains a key priority across the country, but there are also pressures on the quality of services. These could include further unplanned reductions to services and the cancellation or delays to major construction projects such as new roads, amenities and infrastructure upgrades to schools, as well as pothole filling.

Our recent value for money work has highlighted a number of governance and financial stability issues at a national level, which is a further indication of the mounting pressure on audited bodies to keep delivering services, whilst also managing transformation and making savings at the same time.

In planning our audit, we will take account of this context in designing a local audit programme which is tailored to your risks and circumstances.

Key matters

Audit Reporting Delays

In a report published in January 2023 the NAO have highlighted that since 2017-18 there has been a significant decline in the number of local government body accounts including an audit opinion published by the deadlines set by government. The NAO outline a number of reasons for this and proposed actions. In March 2023, we issued About time?, which explored the reasons for delayed publication of audited local authority accounts.

For Kirklees Council, our 2021-22 audit has not yet been concluded, due to delays in obtaining appropriate assurances from the auditor of the West Yorkshire Pension Fund with regards to the value of the council's LGPS assets and liabilities at the reporting date of 31 March 2022. This has been compounded by the need to incorporate the findings of the latest pension fund-wide triennial revaluation (published April 2023), which resets the actuarial assumptions and member data as at 31 March 2022. Since this represents the most accurate information in relation to the Council's 2021-22 balance sheet position, we must consider whether this gives rise to a material misstatement of the Council's 2021-22 net pension liability. Early indications are that this is not the case, however we must await assurances from the pension fund auditor before finalising our work.

Our Responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out further in our Audit Plan, has been agreed with the Service Director for Finance.
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money work.
- Our value for money work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness.
- We will consider progress made against previously agreed recommendations, from both an accounts as well as a Value for Money perspective.
- We will continue to provide you and your Corporate Governance and Audit Committee with sector updates providing our insight on issues from a range of sources and other sector commentators via our Audit Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretation, discuss issues with our experts and create networking links with other audited bodies to support consistent and accurate financial reporting across the sector.
- We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. We have identified a significant risk in regards to management override of controls– refer to page 7 for further details.
- We identified further significant audit risks relating to both the valuation of the pension fund net liability and the valuation of land and buildings, Council Dwellings and investment properties. For more information, please see pages 7 and 8.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Kirklees Council ('the Council') for those charged with governance.

Respective responsibilities

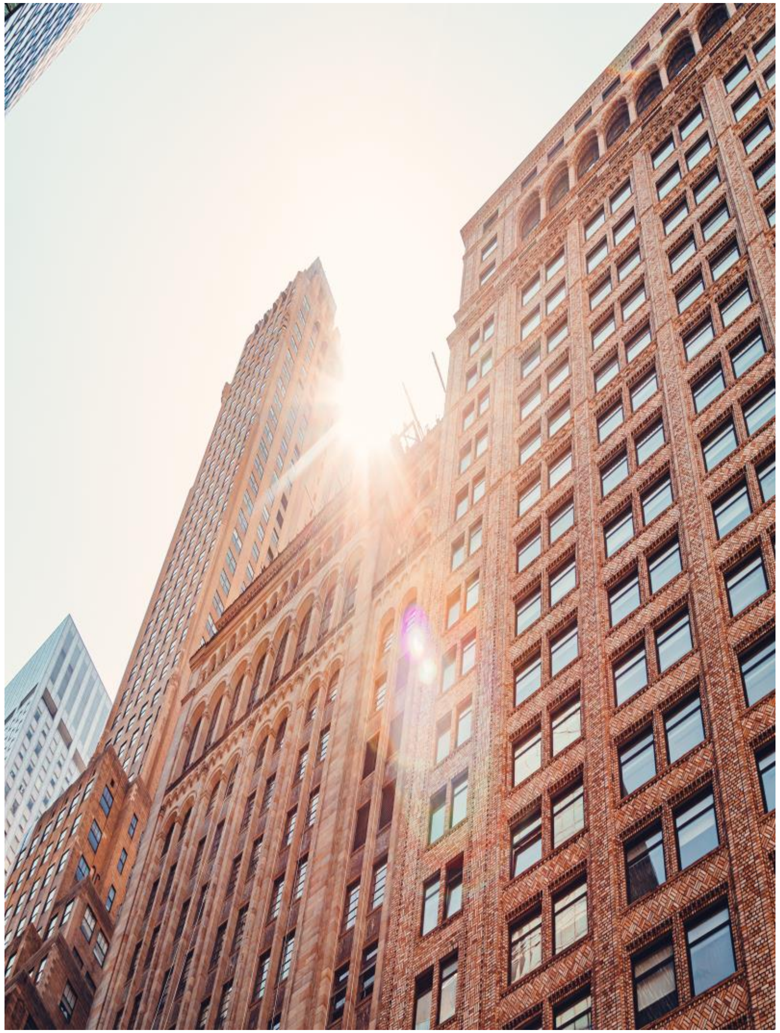
The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Kirklees Council. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Corporate Governance and Audit committee); and we consider whether there are sufficient arrangements in place at the Council and group for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Corporate Governance and Audit Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

