Grant Thornton

The Audit Findings for Kirklees Council

Year ended 31 March 2023

Interim report

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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.

Jon Roberts
For Grant Thornton UK LLP

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 2023 for the attention of 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.

Our audit work was completed both on site and remotely during July-October. Our findings are summarised on pages 6 to 23. To date we have not identified misstatements to the financial statements that have resulted in adjustments being made to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix D. We have also raised recommendations for management as a result of our audit work. These are set out in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix C.

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

- receipt of assurances from the auditor of the West Yorkshire Pension Fund
- receipt of responses to audit queries from the HRA valuer
- receipt of management representation letter {see appendix G}]; 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 financial statements audit report opinion will be unmodified.

We have not been able to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. A further explanation of the significant weaknesses we have identified in the Council's arrangements is detailed on page 25 of this report.

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 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 completed our VFM work and our detailed commentary will be set out in the separate Auditor's Annual Report (AAR), which we intend to report to CGAC in January 2024. We identified two significant weaknesses in the Council's arrangements and so are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in all areas of its use of resources. Our findings are set out in the value for money arrangements section of this report (Section 3).

The significant weaknesses identified both relate to financial sustainability and can be summarised as follows:

1) As reported in our 2021/22 AAR in July 2023, the Council's severe financial position and strained reserves continued to represent a significant weakness in arrangements throughout the 2022/23 financial year. In our 2022/23 AAR we do consider the actions management has taken to date in order to restore sustainability in the medium term.

2) The Council has a material deficit against its Dedicated Schools Grant funding budget of £28.9m, against a target of £19m. While we note the effective liaison between the Council and the Department for Education in our 2022/23 AAR, we believe that the severity of the deficit position represents a significant weakness in value for money arrangements in 2022/23.

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 opinion.

Significant matters

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

1. Headlines

National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November. There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see About time? (grantthornton.co.uk)

We would like to thank everyone at the Council for their support in working with us to finalise the 2021/22 audited accounts by the end of September 2023, and to progress the 2022/23 audit efficiently up to the date of this report.

National context – level of borrowing

All Councils are operating in an increasingly challenging national context. With inflationary pressures placing increasing demands on Council budgets, there are concerns as Councils look to alternative ways to generate income. We have seen an increasing number of councils look to ways of utilising investment property portfolios as sources of recurrent income. Whilst there have been some successful ventures and some prudently funded by councils' existing resources, we have also seen some councils take excessive risks by borrowing sums well in excess of their revenue budgets to finance these investment schemes.

The impact of these huge debts on Councils, the risk of potential bad debt write offs and the implications of the poor governance behind some of these decisions are all issues which now have to be considered by auditors across local authority audits. We have not identified this as an issue for Kirklees Council – increased borrowing has been channelled towards the Council's capital programme with a focus on local regeneration. Nonetheless, given the significant financial challenges facing the Council in the medium term, we have considered whether the Council is managing the risks of increased borrowing against the need to develop comprehensive savings plans, in the context of the level of general reserves available to the Council. Our VFM work comments specifically on the challenges the Council is facing in this area.

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.

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 group and Council's business and is risk based, and in particular included:

- An evaluation of the group and 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. From this evaluation we determined that analytical procedures at group level only were required for the Kirklees Stadium Development joint venture.
- 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 alter our audit plan, as communicated to you in July 2023.

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 meeting on 24 11 2023, as detailed in Appendix H. These outstanding items include:

- receipt of assurances from the auditor of the West Yorkshire Pension Fund
- receipt of responses to audit queries from the HRA valuer
- receipt of a management representation letter; and
- review of the final set of financial statements.

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 remain the same as reported in our audit plan on 14 July 2023.

We set out in this table our determination of materiality for Kirklees Council and the group.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	£16,250,000	£16,200,000	The threshold above which could reasonably be expected to influence the economic decisions of the reader of the financial statements.
Performance materiality	£11,350,000	£11,300,000	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	£810,000	£810,000	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 and implementation of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness • reviewed and tested transfers between the General Fund and HRA and inter group journals We identified a change made to the infrastructure assets accounting policy, following recent guidance released by CIPFA in relation to expected useful economic lives for components of infrastructure assets. We concluded that the changes made were appropriate and not indicative of management modifying accounting policies to achieve a certain biased presentation in the financial statements. Our audit work has not identified any issues in respect of management override of controls.
ISA240 revenue and expenditure risk – Council only	This risk was rebutted as explained in the Audit Plan, following our detailed risk assessment of the Council's revenue and expenditure streams. 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 and buildings, council dwellings and investment property (Council only) The 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: • assessed the design and implementation of controls management has in place to ensure the estimate is accurate and underlying data is complete • 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 2023 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 2022. 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. In our previous year's AFR we included a recommendation to management in this regard- please see Appendix A to this report for updated commentary. We have also reviewed property values for the period 1 January 2023 – 31 March 2023, 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 – 22 assets • Investment property – 16 assets • We also selected 25 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 has provided satisfactory responses **in respect of those assets revalued in previous financial years.**

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of pension fund net liability/asset (Council only) The Council's local government pension fund net surplus, as reflected in its balance sheet as the net pension asset, represents a significant estimate in the financial statements. The pension fund net surplus is considered a significant estimate due to the size of the numbers involved (£74m in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). However, for the first time since IFRS have been adopted the council has had to consider the potential impact of IFRIC 14 - IAS 19 -the limit on a defined benefit asset. Because of this we have assessed the recognition and valuation of the pension asset as a significant risk. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 1.5% effect on the liability/surplus. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions, we have therefore identified valuation of the Council's pension fund net asset as a significant risk.	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 **Net pension asset** Management has considered the potential impact of IFRIC 14, and has determined, based on the actuary's advice, that the full surplus can be recognised. Our audit work in this area found no issues with management's approach. **Triennial valuation** For the 2022/23 accounts, the member data from the latest triennial valuation of the West Yorkshire Pension Fund was used. Our work undertaken testing the triennial review back to source data did not identify any issues. Our audit work to date has not identified any issues in respect of valuation of the pension fund liability.

2. Financial Statements: key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building (General Fund) valuations – £534m	Other land and buildings comprises £425m 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 (£109m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged Wilks Head and Eve to complete the valuation of properties as at 31/12/22 on a three yearly cyclical basis. 60% of total assets were revalued during 2022/23. Management has considered the year end value of non-valued properties and the potential valuation change in the assets revalued at 31/12/22. Management applies build cost and other market indices to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties' value. Management has performed the above in order to address estimation uncertainty. At note 5 the financial statements also include disclosures made in that respect. The total year end valuation of land and buildings was £534m, a net decrease of £11m from 2021/22 (£545m).	• 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 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 management's assessment against our expectations formed by a market report produced nationally for local auditors. As part of our evaluation, we also held discussions with our own valuation expert. There are no significant matters to report from this analysis. • We additionally challenged management's assessment that there was no material movement in valuation between the 31 December 2022 valuation date and the Balance Sheet date of 31 March 2023. We do not disagree with management's assessment. We concluded that the land and buildings are not materially misstated.	Light purple

