



Kirklees Council

Year ended: 31/03/2025

Inquiries of management and those charged with Governance

Purpose

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

Background

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

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

Communication

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

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

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

General inquiries

<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2024/25?</p>	<p>Demand led pressures within Children’s Services, Home to School Transport, Temporary accommodation and the High Needs block. Increased cost of borrowing, although mitigated by capital plan slippage and the delivery of budgeted savings.</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by Kirklees Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?</p>	<p>Accounting Policies are reviewed annually for continuing appropriateness. Updates are made as necessary to bring into line with Code requirements</p>
<p>3. Is there any use of financial instruments, including derivatives? If so, please explain</p>	<p>No complex financial instruments are used. See Stat Accounts disclosures</p>
<p>4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?</p>	<p>No</p>
<p>5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?</p>	<p>No</p>
<p>6. Are you aware of any guarantee contracts? If so, please provide further details</p>	<p>See Contingent Liabilities working paper</p>
<p>7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details</p>	<p>See Contingent Liabilities working paper</p>
<p>8. Other than in house solicitors, can you provide details of those solicitors utilised by Kirklees Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?</p>	<p>Solicitors instructed are primarily selected from the WYLAW and other suitable framework panels of solicitors or through other PCR compliant procurement methods and a panel of insurance specialist lawyers chosen by or in agreement with our insurers. A small number of Council services instruct external solicitors directly in relation to debt recovery matters. See working papers for details as to those external solicitors used.</p> <p>There are ongoing matters that relate the previous financial years. See year-end working papers.</p>
<p>9. Have any of the Kirklees Council’s service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details</p>	<p>No</p>
<p>10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?</p>	<p>Treasury Management (Arlingclose) and Tax advice (PWC for VAT). Ad hoc advice re KSDL and the PPP (Public Private Partnership) exit for Almondbury (PWC).</p>

11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details	Yes, detailed year end working papers will show any provisions.
Fraud inquiries	
12. Has Kirklees Council assessed the risk of material misstatement in the financial statements due to fraud? How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process? How do The Council's risk management processes link to financial reporting?	There are limited areas where accounting judgements and estimates are used. These areas are identified and reviewed in conjunction with the external auditor, to mitigate the risk. The council has a routine internal audit plan designed to provide assurance a part of which is assessment of fraud risk. Fraud risk assessments exist for most activities. IA and its fraud team investigate customer fraud, internal and supplier fraud. Details reported through CGAC Risk management processes identify and look to mitigate risk. Corporate risk matrices are created by senior managers, approved by Cabinet and council and linked into the budget making process at Budget Council. In year activity risk monitoring is undertaken by executive leadership team, Cabinet (Executive Board) and Scrutiny, alongside discussion of performance and budget monitoring. Risk forms part of the annual budget process and the resulting annual Council budget report.
13. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	Treasury management –borrowing; (high risk high control) Customer fraud- means tested activity Cash fraud Mandate fraud (payment fraud subset) Housing Tenancy fraud- RtB, unauthorised occupancy Supplier fraud/(Collusion with officers)
14. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Kirklees Council as a whole, or within specific departments since 1 April 2024? If so, please provide details	None of a material basis (minor issues re petty cash and payroll). Issues would be investigated by IA and reported to CGAC if seen as “routine”. A very significant fraud would be reported through senior management, Cabinet and Council on an urgent as appropriate basis.
15. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	Issues would be investigated by IA and reported to CGAC if seen as “routine”. A very significant fraud would be reported through senior management, Cabinet and Council on an urgent as appropriate basis Fraud risk panel recently established to ascertain and address fraud risk