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



Introduction and headlines

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls
- Valuation of land and buildings, council dwellings and investment properties
- Valuation of the Pension fund net liability/asset

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Group Audit

The Council is required to prepare group financial statements that account for the financial information of its joint venture, Kirklees Stadium Development Ltd (KSDL), on an equity basis.

Materiality

We have determined planning materiality to be £16,250k (PY £15,700k) for the group and £16,200k (PY £15,600k) for the Council, which equates to approximately 1.35% of your gross expenditure costs for the year 2022/23. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. As part of our risk assessment, we have considered the impact of unadjusted prior period errors. Performance materiality has been set at £11,300k for the Council (65%) and £11,350k for the Group.

Clearly trivial has been set at £810k (PY £800k).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has identified the following risks of significant weakness:

- Financial Sustainability: Dedicated Schools Grant (DSG) overspend
- Financial Sustainability: restoring medium term financial balance

We will continue to update our risk assessment until we issue our Auditor's Annual Report.

New Auditing Standards

There are two auditing standards which have been significantly updated this year. These are ISA 315 (Identifying and assessing the risks of material misstatement) and ISA 240 (the auditor's responsibilities relating to fraud in an audit of financial statements). We provide more detail on the work required later in this plan.

Audit logistics

Our planning work took place in March and April and our final visit will take place in July to September. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our proposed fee for the audit will be £212,596 (PY: £202,971) for the Council, subject to the Council delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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.

Significant risks identified

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.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	Council	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.	We will: - evaluate the design effectiveness of management controls over journals; analyse the journals listing and determine the criteria for selecting high risk unusual journals - test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration - gain and understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence - evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.
ISA240 revenue and expenditure risk	Council	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.	We plan to rebut this presumed significant risk subject to a full risk assessment review of revenue and expenditure streams. Despite revenue and expenditure recognition not being a significant risk we will still undertake procedures to ensure that revenue and expenditure included within the accounts is materially correct.

‘Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.’ (ISA (UK) 315)

Significant risks identified (cont.)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability/asset	Council	The Council's pension fund net liability/asset, as reflected in its balance sheet as the net defined benefit liability/asset, represents a significant estimate in the financial statements. The pension fund net liability/asset 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/asset as a significant risk of material misstatement.	We will: - update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability/asset is not materially misstated and evaluate the design of the fund assets valuation in the pension fund financial statements and associated controls - evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work - assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation - assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability/asset - test the consistency of the pension fund figures and disclosures in the draft financial statements with the actuarial report from the actuary - undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report - review whether the pension fund has reported any material uncertainty in relation to investment property valuations as at 31 March 2023 and, if so, assess the impact on disclosures in the financial statements and on our audit opinion - obtain 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 Council - evaluate the appropriateness of recognising a pension asset position against the Code and IFRIC 14 criteria.