Assessment

- [Dark 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 - £98m	The Council has engaged Wilks Head and Eve to complete the valuation of properties as at 31/12/22 on an annual basis, as required by the CIPFA Code. 92.6% of total assets were revalued during 2022/23. The total year end valuation of investment property was £97.5m, a net decrease of £6.2m from 2021/22 (£103.7m).	• 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. As 31 March 2023 there were investment properties totalling £7.2m which had not been subject to revaluation, contrary to the requirements of the CIPFA Code. Management assert that investment properties below £250k are de-minimus and therefore not revalued.	Light purple
Land and Buildings – Council Dwellings - £812m	The Council owns 21,806 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 has engaged the District Valuer to complete the valuation of these properties as at 31/12/22. To address estimation uncertainty between the valuation date and the balance sheet date of 31/3/23, management commissioned a market report from the valuer, covering the first quarter of 2023, to determine whether there had been a material movement in the value of the housing stock in this period. This resulted in a decrease in value of £14.2m, which was incorporated by management into the valuation figure stated in the accounts. The year end valuation of Council Housing was £812m, a net increase of £28m from 2021/22 (£784m).	• 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 2022/23 valuation • We have compared the valuation movements with our expectation based on a market report provided to audits, as well as by holding discussions with our valuation expert. We consider the movements to be reasonable • 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 applies 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

Assessment

- [Dark 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
Net LGPS funded pension surplus – £74m IFRIC 14 addresses the extent to which an IAS 19 surplus can be recognised on the balance sheet and whether any additional liabilities are required in respect of onerous funding commitments. IFRIC 14 limits the measurement of the defined benefit asset to the 'present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.	The Council is an admitted body to the West Yorkshire Local Government Pension Scheme. The Council's LGPS funded net pension asset at 31 March 2023 is £74m (PY £693m net liability). The Council uses Aon Solutions Ltd 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 in 2022. Given the significant value of the net pension fund liability (surplus), small changes in assumptions can result in significant valuation movements. There has been a £858m net actuarial gain during 2022/23.	We have assessed the competence and independence of management's expert and not identified any issues with management's use of their work. In our assessment the actuary has taken an appropriate approach to accounting for the 2022 valuation and the requirements of IFRIC 14 in relation to recognition of the pension fund surplus for the Council's accounts. We have made use of PwC as auditor's expert to assess the actuary and assumptions made by actuary – see the below table:	Light purple

Assumption	Actuary Value	PwC range	Assessment
Discount rate	4.70%	4.50-4.80%	●
Pension increase rate	2.70%	2.60-2.70%	●
Salary growth	3.95%	3.70-4.20%	●
Life expectancy – Males currently aged 45/65	Age 65: 21.6 Age 45: 22.9	Age 65: 21.6-23.3 Age 45: 22.9-23.8	●
Life expectancy – Females currently aged 45/65	Age 65: 24.6 Age 45: 25.7	Age 65: 24.2-25.7 Age 45: 25.5-26.7	●

We are satisfied of the completeness and accuracy of the underlying information used to determine the estimate.

We have not identified any significant changes to valuation method.

Upon receipt of assurances from the WYPF valuer we will be able to assess the reasonableness of the Council's share of LGPS pension assets.

We are satisfied that the movement in the estimate from a deficit to surplus position is reasonable considering the favourable changes in actuarial assumptions.

We are satisfied of the adequacy of disclosure of the estimate in the financial statements.

Assessment

- [Dark 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
Minimum Revenue Provision - £10.330m	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 £10.330m, a net increase of £2,303k from 2021/22.	In our assessment, the MRP has been calculated in line with the statutory guidance and the Council's policy on MRP complies with statutory guidance. Changes to the Council's policy on MRP have been discussed and agreed with those charged with governance and have been approved by full council The MRP charged in year equates to 1.28% of the opening Capital Financing Requirement. This is lower than the 2% level we consider to be prudent. Nonetheless, we are satisfied that the MRP charge has increased reasonably considering the additional capital investment underway in 2022/23. Government consulted (February 2022) on changes to the regulations that underpin MRP, to clarify that capital receipts may not be used in place of a prudent MRP and that MRP should be applied to all unfinanced capital expenditure and that certain assets should not be omitted. The consultation highlighted that the intention is not to change policy, but to clearly set out in legislation, the practices that authorities should already be following. A subsequent survey indicated amended proposals to provide additional flexibilities for certain capital loans. With regards to the above, we are satisfied that the Council is in line with the recommended practice and does not make inappropriate use of capital receipts.	Light purple

Assessment

- [Dark 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: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas. Our IT audit team has reported to management in more detail and the key findings are found within Appendix B to this report.

			ITGC control area rating		
IT application	Level of assessment performed	Overall ITGC rating	Security management	Technology acquisition, development and maintenance	Technology infrastructure
SAP	ITGC assessment (design and implementation effectiveness only)	🟠	🟠	🟠	🟢
Active Directory	ITGC assessment (design and implementation effectiveness only)	🟢	🟢	⚫	⚫

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: Information Technology

We also performed specific procedures in relation to the significant changes during the audit period, specifically the new system implementation. We observed the following results:

IT system	Event	Result	Related significant risks/ risk/observations
Asset4000	New system implementation	We discussed and walked through the system implementation process with the relevant contact within Finance. This involved observing the controls in place to ensure that data was transferred accurately and completely. We have identified non-significant deficiencies regarding the implementation of the new asset system. Please see Appendix B for further details in addition to management's responses.	The new asset system implementation gives rise to a risk of material error in the financial statements relating to asset accounting. From our audit testing we have not identified any material misstatement deriving from the change in asset system. We have provided management with best-practice recommendations for future new system implementation. See pages Appendix B for further details.

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 Controls

Transaction cycle	Effectiveness of the system of internal control	Basis of assessment
PPE and Investment Properties- revaluation accounting	Designed effectively, with no control deficiencies identified	Documentation and assessment of the design effectiveness and implementation of internal controls.
Pension liability/surplus accounting	Designed effectively, with no control deficiencies identified	Documentation and assessment of the design effectiveness and implementation of internal controls.
Journal entries	Designed effectively, with no control deficiencies identified	Documentation and assessment of the design effectiveness and implementation of internal controls.
Accounts Payable	Designed effectively, with no control deficiencies identified	Documentation and assessment of the design effectiveness and implementation of internal controls.
Cash- bank reconciliations	Designed effectively, with no control deficiencies identified	Documentation and assessment of the design effectiveness and implementation of internal controls.
Other	If we had performed more extensive procedures on internal control, we might have identified more deficiencies to be reported.	

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.

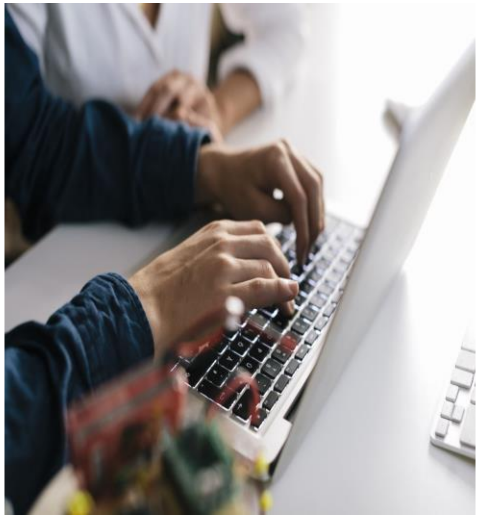
Significant matter	Commentary
Significant events or transactions that occurred during the year	No significant matters were identified during the audit.
Conditions affecting the group/Council, and business plans and strategies that may affect the risks of material misstatement.	Extensive discussion was held with management in relation to the plans in place to secure financial sustainability in the medium term. There was no impact on the risks of material misstatement for the financial audit 2022-23. Please refer to section 3 of this report, and our Auditor's Annual Report, for detailed commentary on our assessment of the Council's value for money arrangements.
Discussions or correspondence with management in connection with fees for audit or other services	Management contacted the audit team during the audit period with a request for the auditor to undertake additional services in relation to the certification of the Council's recurring grant claims. See Appendix E for details of the additional services rendered and fees charged.
Significant matters on which there was disagreement with management, except for initial differences of opinion because of incomplete facts or preliminary information that are later resolved by the auditor obtaining additional relevant facts or information	No such matters were identified during the audit.
Other matters that are significant to the oversight of the financial reporting process.	No relevant matters were identified during the audit.