<p>16. Have you identified any specific fraud risks? If so, please provide details</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Kirklees Council where fraud is more likely to occur?</p>	<p>See above</p>
<p>17. What processes do Kirklees Council have in place to identify and respond to risks of fraud?</p>	<p>The council has a routine internal audit plan designed to provide assurance a part of which is assessment of fraud risk. IA investigate internal and supplier fraud. There is a fraud team that investigates customer fraud.</p> <p>There are also Whistleblowing arrangements. All Whistleblowing is subject to assessment and as appropriate investigation</p>
<p>18. How do you assess the overall control environment for Kirklees Council, including:</p> <ul style="list-style-type: none"> • the existence of internal controls, including segregation of duties; and • the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details</p>	<p>The Council has an internal audit function that reports to the Corporate Governance & Audit Committee (CGAC), & to management, which operates in compliance with Global Internal audit Standards (GIAS) and Public Sector Internal Audit Standards (PSIAS). There is an agreed, risk based audit plan, which is reported on quarterly and is subject on an annual opinion. Although there are anticipated to be some qualifications, the 2024/25 IA opinion is that (financial) internal control arrangements are sound. The annual governance statement & quarterly review of the action plan are reported through CGAC.</p> <p>The council has a routine internal audit plan designed to provide assurance a part of which is assessment of fraud risk. IA and its fraud specialists investigate suspected fraud and suspicions.</p> <p>This risk of override of controls is deemed minimal. Senior Management are not incentivised based on financial performance. Also senior management (the Executive Leadership Team) do not have direct access to input (journal) on to the financial ledger.</p> <p>During 2024/25 a weakness in part of the payroll ledger controls system was identified, and a system amendment introduced to increase the level of control.</p>
<p>19. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>See answer above (Q2), but the risk of material misstatements is deemed small</p>
<p>20. How does Kirklees Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p>	<p>The Council's employee handbook sets out expectation on staff conduct and ethical behaviour (issued to all new staff on the council intranet). Employees are required to declare any real or potential conflicts of interest</p> <p>There are Whistleblowing arrangements that are (reasonably well) publicised and used.</p>

<p>What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details</p>	<p>There are procedures intended to detect inappropriate actions, such as money laundering and terrorism (as required by legislation).</p> <p>Contractual documents, tenders etc, recognise the importance of fraud mitigation and control, and procurement staff have specific training regarding this matter.</p> <p>Whistleblowing Procedures. (Records are available for inspection).</p> <p>Customer complaints processes.</p> <p>Whistleblowing, subject to triage, assessment, investigation and reporting back.</p> <p>Annual reporting of Whistleblowing to CGAC.</p> <p>Nothing of material significance reported in year- other than as noted elsewhere</p>
<p>21. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Treasury management employees –borrowing; (high risk high control)</p> <p>Any roles handling cash</p> <p>Procurement roles/ contractor supervision</p> <p>Roles involving allocation or management of property (tenancies),</p> <p>Roles involving in management of right to buy (and other property disposals)</p> <p>Roles involving the awarding of means tested benefits, grants or assistances (individuals or corporate)</p> <p>Identification is by management/internal audit judgement, based also on the realistic level of internal control and the balance of cost to value of risk exposed. This impacts on the levels of internal controls put in place (by whom, seniority etc), other appropriate IT or process controls, oversight by management, and by internal audit checking, and by other mitigants, such as insurance.</p>
<p>22. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>Related parties are recognised and assessments made. The nature of the related parties should not create any unusual risk of fraud as related party transactions are generally performed in accordance with normal council procedures.</p>
<p>23. What arrangements are in place to report fraud issues and risks to the Audit Committee?</p> <p>How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p>	<p>Reported as a matter of routine to CGAC (and in other government return). See earlier responses.</p> <p>The councils Fraud Strategy requires regular report to a member of Cabinet (circa 2x per year), and information on fraud management is brought to the CGAC. As noted above, CGAC are advised about all outcome from internal audit assurance work, and where this identifies breeches in internal control, or poor internal controls that can give rise to a risk of fraud, this outcome is highlighted. CGAC invite</p>