Significant risks identified (cont.)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings, Council Dwellings and investment properties	Council	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, valuation 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.	We will: - evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work - evaluate the competence, capabilities and objectivity of the valuation expert - write to the Council's valuers to confirm the basis on which the valuations were carried out - challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding - engage 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 - test a sample of valuations at 31 March 2023 to understand the information and assumptions used in arriving at any revised valuations - test revaluations made during the year to see if they had been input correctly into the Council's asset register - test a sample of investment properties to ensure that fair value assumptions have been applied appropriately and can be supported - review the social housing discount factor as applied to Council Dwellings - Review whether the Council's expert valuer has reported any material uncertainty in relation to property valuations as at 31 March 2023 and, if so, assess the impact on disclosures in the financial statements and on our audit opinion.

Management should expect engagement teams to challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies referenced to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Since the re-integration of the Kirklees Neighbourhood Housing company on 1 April 2021, the group accounts comprise the Council and its share in the Kirklees Stadium Development joint venture, consolidated on an equity basis.

No changes were identified to the group structure in the 2022/23 financial year.

Group audit scope and risk assessment

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
Kirklees Council	Yes		• Significant audit risks are set out on pages 7-9.	Full scope audit performed by Grant Thornton UK LLP
Kirklees Stadium Development Limited (KSDL)	No		• Valuation of the Council's share of the net assets of KSDL.	Full scope audit performed by Revell Ward Ltd. We do not plan to direct the work of KSDL's auditor. The IFRS valuation of the John Smith stadium will be reviewed as part the group accounts consolidation procedures.

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to risks of material misstatement of the group financial statements
- Analytical procedures at group level

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement [and any other information published alongside your financial statements] to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2022/23 financial statements, consider and decide upon any objections received in relation to the 2022/23 financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
  - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, 'irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure'. All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Progress against prior year audit recommendations

We identified the following issues in our 2021/22 audit of the group and Council's financial statements, which resulted in 4 recommendations being reported in our 2021/22 Audit Findings Report. We will follow up on the implementation of our recommendations and will confirm whether we believe these have been fully addressed in our 2022/23 Audit Findings Report.

Recommendation	Issue and risk previously communicated	Update on actions taken to address the issue
1	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. In 2021/22 the draft AGS was not included with the initial publication.	For 2022/23 ensure that public inspection requirements are met. **Management response** Agreed.
2	It has become increasingly common for LGPS pension fund asset figures reported in draft financial statements to change significantly due to audit and actuarial issues. This often means that admitted bodies, such as the Council, see material movements in their corresponding asset figures subsequent to preparing and publishing their draft financial statements. There is a risk that the Council might not always be sighted on the full impact of these changes, meaning that the pension liability might be materially misstated in the financial statements.	In future years ensure that management request from the LGPS pension fund to be alerted of any changes to draft asset figures, so that an informed decision can be made as whether to request revised actuarial reports. **Management response** Noted.

Progress against prior year audit recommendations (cont.)

Recommendation	Issue and risk previously communicated	Update on actions taken to address the issue
3	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** Noted.
4	In 2021/22 we reported a sub-set of 8 IT-related recommendations. Of these: - Two were rated as high-risk, related to SAP users with debug access in SAP production. - Three were rated as medium-risk, related to SAP segregation of duties. - Two were rated as low-risk, related to SAP. - One was rated as medium-risk, relating to Northgate.	Management responses were obtained and included in our 2021/22 audit findings report. We will assess completion of these recommendations as part of our 2022-23 audit work. For 2022-23 our IT audit scope will no longer include Northgate due to modification to our audit approach.

Progress against prior year audit recommendations (cont.)

Recommendation	Issue and risk previously communicated	Update on actions taken to address the issue
5	**Infrastructure asset accounting- useful economic lives estimation process** From our evaluation of management's approach to useful economic life determination and the resulting depreciation charge to infrastructure assets, we concluded that the accounting estimate is reasonably stated in the financial statements. However, we consider management's approach to be lacking in robustness as management has not produced any evidence to support their selection of 20 years as a standard UEL for all types of infrastructure. There is a risk that if this is left unchanged, the depreciation charge may become materially inaccurate in future years. This could lead to an understatement in the infrastructure asset balance and a subsequent overestimation of the speed at which the assets' economic benefits are utilised.	Management should carefully adhere to the latest issued CIPFA Guidance in terms of reviewing Useful Asset Lives and considering how these may differ for the different types of infrastructure assets. **Management response** From 2022/23, Useful Asset Lives for Highways Infrastructure assets will follow CIPFA guidance.