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 other 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 material 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 will be requested from the Council, including specific representations in respect of the Group, which is set out at Appendix H.
Audit evidence and explanations	All information and explanations requested from management was provided.

2. Financial Statements: other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send confirmation requests to various investment and borrowing counterparties. This permission was granted and the requests were sent. These requests were returned 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

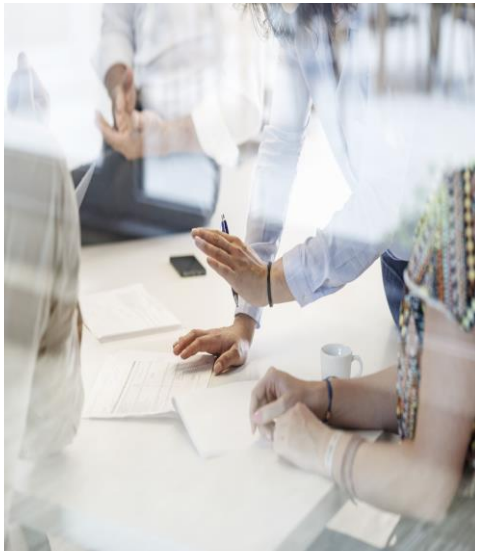
Our responsibility

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.

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. We plan to issue an unmodified opinion in this respect – refer to Appendix H.
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 and have reported significant weaknesses. We have nothing to report on these matters.



2. Financial Statements: other responsibilities under the Code

Issue	Commentary
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. Note that detailed work is not required as the Council does not exceed the threshold.
Certification of the closure of the audit	We intend to certify the closure of the 2022/23 audit of Kirklees Council in the audit report, as detailed in Appendix H.

3. Value for Money arrangements (VFM)

Approach to Value for Money work for 2022/23

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 completed our VFM work and our detailed commentary will set out in the separate Auditor's Annual Report. This report will be presented to the CGAC in January, incorporating management's responses to the Key Recommendations identified below.

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. The risks we identified are detailed in the table below, along with the further procedures we performed and our conclusions. We identified two significant weaknesses in the Council's arrangements and so are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Our auditor's report will make reference to the identified significant weaknesses in arrangements, as required by the Code, see Appendix H.

Risk of significant weakness	Procedures undertaken	Conclusion	Outcome
Financial sustainability- management of savings schemes	We held discussions with senior management and members to understand their views on the Council's progress in developing sustainable savings programmes. We reviewed relevant reports and detailed savings plans and challenged management on their sufficiency. We benchmarked the Council's position against other Local Authorities in similar positions.	This significant weakness was first reported in our 2021-22 Auditor's Annual Report. Since then, management has made progress in identifying savings and developing plans to carry these out. However, there remains a strong risk of reserve depletion for the 2024/25 year and onwards. Usable reserves at 31 March 2023 totalled £84.1m, and a significant proportion of this is expected to be utilised to ensure a balanced budget in 2024/25.	We made a Key Recommendation as required by the Code of Audit Practice. Please refer to our 2022/23 Annual Auditor's Report for full details.
Financial sustainability- management of the DSG deficit position	We held discussions with senior management to understand their views on the Council's progress in meeting the Department's targeted DSG deficit reduction by 2025/26. We reviewed relevant reports and detailed recovery plans and challenged management on their sufficiency.	We have identified this as a new significant weakness under the heading of financial sustainability. As at the end of the 2022-23 financial year, the Council's DSG deficit position had not improved sufficiently to assure us that the Department's target remains reasonably achievable and the Council was 'off-track' against its agreed deficit recovery plan with the DfE.	We made a Key Recommendation as required by the Code of Audit Practice. Please refer to our 2022/23 Annual Auditor's Report for full details.

4. Independence and ethics

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers and managers).
In this context, we disclose the following to you:

We have received confirmation that the auditor of KSDL, Revell Ward Limited, is independent.

We have received confirmation that our directly engaged auditor's expert for property valuations, Gerald Eve LLP, is independent of the Council.

We confirm that the fees from non-audit services subject to cap do not exceed 70% of the audit fee (taking the average over the previous three years).

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 F.

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 Grant Thornton International Transparency report 2023.

4. Independence and ethics

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 group and Council. The following non-audit services were identified:

Service	Fees £	Threats identified	Safeguards
Audit related			
Initial Teacher Training Return	5,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,00 in comparison to the total fee for the audit of £212,596 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self-review threat, we have considered the materiality of the amounts to our opinion and unlikelihood of material errors arising. The Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Teachers Pension Return	10,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £10,000 in comparison to the total fee for the audit of £212,596 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Housing Benefit Claim	32,400	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £32,400 in comparison to the total fee for the audit of £212,596 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self-review threat, we have considered the materiality of the amounts to our opinion and unlikelihood of material errors arising. The Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

5. Independence and ethics

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Company that may reasonably be thought to bear on our integrity, independence and objectivity
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Group or investments in the Group held by individuals
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Group as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Group
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Group's board, senior management or staff

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 and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements

Appendices

A. 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 including support measures when making the going concern assessment	•	•
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	•	•
Details of any breaches of the requirements in this Ethical Standard, and of any safeguards applied and actions taken by the firm to address any threats to independence	•	•
Details of any inconsistencies between this Ethical Standard and the policy of the entity for the provision of non-audit/additional services by the firm and any breach or apparent breach of that policy	•	•
Key audit partners involved in the audit		•
Views about the qualitative aspects of the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		•
Methodology used to perform the current year's audit and details of any substantial variation between system and compliance testing from the previous year		•
Quantitative level of materiality determined and qualitative factors considers in its determination		•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant deficiencies in internal control identified during the audit and whether that deficiency has been resolved by management		•

Our communication plan	Audit Plan	Audit Findings
Significant difficulties encountered during the audit		•
Significant matters arising in connection with related parties		•
Other matters that are significant to the oversight of the financial reporting process		•
Confirmation of independence of external experts or other auditors used as part of the audit		•
Valuation methods employed and impact of changes to methods		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Confirm all requested explanation and documents have been provided		•
Distribution of tasks amongst auditors where more than one auditor has been appointed		•
Identify work performed by component auditors outside of the GTIL network in relation to consolidated financial statements		•
Scope of consolidation and compliance with financial reporting framework		•
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.

Our Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings Report is issued prior to approval of the financial statements and presents key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

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.

B. Action Plan – Audit of Financial Statements

We have identified two financial statements recommendations for the group and 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 this recommendation during the course of the 2023/24 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
Medium	Related Party disclosures: During our audit we identified that several Council members held financial interests in companies that were not notified to the Finance team. This presented a risk that the Related Party disclosures in the financial statements were incomplete.	Management should review its process for gathering all relevant information that may need inclusion in the Related Parties disclosure note. Where member declarations are not received, management should consider investigating any possible financial interests held by members using publicly available information. **Management response** Noted and to be considered.
Low	Publication of draft financial statements: For 2022/23, the draft financial statements were due to be published by 31 May 2023 and audited financial statements (or appropriate notification) by 30 September 2023. Management took the decision to publish the draft financial statements by 30 June 2023 in line with their existing timetable, rather than bringing this forward by a month.	Management should have regard to nationally-set publication deadline and consider working towards revising its accounts production timetable accordingly. **Management response** Noted. This will be taken into consideration whilst setting the closedown and accounts production timetable for 2023/24.