What has been the outcome of these arrangements so far this year?	management to explain the position/proposed actions where they believe that this is appropriate, in addition to routine follow up of work by IA.
24. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	The Council receives 10-12 Whistleblowing complaints each year (which includes those that are anonymous, or would, if raised by an employee, be of the nature of whistleblowing). All of these are reviewed and at least some investigation is carried out. These relate to many aspects of council operations, not just fraud. All are scheduled and reported annually to the CGAC, including the outcomes.
25. Have any reports been made under the Bribery Act? If so, please provide details	No
Laws and regulations	
1. How does management gain assurance that all relevant laws and regulations have been complied with? What arrangements does Kirklees Council have in place to prevent and detect non-compliance with laws and regulations? Are you aware of any changes to The Council's regulatory environment that may have a significant impact on the Council's financial statements?	The Monitoring Officer (Director of Legal, Governance and Commissioning), the Deputy Monitoring Officers and the Head of Legal services have procedures in place to monitor statutory compliance on all obligations, proposals and initiatives. There are a range of procedures and mechanisms - for example all Cabinet reports are signed off by the Monitoring officer via Legal Services (and the s151 officer), the MO and s151 officer attend ELT and there are other assurance boards attended by the MO or Legal Services officers – eg Information Governance Board The Monitoring Officer and colleagues in Legal Services and Insurance provide updates on ongoing and potential litigation and claims, see the year-end working papers. No.
2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	By reporting from the above to the Council, Cabinet and Executive Team.
3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2024 with an on-going impact on the 2024/25 financial statements? If so, please provide details	Yes, relating to minor matters relating to failure to comply with FPRs; laws and regulations; these have been reported to Council/Cabinet/Executive Leadership Team/CGAC as appropriate. We are not aware that any of these will have any material ongoing impact on the financial statements for 2024/25 The Housing Regulator has raised some concerns about compliance.
4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details	No items that would materially affect the 24/25 accounts.
5. What arrangements does Kirklees Council have in place to identify, evaluate and account for litigation or claims?	The Monitoring Officer and colleagues in Legal Services and Insurance provide updates on ongoing and potential litigation and claims.(including raising awareness with senior management). See year-end working paper for updates.

6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details	Yes, the Housing Regulator has raised some concerns about matters related to fire safety, mould and damp.
Related parties	
1. Have there been any changes in the related parties including those disclosed in Kirklees Council's 2024/25 financial statements? If so please summarise: <ul style="list-style-type: none"> the nature of the relationship between these related parties and Kirklees Council whether Kirklees Council has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions 	See 2023/24 financial Statements. Work to re-confirm related parties and transactions to support disclosures in the 2024/25 Financial Statements is in progress.
2. What controls does Kirklees Council have in place to identify, account for and disclose related party transactions and relationships?	Forms to disclose Directorships. Letters to all councillors (or emails as appropriate) to remind them annually to update interests.
3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?	As there are limited real associated parties- these controls arise through the normal course of business and by normal decision making- eg through Cabinet – in all other cases (eg KSDL)
4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?	The Council does not undertake transactions outside of the normal course of business
Going concern	
1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Kirklees Council will no longer continue?	The Council has set a balanced budget for 2025/26. Overall reserves levels are considered adequate at this stage. Savings target will need to be achieved and progress against this will be monitored. Monthly financial monitoring will be produced, alongside KPI monitoring and specific monitoring on a rag rating basis for the delivery of savings.
2. Are management aware of any factors which may mean for Kirklees Council that either statutory services will no longer be	No. The Council's continued participation in the safety valve (SV) programme has been recently confirmed by the DfE