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.

Matter	Description	Planned audit procedures
1	**Determination** We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Council for the financial year. Materiality at the planning stage of our audit is £16,250k, which equates to 1.35% of your gross expenditure for the year, as reported in the draft financial statements published on 29 June 2023.	We determine planning materiality in order to: – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements – assist in establishing the scope of our audit engagement and audit tests – determine sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements
2	**Other factors** An item does not necessarily have to be large to be considered to have a material effect on the financial statements.	An item may be considered to be material by nature where it may affect instances when greater precision is required. – We have identified audit fees and remuneration disclosures as areas of heightened interest and sensitivity. We will give additional attention to the accuracy of figures disclosed in these notes, however we do not assign a specific lower materiality threshold.

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.

Matter	Description	Planned audit procedures
3	**Reassessment of materiality** Our assessment of materiality is kept under review throughout the audit process.	We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.
4	**Other communications relating to materiality we will report to the Corporate Governance and Audit Committee** Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Corporate Governance and Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.	We report to the Corporate Governance and Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. In the context of the group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £810k (PY £800k). If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Corporate Governance and Audit Committee to assist it in fulfilling its governance responsibilities.

IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs. We say more about ISA 315 Revised on slide 21.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
SAP	Financial reporting, payroll, accounts payable and receivable	• Test the design and implementation of the ITGCs • Follow up on recommendations made in the previous audit

IT audit strategy

In addition, due to the activity during the period, specifically the new system implementation in December 2022, additional audit procedures will be completed to address the additional risks of material misstatement identified.

IT system	Event	Relevant risks	Planned IT audit procedures
Series4000 (fixed asset management software)	New system implementation	Post migration data completeness and accuracy; system functionality operating to design.	• Obtain an understanding of the process used for new system implementation • Audit of data migration activity and results

Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2023

The National Audit Office issued its latest Value for Money guidance to auditors in April 2020. The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body's arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.

Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.

Governance

How the body ensures that it makes informed decisions and properly manages its risks.

Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

Risks of significant weakness

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money.

Financial Sustainability: Dedicated Schools Grant (DSG) overspend

The Council has a significant DSG SEND overspend which is held in an unusable negative DSG reserve **at** 31 March 2023 under statutory override. At the end of 2022/23 the Dedicated Schools Grant (DSG) deficit was £28.9m, due to pressures in the High Needs Block. We will update our knowledge on the 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 will involve assessing the Safety Valve's assessment of the SEND Transformation Plan.

Financial Sustainability: Medium Term financial balance

The Council has forecast a significant depletion of reserves in order to set balanced budgets in the financial years from 2023/24. In our interim 2021/22 Auditor's Annual Report we identified a significant weakness with regards to the adequacy of the Council's arrangements to identify and monitor sufficient savings plans to restore financial balance in the medium term.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, 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

Audit logistics and team

Jon Roberts, Engagement Lead
Leads our relationship with you and takes overall responsibility for the delivery of a high-quality audit, meeting the highest professional standards and adding value to the Council.

Tom Foster, Associate Director (VFM audit)
Leads on the Value for Money audit and draws upon experience from carrying out VFM work nationally.

Aaron Gouldman, Manager
Plans and manages the delivery of the audit including regular engagement with Governance Committees and senior officers.

Sam Danielli, Audit In-charge
Key audit contact responsible for the day-to-day management and delivery of the audit work.

Audited Entity responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audited bodies. Where the elapsed time to complete an audit exceeds that agreed due to an entity not meeting its obligations, we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to an entity not meeting their obligations, we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to :

- ensure that you produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the Annual Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees and updated Auditing Standards including ISA 315 Revised

In 2018, PSAA awarded a contract of audit for Kirklees Council to begin with effect from 2018/19. The fee agreed in the contract was £122,721. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISAs which are relevant for the 2022/23 audit. For details of the changes which impacted on years up to 2021/22 please see our prior year Audit Plans.