Controls

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

B. Action Plan- Information Technology- SAP controls assessment findings

We have identified recommendations for the group and Council as a result of issues identified during our assessment of the Information Technology Environment and associated controls. We have agreed our recommendations with management and we will report on progress on this recommendation during the course of the 2023/24 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
1.	●	**Insufficient formal process in managing SAP self-assigned roles** During our audit, we noted that formal process has been implemented for SAP self-assigned access requests, including logging request in SharePoint with review and approval from appropriate senior team members prior to access assignment. However, we noted that the approval from appropriate individual was not documented in 4 out of 5 cases we tested. Although the relevant activity logs of these access were archived, 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** The process was implemented in January 2023, following receipt of the previous year's findings in September 2022. There were a total of 5 instances during the year 2022-23, 4 of which occurred prior to the implementation of the process. Notwithstanding this, a management instruction will be issued by the end of September 2023 that no self-assigned changes should be made. In addition, the DEBUG review process will be extended to check for any self-assigned roles Target date: end September 2023

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

B. Action Plan- Information Technology- SAP controls assessment findings

	Assessment	Issue and risk	Recommendations
2.	Deficiency (amber)	**Segregation of duties conflicts between SAP change develop and implementer access** During our audit, a segregation of duties conflict was observed for the following user: • SAPSUPPORT Who was assigned SAP development key along with ABAP developer access in the development environment (via SAP t-code SE38 or SE37 or SE80 or SE11 or SE11_OLD or SE13 or SE14) and transport access in the production environment (via t-code STMS with S_TRANSPRT and 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 TPALOG reports from both development and production environments and noted that there was no transport developed and import to production environment by same users during FY22/23. **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 this access assignment 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** The developer key for SAPSUPPORT will be removed Target date: end September 2023

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

B. Action Plan- Information Technology- SAP controls assessment findings

	Assessment	Issue and risk	Recommendations
3.	●	**Insufficient formal process in managing vendor accounts in SAP** During our audit, we noted that vendor accounts is only activated for third-party's access with appropriate prior request and approval for technical support. The access should also be locked when the support has been finished or the access is not required. However, there was one vendor account (SAPSUPPORT1) which remained unlocked throughout the audit period without appropriate approval. We further inspected RSUSR100N report and noted that an additional vendor account SAPSUPPORT2 was created and activated as supplementary access for a vendor during their technical support. However, there was no documentation regarding the request and approval of creating this additional access. **Risk** Without formal process to manage vendor access requests with documentation to evidence the requests and approval, and timely deactivating external entity's access, it increases the following risks: • vendor access may not be appropriately aligned to requirements which may lead to inappropriate access within the application or underlying data. • unauthorised access to system resources and making inappropriate change to system data	It is recommended that Management:: • Implement formal policies and procedures for all vendor access requests including retention of documentation, such as details of user access rights required, approver authorisation and the effective date the access needed, to be changed or removed. • For access that is no longer required, this must be disabled on their effective move / leave date. Where this is not possible, access should be disabled no later than the next working day. This will help prevent unauthorised access to the applications and underlying data. • Monitor vendor access and review the audit log to identify any abnormal activities performed during third-party access. **Management response** These (additional) vendor accounts were created as tools to investigate a problem SAP were having in our systems, while working to resolve an issue we had logged with them. There is a contractual obligation to allow open access during issue investigations which can take several weeks to resolve. SAPSUPPORT1 was created during a SAP investigation for diagnosis during the audited period. Similarly, SAPSUPPORT2 was created in the development environment for diagnosis and testing of an issue. Neither account has ever logged into our SAP systems. Both accounts were deleted when they were no longer required for investigation purposes.

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

B. Action Plan- Information Technology- SAP controls assessment findings

	Assessment	Issue and risk	Recommendations
4.	● (Deficiency)	**Improvements to privileged generic account management** During our audit, we observed 4 generic dialog accounts that had privileged access within SAP. Of these, three accounts were used by third party support consultants, while one was managed by the SAP Basis team. Please refer to Appendix A for details. 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: • Activity could be performed through individually named users accounts with generic accounts reduced and only used for specific pre-approved activity; and • Accounts within the SAP application could be made into 'SYSTEM' user type, to allow them to run background jobs but not be directly accessible for login. • If accounts are obsolete or not-in-use and if they could be disabled or deleted. 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** Absoft and SAP are trusted partners and the vendor accounts are disabled when not required. Because of the number of potential support staff in the vendors' teams, it is impractical to provide individual named accounts and would have significant implications for licensing and costs. A review process will be implemented to monitor use of the accounts: Absoft_Basis Absoft_Apps SAPSupport Portal admin has not logged in since 2020 and an investigation is underway to determine whether it can be set to a system user account Target date: end November 2023

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

B. Action Plan- Information Technology- SAP controls assessment findings

	Assessment	Issue and risk	Recommendations
5.	●	**Inappropriate access to configure and delete audit log in production** During our review, we noted that 15 users had the ability to both configure (via SAP t-code SM19) and delete (via SAP t-code SM18) audit log. These users were understood to be IT officers from BASIS and HD-One teams. Please refer to Appendix B for details. **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 segregate a user's ability to configure (SM19) and delete (SM18) user security event logs within production. We also recommend the management also review the assignment of this access. Where possible, limit users with these privileges assigned to members of the System Support and related service 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. If for operational reasons access cannot be fully segregated, alternative options to mitigate the risk could include usage of Firefighter accounts with a set validity period based on formal approvals. **Management response** We will investigate whether these permissions can be segregated without users losing permissions to run other tasks as part of their daily duties. If this is not possible, the risk will be noted and mitigations put in place. Target date: end November 2023

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

B. Action Plan- Information Technology- Asset management system controls assessment findings

	Assessment	Issue and risk	Recommendations
1.	●	**Segregation of user access was not considered and implemented before new system implementation** During our review, we noted that segregation of duties was not considered in user access design before Series 4000 implementation. All users were granted with same access after the new system went live. **Risk** Without proper segregation of duties consideration in suer access assignment: - users may have access to perform conflicting or sensitive functions within the system. This increases the risk of fraud, errors, or unauthorized activities going undetected - unauthorized access to sensitive data or systems	Management should establish comprehensive segregation of duties policy that outlines the principles and rules governing access control within the Council and implement the rules in design and creating user access roles for new systems. The user access assignment configured in the systems need to be reviewed and updated on regularly basis. **Management response** Segregation of duties was not considered in detail (or possible) until the system was fully implemented and understood (neither was the issue ignored or overlooked). Only three members of staff were given access to the system who had knowledge of asset accounting (and only two of whom were involved in using, maintaining and updating the system) Segregation of duties for the three current users will be implemented.