provided or that funding for statutory services will be discontinued? If so, what are they?	
3. With regard to the statutory services currently provided by Kirklees Council, does Kirklees Council expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for Kirklees Council to cease to exist?	Yes, the Council expects to continue delivery of all statutory services
4. Are management satisfied that the financial reporting framework permits Kirklees Council to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?	Yes, management are satisfied that the Council continues to be a going concern. Please see detailed disclosures in the S151 Positive Assurance statement in the recent Council Budget report for 2025/26.
5. Are you aware of any Climate related matters, legislation or regulation that may impact the council?	None identified at this stage.
Accounting estimates	
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	Valuation, depreciation and impairment of non-current assets (including PFI). Valuation of defined benefit net pension liability.
2. How does The Council's risk management process identify and address risks relating to accounting estimates?	Annual risk assessment, identifying and addressing risks as part of closedown processes
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	Use of guidance materials: CIPFA Code of Practice, RICS.
4. How do management review the outcomes of previous accounting estimates?	Assessed as part of annual closedown procedures. Historic valuations assessed against subsequent sales proceeds as part of year-end assurance/valuation process
5. Were any changes made to the estimation processes in 2024/25 and, if so, what was the reason for these?	New valuer used for 24/25. Previous contract with existing valuer came to an end.
6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?	Technical experts utilised where appropriate eg use of in-house (or external if required) experts for land/property valuations.
7. How does the Council determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	In discussion internally within the finance function and externally with regional technical accountants groups and audit.

8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	Management review the output and the underlying assumptions underpinning them, challenging any discrepancies
9. What is the nature and extent of oversight and governance over management’s financial reporting process relevant to accounting estimates, including: <ul style="list-style-type: none"> • Management’s process for making significant accounting estimates • The methods and models used The resultant accounting estimates included in the financial statements.	Accounting estimates are discussed at Corporate Governance & Audit Committee, as part of the approval of financial statements. External audit reports also provide a focus on the key areas (asset valuations and pensions liability). Financial Statements training sessions provided to members have also incorporated these areas.
10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?	No new items for 2024-25 Financial Statements. Ongoing issues re non-current asset valuations.
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	Accounting estimates are kept under review throughout the year by the central accountancy team and, formally reviewed each year by the Head of Accountancy and Service Director- Finance in preparation of the financial statements.
12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate?	Covered as part of the external audit work and reporting.

Update on recommendations

Issue and Risk	Recommendation	Updated Management response
<p>1. Outlier data used in the calculation of the annual leave accrual:</p> <p>The calculation of the year end accrued leave creditor is based on the number of days of annual leave accrued to carry forward multiplied by officers’ pay per day.</p> <p>Our work highlighted a large range of days leave accrued with the lowest balance of accrued time at 60 days (negative & owed to Council) and the highest at 315 days accrued. The average is 11 days but the middle value (median) is almost half of that at just below 6 days. This has given rise to</p>	<p>For the year end annual leave accrual to be calculated with a greater degree of precision in 2024-25, we recommend that a data collection exercise takes place in the remaining months of the financial year and any outliers are appropriately challenged by management.</p> <p>We also note that there is a budgetary control & management aspect too in that we would expect the control environment to support the monitoring of annual leave being taken to ensure this aligns with the Council’s business need. Whilst leave appears to be being taken in</p>	<p>No further update since the February report to CGAC.</p>