The major change impacting on our audit for 2022/23 is the introduction of ISA (UK) 315 (Revised) - Identifying and assessing the risks of material misstatement ('ISA 315'). There are a number of significant changes that will impact the nature and extent of our risk assessment procedures and the work we perform to respond to these identified risks. Key changes include:

- Enhanced requirements around understanding the Council's IT Infrastructure, IT environment. From this we will then identify any risks arising from the use of IT. We are then required to identify the IT General Controls ('ITGCs') that address those risks and test the design and implementation of ITGCs that address the risks arising from the use of IT.
- Additional documentation of our understanding of the Council's business model, which may result in us needing to perform additional inquiries to understand the Council's end-to-end processes over more classes of transactions, balances and disclosures.
- We are required to identify controls within a business process and identify which of those controls are controls relevant to the audit. These include, but are not limited to, controls over significant risks and journal entries. We will need to identify the risks arising from the use of IT and the general IT controls (ITGCs) as part of obtaining an understanding of relevant controls.
- Where we do not test the operating effectiveness of controls, the assessment of risk will be the inherent risk, this means that our sample sizes may be larger than in previous years.

These are significant changes which will require us to increase the scope, nature and extent of our audit documentation, particularly in respect of your business processes, and your IT controls. We will be unable to determine the full fee impact until we have undertaken further work in respect of the above areas. However, for an authority of your size, we estimate an initial increase of £5,000. We will let you know if our work in respect of business processes and IT controls identifies any issues requiring further audit testing. There is likely to be an ongoing requirement for a fee increase in future years, although we are unable yet to quantify that.

The other major change to Auditing Standards in 2022/23 is in respect of ISA 240 which deals with the auditor's responsibilities relating to fraud in an audit of financial statements. This Standard gives more prominence to the risk of fraud in the audit planning process. We will let you know during the course of the audit should we be required to undertake any additional work in this area which will impact on your fee.

Taking into account the above, our proposed work and fee for 2022/23, is detailed overleaf and has been agreed with the Service Director for Finance.

Audit fees

	Actual Fee 2020/21	Estimated Fee 2021/22	Proposed fee 2022/23
Kirklees Council Audit	£196,000	*£202,971	£212,596
Total audit fees (excluding VAT)	£196,000	£202,971	£212,596

*Subject to PSAA approval

Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

Scale fee published by PSAA 2019	**£122,721**
Audit of Public Interest Entities (not included in the Scale Fee)	£4,000
Audit of Group Accounts (not included in the Scale Fee)	£5,000
Additional audit procedures arising from a lower materiality	£4,000
Enhanced audit procedures for Property, Plant and Equipment	£11,000
Enhanced audit procedures for Pension Liabilities (IAS19)	£3,000
Brought forward ongoing fee from 2019/20	**£149,721**
New issues for 2020/21	
Additional work on Value for Money (VfM) under new NAO Code	£26,000
Increased audit requirements of revised ISAs 540 / 240 / 700	£17,000
Additional work required on housing benefit related expenditure	£3,000
Total audit fees 2020/21 (excluding VAT)	**£195,721**

Audit fees – detailed analysis

New issues for 2021/22	
FRC response - additional review, EQCR or hot review	£1,500
Enhanced audit procedures for Infrastructure	£2,500
Additional work required under Value for Money arrangements	£3,250
Total audit fees 2021/22 (excluding VAT)	£202,972
New issues for 2022/23	
PSAA scale fee inflation adjustment	£3,374
Enhanced audit procedures for Payroll – Change of circumstances	£500
Enhanced audit procedures for Collection Fund- reliefs testing	£750
Increased audit requirements of revised ISAs 315/ 240	£5,000
Total proposed audit fees 2022/23 (excluding VAT)	**£212,596**

All variations to the scale fee will need to be approved by PSAA

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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.

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 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 had regard to 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.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group and Council.

Independence and non-audit services

Other services

No other services provided by Grant Thornton were identified.

Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•	
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	•	•
Views about the qualitative aspects of the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud(deliberate manipulation) involving management and/or which results in material misstatement of the financial statements (not typically council tax fraud)		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

Grant Thornton

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