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

B. Action Plan- Information Technology- Asset management system controls assessment findings

	Assessment	Issue and risk	Recommendations
2.	●	**Lack of user acceptance testing before system went live** During our review, we noted that the new system was not tested by end users before the system went live. **Risk** Bugs and errors within the application functionality may not be identified, assessed and resolved during wider system upgrade process. This may lead to errors within the financial reporting process.	Management should review and update the approach for large scale IT projects so that key documents and conclusions supporting the functional testing of the upgraded system are retained. In particular, the following documents should be part of a successful project: • test strategy • test plans with detailed use cases / scenarios • central issues log to record the defects from testing procedures • test closure report to summarise and conclude on the outcome of the testing phase **Management response** The implementation of the system was not considered to be a large-scale IT project. The system was a well-established software package used for asset accounting acquired following a procurement process. There is no interface between the software and the Council's ledger. In addition to the annual licence fee for use of the system, additional support for implementation and training was purchased. Data migration and validation were completed by the software provider. This was taken into account prior to go-live.

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

C. Follow up of prior year recommendations

We identified the following issues in the audit of Kirklees Council's 2021/22 financial statements, which resulted in 4 recommendations being reported in our 2021/22 Audit Findings report. We have followed up on the implementation of our recommendations and consider that these have been substantially addressed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Annual Governance Statement** 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. We recommended that for 2022/23, management should ensure that public inspection requirements are met.	We confirmed that the draft AGS was published alongside the draft financial statements in July 2023.
TBC	**LGPS net pension liability/surplus** 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. We recommended that in future years, 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.	As at the time of the drafting of this report, we are not aware of any material changes to the pension fund asset figures.

Assessment

✓ Action completed

X Not yet addressed

C. Follow up of prior year recommendations (cont.)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Valuation of buildings** 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 existed and therefore warranted the attention of Those Charged with Governance. We did not however consider there to be a material misstatement occurring as a result of this methodological issue. We recommended that for 2022/23, management communicate with the General Fund valuer to ensure they are following the national RICS guidance for valuations.	Management and its expert believe that the Council's methodology is appropriate. As this is not a material issue, we consider this recommendation to be closed. We will however continue to assess the impact of methodological differences which could lead to material misstatement in future periods.
✓	**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. We recommended that 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 confirmed that from 2022/23, Useful Asset Lives for Highways Infrastructure assets would follow CIPFA guidance. From our audit procedures we are satisfied that management has appropriately revised asset lives for infrastructure assets, to be applied to capital spend occurring from 1 April 2022.

Assessment

✓ Action completed

X Not yet addressed

D. 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 2023.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Impact on general fund £'000
We identified that the surplus position on the LGPS funded scheme should not be netted off against the LGPS unfunded and teachers' pension scheme deficits	0	Dr Pension Asset 58,869 Cr Other Long-Term Liabilities (58,869)	0	0
We identified that the bank overdraft at 31/3/23 should not be netted against positive cash equivalent balances on the balance sheet, regardless of whether it is only used temporarily for cash management purposes. A non-material prior period adjustment was processed in respect of the bank overdraft as at 31/3/22.	0	Dr Cash and cash equivalents 7,345 Cr Short term liabilities-bank overdraft (7,345) **21/22 comparative adjustment:** Dr Short term liabilities-bank overdraft 3,935 Cr Cash and cash equivalents (3,935)	0	0
Overall impact	0	0	0	0

D. Audit Adjustments

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/issue/Omission	Auditor recommendations	Adjusted?
1) Long term debtors note- the £2.7m impairment to the KSDL loan balance was presented as a bad debt provision in the draft financial statements. An amendment was agreed to reclassify the impairment as an 'Expected Credit Loss' under IFRS 9.	Ensure that IFRS 9 principles are followed when assessing the recoverability of financial assets. **Management response** Adjusted.	✓
2) The CIPFA Code requires investment properties to be revalued annually at fair value. The Council applies a de-minimis threshold for annual revaluation at £250k due to the impracticality and cost of revaluing every asset annually. We identified that while this policy has been followed for General Fund properties (£3.2m total not revalued), this has not been followed for all HRA properties above the threshold (£4m total not revalued).	Ensure that the CIPFA Code is followed as closely as possible, and the Council's own policy should be followed with respect to HRA as well as General Fund properties. **Management response** Noted.	N/A
3) Prior period adjustment disclosures Management processed a non-material prior period adjustment in order to present the year-end bank overdraft within short term liabilities on the balance sheet. The balance was previously netted off within cash and cash equivalents. This adjustment requires additional disclosures under IAS 8, which management has opted not to make, on grounds of materiality.	While non-material prior period adjustments are not strictly required under IAS 8, management should have regard to the disclosure requirements. **Management response** Not considered material and no overall impact on the Balance Sheet.	X
4) Related Party transactions note The disclosure note was amended to remove non-required information and include disclosure where additional related party relationships were identified.	Continue to annually review and strengthen the related party disclosure review process. **Management response** Noted. Will revisit the disclosure note in 2023/24.	✓
5) Narrative report Minor amendments were requested in respect of typos and inaccuracies identified in the draft narrative report.	**Management response** Adjusted	✓

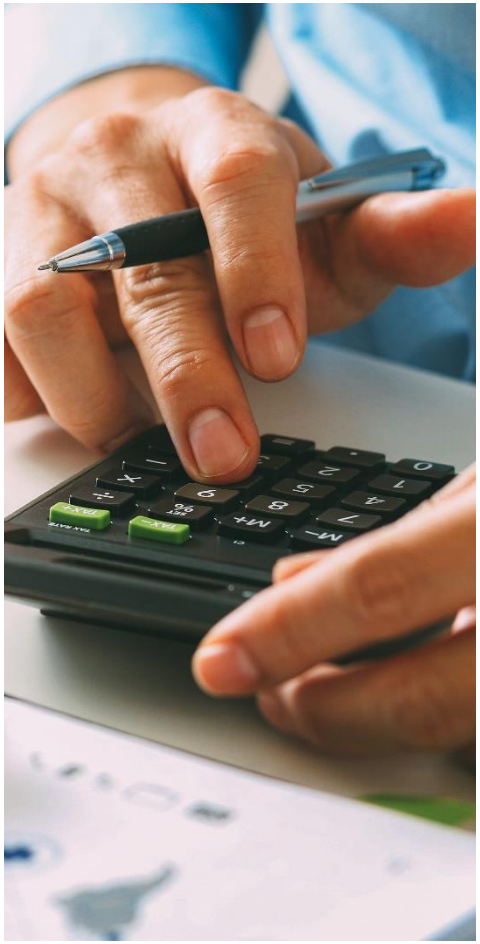
D. Audit Adjustments

Misclassification and disclosure changes (cont.)

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/issue/Omission	Auditor recommendations	Adjusted?
6) Cashflow statement We identified upon inquiry that 'other receipts from investing activities' was overstated by £50.7 million due to an input error.	Management response Adjusted	✓
7) Note 4- Critical Judgements We requested that the 'accounting for school assets' section be expanded to disclose the impact of the accounting judgements made on the financial statements.	Management response Adjusted	✓
8) Note 5- Estimation Uncertainty We requested that the disclosure note be updated to remove non-material areas of estimation and to expand the material areas to comply with the requirements of IAS 1.	Management response Adjusted	✓
9) Group accounts We requested that the groups accounts disclosure notes be updated to meet the Code requirements for Joint Ventures, including a reconciliation from the Joint Venture's net assets to the group accounts position.	Management response Adjusted	✓

D. Audit Adjustments (continued)



Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2022/23 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	Impact on general fund £'000	Reason for not adjusting
IFRS 9 adjustment Management has made a partial impairment of the Council's loan to KSDL (£2.7m out of £3.8m). As reported in the previous year's findings report, we believe that the full balance should be impaired.	Dr Expense 1,100	Cr Receivables (long term) (1,100)	1,100	1,100	The balance is not material and the future of KSDL is still uncertain and the therefore the recoverability of the balance unknown.
Completeness of expenditure and creditors Our testing of post year-end payments identified a missing year end accrual (value £2.683m) relating to an ongoing capital scheme. Additional testing confirmed this to be an isolated instance.	0	Dr Capital Additions (infrastructure) 2,683 Cr Creditors (2,683)	0	0	Not material.
Overall impact	**1,100**	**(1,100)**	**1,100**	1,100	

D. Audit Adjustments (continued)

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 2021/22 financial statements

Detail	Comprehensive Income and Expenditure Statement £m	Balance Sheet £m	Impact on total net expenditure £m	Impact on 2022-23
Balance Sheet Bank overdraft should be identified separately on the balance as a liability rather than netted off the cash balance.	0	Dr Cash 3.9m Cr Bank Overdraft (3.9m)	0	A revised presentation was agreed in 2022-23, including a prior period adjustment to correct the £3.9m presentation on the balance sheet.
IFRS 9 adjustment An 'expected credit loss' assessment wasn't made in relation to the KSDL long-term loan. We consider this would be appropriate considering the material uncertainty of going concern reported in the company's accounts to July 2021.	Dr Expense £3.8m	Cr Receivables (long term) (£3.8m)	£3.8m	Management processed a partial impairment of £2.7m in 2022-23, reflecting the reduced likelihood that this debtor would be recovered by the Council.
Pension Liability A non-material movement was identified following the outcome of the LGPS 2022 triennial revaluation	Cr Other Comprehensive Income (£11.0m)	Dr Pension Liability 11.0m		Impact on opening balances only.
Total	(£7.2m)	£7.2m	£3.8m	No material impact on the 2022/23 accounts

E. Fees and non-audit services

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit fees	Proposed fee
Scale fee	145,346
PIE	5,000
Reduced materiality	5,000
Group	10,000
Use of expert	6,000
Use of expert – audit team review and liaison	2,000
Value for Money audit – new NAO requirements	20,000
ISA 540 requirements	6,000
ISA 315 requirements	5,000
Additional journals testing	3,000
Infrastructure	2,500
Quality review – response to FRC (Hot Review)	1,500
Payroll- change of circumstances	500
Collection fund- reliefs testing	750
Total audit fees (excluding VAT)	**£212,596**

E. Fees and non-audit services

Non-audit fees for other services	Proposed fee
Audit Related Services: Grant Claims	47,400
Total non-audit fees (excluding VAT)	£47,400

The fees reconcile to the financial statements note 32.

None of the above services were provided on a contingent fee basis.

This covers all services provided by us and our network to the group, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence. (The FRC Ethical Standard (ES 1.69))

F. Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'
This impacts audits of financial statement for periods commencing on or after 15 December 2021.
ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'
ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: • the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures • the identification and extent of work effort needed for indirect and direct controls in the system of internal control • the controls for which design and implementation needs to be assess and how that impacts sampling • the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: • increased emphasis on the exercise of professional judgement and professional scepticism • an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence • increased guidance on management and auditor bias • additional focus on the authenticity of information used as audit evidence • a focus on response to inquiries that appear implausible
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. • Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: • clarification of the requirements relating to understanding fraud risk factors • additional communications with management or those charged with governance
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

G. Management Letter of Representation (draft)

[LETTER TO BE WRITTEN ON CLIENT HEADED PAPER]

Grant Thornton UK LLP
2 Glass Wharf

Temple Quay

Bristol

BS2 0EL

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

Dear Grant Thornton UK LLP

Kirklees Council
Financial Statements for the year ended 31 March 2023

This representation letter is provided in connection with the audit of the financial statements of Kirklees Council and its joint venture undertaking Kirklees Stadium Development Limited for the year ended 31 March 2023 for the purpose of expressing an opinion as to whether the group and Council financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 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 2022/23 ("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. During the year we evaluated our estimation process for infrastructure assets and the following change/s to estimation process was/were made[…] 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.

G. Management Letter of Representation (draft)

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.

xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. 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 OR list reasons]*. 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. [please consider assurances provided from management on equal pay claims]

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. The prior period adjustment disclosed in the balance sheet is accurate and complete. There are no other prior period errors to bring to your attention.

xv. 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

xvi. 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.

xvii. 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.

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.

G. Management Letter of Representation (draft)

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.

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 24 November 2023.

Yours faithfully

Name..............................

Position............................

Date...............................

Name..............................

Position............................

Date...............................

Signed on behalf of the Council

H. Audit opinion (draft)

Our audit opinion is included below.

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

Independent auditor's report to the members of Kirklees Council

Report on the audit of the financial statements

Opinion on financial statements

Our opinion on the financial statements is unmodified

We have audited the financial statements of Kirklees Council (the 'Authority') and its joint venture (the 'group') for the year ended 31 March 2023, which comprise the Comprehensive Income and Expenditure Statement, the Statement of Movement in Reserves, the Balance Sheet, the Authority and Group Cash Flow Statement, the Group Comprehensive Income and Expenditure Statement, the Group Statement of Movement in Reserves, the Group Balance Sheet, , the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Balance, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2022/23.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2023 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Service Director Finance's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group and the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority or the group to cease to continue as a going concern.

Our evaluation of the Service Director Finance's assessment of the Authority's and the group's ability to continue to adopt the going concern basis of accounting included a review of the assumptions and forecasts provided to support the Service Director Finance's assessment regarding the future continuation of services.

In our evaluation of the Service Director Finance's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 that the Authority's and group's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the group and the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2022) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the group and Authority and the group and Authority's disclosures over the going concern period.

In auditing the financial statements, we have concluded that the Service Director Finance's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's and the group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Service Director Finance with respect to going concern are described in the relevant sections of this report.

H. Audit opinion (draft)

Our approach to the audit

Overview of our audit approach

Financial statements audit

Overall materiality

Group: £16,250,000, which represents 1.35% of the group's gross expenditure on cost of services

Authority: £16,200,000 which represents 1.34% of the Authority's gross expenditure on cost of services;

Key audit matters were identified as:

- Valuation of land, buildings, council dwellings and investment property (Authority, same as prior year)
- Valuation of the net asset related to the defined benefit pension scheme (Authority, same as prior year)

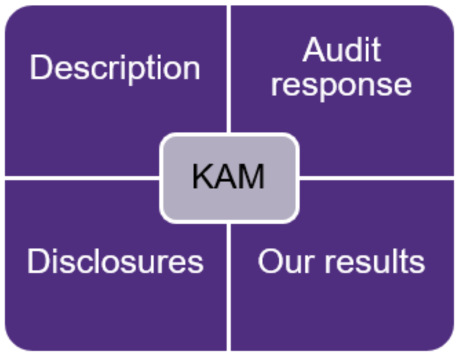
There were no key changes in the scope of the audit from the prior year.

Value for money arrangements

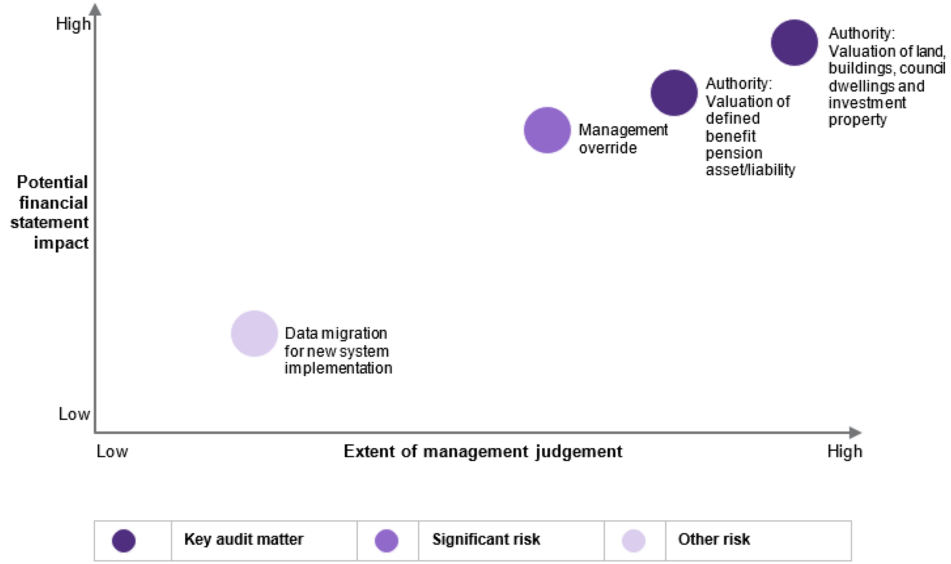
We are required to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023. Our approach to this work is set out in the 'Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources' section of this report.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the group and Authority's financial statements of the current year and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



In the graph below, we have presented the key audit matters, significant risks and other risks relevant to the audit.



Key Audit Matter - Authority	How our scope addressed the matter - Authority
Valuation of land, buildings, council dwellings and investment property We identified valuation of land, buildings, council dwellings and investment property as one of the most significant assessed risks of material misstatement due to error. This is due to the value of the assets and the extent of estimation involved in valuing them. The Authority re-values its land and buildings on a rolling three-yearly basis to ensure that the carrying value is not materially different from the current value. The Authority values its council dwellings annually. Investment property is	In responding to the key audit matter, we have performed the following audit procedures: • assessed the design and implementation of controls management has in place to ensure the estimate is accurate and underlying data is complete; • 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 Authority's valuation experts;

H. Audit opinion (draft)

Key Audit Matter - Authority	How our scope addressed the matter - Authority
revalued annually at fair value by the Authority's external valuer. These valuations represent a significant estimate by management in the financial statements due to: • The size of the numbers involved (£534 million for the Authority's other land and buildings, £812 million for the Authority's council dwellings and £98 million for the Authority's investment property); and • The sensitivity of these estimates to changes in key assumptions. Additionally, council dwelling valuations are based on Existing Use Value, discounted by a factor to reflect that the assets are used for social housing. The social housing adjustment factor is prescribed in Government guidance. There is a risk that the Authority's application of the valuer's assumptions is not in line with the statutory requirements and that the valuation is not supported by detailed evidence indicating that the standard social housing factor is not appropriate to use. **Relevant disclosures in the Statement of Accounts for the year ended 31 March 2023** • Accounting Policies, Note 1.21 – Property, Plant and Equipment (PPE – Excluding Highways Network Infrastructure Assets • Note 15, Property, Plant & Equipment • Accounting Policies, Note 1.15 Investment Property • Note 17, Investment Property • The Narrative Report	• 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 an evaluation of the reasonableness of the assumptions and approach taken by the Authority's valuers; • confirmed that revaluations made during the year were input correctly into the Authority's asset register; and • performed indexation on properties not revalued in the year to establish that there was no risk of material movement. **Our results** We obtained sufficient audit assurance to conclude that: • the basis of the valuation of land, buildings, council dwellings and investment property was acceptable; and • the assumptions and processes used by management in determining the estimate of valuation of land, buildings, council dwellings and investment property were balanced and reasonable.

Key Audit Matter - Authority	How our scope addressed the matter - Authority
Valuation of the net asset/liability related to the defined benefit pension scheme We identified the valuation of the net asset/liability related to the defined benefit pension scheme as one of the most significant assessed risks of material misstatement due to error. This is due to the value of the asset, which amounts to £74 million for the Authority, and the sensitivity of the estimate to changes in key assumptions. **Relevant disclosures in the Statement of Accounts for the year ended 31 March 2023** • Accounting Policies, Note 1.6 Employee Benefits • Note 41, Pensions Disclosures • The Narrative Report	In responding to the key audit matter, we have performed the following audit procedures: • understood 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 and implementation of the relevant controls; • 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 determine whether 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 financial statements with the actuarial report from the actuary; and • 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.

H. Audit opinion (draft)

Our application of materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report.

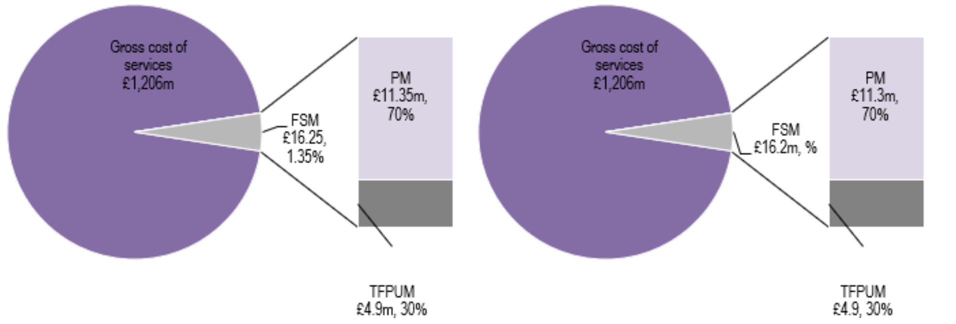
Materiality was determined as follows:

Materiality measure	Group	Authority
Materiality for financial statements as a whole	We define materiality as the magnitude of misstatement in the financial statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of these financial statements. We use materiality in determining the nature, timing and extent of our audit work.	
Materiality threshold	Overall materiality has been set at £16.25 million, which represents 1.35% of the group's gross expenditure on cost of services.	Overall materiality has been set at £16.2 million, which represents 1.34% of the Authority's gross expenditure on cost of services.
Significant judgements made by auditor in determining the materiality	The determination of materiality involves the exercise of professional judgement. In determining materiality, we made the following significant judgements: • Gross expenditure on cost of services is seen to be the most appropriate benchmark because stakeholders and residents are interested in the level of service expenditure incurred as this is considered public money largely arising from taxation. In addition, it is used to determine the provision of public services to local residents. • A percentage of 1.35% was selected to apply to the benchmark based upon our risk assessment and the level we considered would be relevant to the users of the financial statements. Materiality for the current year is higher than the level that we determined for the year ended 31 March 2022 to reflect the increased expenditure largely arising from the effects of inflation and increased service demand on the group's operations.	The determination of materiality involves the exercise of professional judgement. In determining materiality, we made the following significant judgements: • Gross expenditure on cost of services is seen to be the most appropriate benchmark because stakeholders and residents are interested in the level of service expenditure incurred as this is considered public money largely arising from taxation. In addition, it is used to determine the provision of public services to local residents. • A percentage of 1.34% was selected to apply to the benchmark based upon our risk assessment and the level we considered would be relevant to the users of the financial statements. Materiality for the current year is higher than the level that we determined for the year ended 31 March 2022 to reflect the increased expenditure largely arising from the effects of inflation and increased service demand on the Authority's operations.
Performance materiality used to drive the extent of our testing	We set performance materiality at an amount less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.	
Performance materiality threshold	Performance materiality for the year has been set at £11.35 million, which is 70% of financial statement materiality.	Performance materiality for the year has been set at £11.3 million, which is 70% of financial statement materiality.
Significant judgements made by auditor in determining the performance materiality	The determination of performance materiality involves the exercise of professional judgement. In determining performance materiality, we made the following significant judgements: Based upon our risk assessment and experience of auditing the financial statements of the group we have determined performance materiality to be 70% of financial statement materiality. This is an increase from the prior year. This change is largely due to the reduction in the number and value of misstatements identified in prior periods, which we consider reduces the likelihood of errors occurring in the current period.	The determination of performance materiality involves the exercise of professional judgement. In determining performance materiality, we made the following significant judgements: Based upon our risk assessment and experience of auditing the financial statements of the authority we have determined performance materiality to be 65% of financial statement materiality. This is an increase from the prior year. This change is largely due to the reduction in the number and value of misstatements identified in prior periods, which we consider reduces the likelihood of errors occurring in the current period.
Communication of misstatements to the Corporate Governance and Audit Committee	We determine a threshold for reporting unadjusted differences to the Corporate Governance and Audit Committee.	
Threshold for communication	£810,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£810,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

H. Audit opinion (draft)

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

Overall materiality – Group   Overall materiality – Authority



FSM: Financial statements materiality, PM: Performance materiality, TFPUM: Tolerance for potential uncorrected misstatements

An overview of the scope of our audit

We performed a risk-based audit that requires an understanding of the group's and the Authority's business and in particular matters related to:

Evaluating the reasonableness of the valuation of Investment Properties, Council Dwellings and Other Land and Buildings

- The engagement team obtained an understanding of the Authority's property portfolio holding at the reporting date, and the timing and extent of the valuation exercises to be performed by management's experts;
- The Authority's valuation programme did not significantly influence the scope of the audit procedures for Council Dwellings and Investment Property since the Authority followed its stated policy of revaluing its full Council Dwelling stock (£812m at the reporting date) and Investment Property holding (£98m at the reporting date).
- The Authority's rolling triennial valuation programme for other land and buildings did however influence the scope of audit procedures. While a significant proportion of the Authority's other land and buildings were revalued (£321m out of £534m at the reporting date), this left a balance of £213m of assets at the reporting date that had not been valued for at least a year prior to the reporting date. Auditor challenge was therefore required to gain assurance that these assets were reasonably stated in the financial statements;
- The Authority's choice of valuation date of 31 December 2022 meant that specific audit procedures were necessary to evaluate whether the stated valuations were reasonable as at 31 March 2023. Given the level of materiality at £16.2m, against the value of assets subject to revaluation at the reporting date of £1,444m, auditor challenge was required to gain assurance that the valuations were reasonably stated.

Evaluating the reasonableness of the valuation of the net defined benefit pension asset/liability

- The engagement team obtained an understanding of the Authority's approach to obtaining actuarial reports which would allow for a reasonable estimate of the Authority's LGPS net asset/liability at the reporting date.
- The Authority's approach involved the use of estimated pension fund asset returns. This influenced the scope of the audit work since the engagement team was aware that updated information on pension fund asset performance could likely have a material impact on the Authority's net asset/liability. Given the level of materiality at £16.2m against the value of assets subject to market fluctuation of £2,358m (at the start of the year), it was considered a significant source of estimation uncertainty.
  - Within the scope of our audit procedures is the evaluation of the work of the pension fund auditor, in respect of the pension fund's reported asset performance; the work of the nationally appointed auditor's expert, in respect of assessing the appropriateness of actuarial assumptions used by the scheme actuary; and the work of the scheme actuary in preparing the IAS 19 calculations and disclosures to be included in the Authority's financial statements.

Understanding the group, the Authority, and its other components, and their environments, including group-wide controls

- The engagement team obtained an understanding of the Authority, the group and its environment, including group-wide controls, and assessed the risks of material misstatement at the group and Authority level;
- The group organisational structure did not significantly influence the scope of the audit as the Authority's finance team was in control of the production of the financial statements, which was not a complex process.

Work to be performed on financial information of Authority and other components (including how it addressed the key audit matters)

- Full scope audit procedures were performed at the Authority
- Analytical procedures at group level were performed on the joint venture, Kirklees Stadium Development Limited.

H. Audit opinion (draft)

Performance of our audit

- Full scope audit procedures were undertaken at the Authority, which represents 99% of the group's total expenditure. Refer to the table below for greater clarity.
- Obtained an understanding of the consolidation process and tested the consolidation, including the alignment of accounting policies, and the significant consolidation adjustments.

Audit approach	Number of components	% coverage gross expenditure
Full-scope audit	**1- Kirklees Council**	**99**
Specific-scope audit		
Specified audit procedures		
Review procedures		
Analytical procedures	**1- KSDL Ltd**	**1**

Other information

The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. The Service Director Finance is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'Delivering Good Governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE, or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Our opinion on other matters required by the Code of Audit Practice is unmodified

In our opinion, based on the work undertaken in the course of the audit of the financial statements, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority and the Service Director Finance

As explained more fully in the Statement of Responsibilities [set out on page x], the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Service Director Finance. The Service Director Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, for being satisfied that they give a true and fair view, and for such internal control as the Service Director Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Service Director Finance is responsible for assessing the Authority's and the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have been informed by the relevant national body of the intention to dissolve the Authority and the group without the transfer of its services to another public sector entity.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

H. Audit opinion (draft)

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. Irregularities, including fraud, are instances of non-compliance with laws and regulations. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and Authority and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks (the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Local Government Act 1972, the Local Government Act 2003, the Local Government and Housing Act 1989, the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992) and the Local Government Finance Act 2012.

We enquired of management and the Corporate Governance and Audit Committee, concerning the group and Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;
- the detection and response to the risks of fraud; and
- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

We enquired of management, internal audit and the Corporate Governance and Audit Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

- We assessed the susceptibility of the group and Authority's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:
  - Material year end journals posted by senior and other central finance staff to potentially manipulate the deficit position;
  - Journals posted by users subject to segregation of duties deficiencies as identified in our assessment of the IT environment, and
  - Potential management bias in accounting estimates.
- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Service Director Finance has in place to prevent and detect fraud;
  - journal entry testing, with a focus on material entries posted by senior and other central finance staff around and after the year end;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings, council dwellings, investment property and defined benefit pension scheme asset/liability valuations;
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

Our assessment of the appropriateness of the collective competence and capabilities of the group and Authority's engagement team included consideration of the engagement team's:

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
- knowledge of the local government sector in which the group and Authority operates
- understanding of the legal and regulatory requirements specific to the Authority and group including:
  - the provisions of the applicable legislation
  - guidance issued by CIPFA/LASAAC and SOLACE
  - the applicable statutory provisions.

In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Authority and group's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
- the Authority and group's control environment, including the policies and procedures implemented by the Authority and group to ensure compliance with the requirements of the financial reporting framework.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters which we are required to address

We were appointed by Public Sector Audit Appointments Limited in December 2017 to audit the financial statements for the year ending 31 March 2019 and subsequent financial periods. The period of total uninterrupted engagement is five years, covering the years ending 31 March 2019 to 31 March 2023.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Authority and we remain independent of the Authority in conducting our audit.

Our audit opinion is consistent with the additional report to the Corporate Governance and Audit Committee.

H. Audit opinion (draft)

Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023.

Wording to be updated following agreement of our key recommendations with management

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for Kirklees Council for the year ended 31 March 2023 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2023. We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2023.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 [and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited]. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Signature:

Jon Roberts, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

Bristol

Date:

Grant Thornton

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