<p>some estimation uncertainty in the calculation of the accrual albeit not material. Using the median value rather than the mean would reduce the accrual from £12.9m to £6.7m (fall of £6.2m).</p>	<p>line with the Council's Employee Handbook, the high degree of freedom involved could give rise to resourcing challenges arising from an excessively unbalanced profiling of leave across financial years.</p>	
<p>2. Employee Handbook – Document Out of Date:</p> <p>To assess the arrangements for officers to carry forward untaken leave, we obtained a copy of the Employee Handbook, that sets out the terms and conditions of service. Our review highlighted that this was last updated October 2015. This is a key document and around 9 years since its last update, there may have been changes in the working environment, one of these may be the Council's protocols in respect of hybrid and remote working.</p>	<p>To satisfy proper governance protocols of maintaining an up-to-date suite of Council policies, we recommend that this Employee Handbook document should be updated to capture changes in the working environment and the Council's working practices and policies. We would suggest that this be completed within the next six months.</p>	<p>No further update since the February report to CGAC.</p>
<p>3. Adult Social Care – Client Contributions – accurate recording in general ledger:</p> <p>Our work on testing fees and charges – adult social care client contributions identified a sample with an annual contribution value in the general ledger of £72,500 but where the individual's financial assessment supported the Council to collect a total annual client contribution of £4,784. Whilst the client has been invoiced as per their financial assessment and this does not give rise to a material issue in the annual accounts, the Council should ensure that transactions are accurately reflected in its general ledger.</p>	<p>We understand from management that a direct interface is required between the Mosaic system (adult social care subsystem) and general ledger to prevent such errors from occurring. The Adults service confirmed to external audit that work has commenced to develop the interface, however, it was not part of the original Mosaic Go Live in February 2024 and it still needs further development and testing before it can be made live.</p> <p>Our recommendation is for this workstream to continue to be progressed with an implementation date set for the beginning of the 2025/26 financial year. We would also recommend that service accountants conduct an additional reconciliation/review procedure during 2025 closedown to identify any errors prior to draft accounts being produced.</p>	<p>No further update since the February report to CGAC.</p>
<p>4. Investment Property – Ensuring Code compliance in respect of the requirement for and annual revaluation of the whole asset class</p> <p>Investment properties are required to be revalued annually in accordance with the CIPFA Code. As at 31 March 2024, there were investment properties totalling £9.2m which have not been subject to annual revaluation, which is not compliant with Code requirements. Management asserts that investment properties below £250k are de minimis and trivial to the overall balance of investment property by the Authority.</p>	<p>Management should reconsider and adjust the threshold for investment properties subject to an annual valuation to ensure the accounting practices adopted by the Council remain compliant with Code requirements.</p>	<p>No further update since the February report to CGAC.</p>

<p>The value of this sub-£250k population currently excluded from the Code requirement for an annual valuation has risen in recent years towards our audit performance materiality threshold of £11.3m. With continued increases, there is a risk that the Council does not comply with CIPFA Code requirements, to a material extent, which could impact on the auditor's opinion in future periods.</p>		
<p>5. Use of recharges in the Council's financial statements without supporting data and a reconciliation process to verify the validity of these recharges:</p> <p>The Council currently uses a number of recharges in the financial statements. These are used to allocate costs to services to record the total cost of delivering each service which supports the Council's budget management and financial monitoring.</p> <p>There are also a number of instances when an internal service deliver services for another service – for example, repairs carried out on a Council-owned school by building services would result in an internal recharge to the school's budget. From a financial accounts perspective, this internal charges should be eliminated as they do not represent income and expenditure with third-parties. Leaving internal transactions in the accounts serves to gross up both income and expenditure but are not a true reflection of the quantum of the Council's transactions with third-parties in any given year.</p> <p>Currently, the procedures for recording and coding recharges in the general ledger are not sufficient to be able to match income and expenditure recharges and eliminate these out of the accounts. The current process is to record an amount for income recharged and designate this as Income - Internal Recharges at note 9 in the accounts, however, this cannot be matched against the expenditure to be recharged and therefore, the accuracy and validity of this value cannot be practicably demonstrated to external audit.</p> <p>The Council has made some progress already given it has removed some recharges being made in respect of the HRA – previously Homes and Neighbourhood officers' pay costs were being recharged to the HRA. These costs are now being charged directly to the HRA account. The impact of this change has been a £36m reduction in employee benefits expenditure disclosed at note 9, which is offset by the reduction in internal recharges (internal income).</p>	<p>As external auditors, our focus is to verify the accuracy and validity of transactions recorded in the financial statements and there may be several options open to the Council to respond to this recommendation.</p> <p>One option may be to pursue a similar course of action to that undertaken on HRA – Homes and Neighbourhood employee expenditure where the option for the recharge mechanism has been removed with all charges now made directly to the housing service (HRA account).</p> <p>Another option may be to improve the coding and transparency within the general ledger so that recharged transactions can be eliminated on preparation of the financial statements.</p> <p>Since we are now towards the later stages of the 2024-25 financial year, it may not be possible to implement a full response to this recommendation in advance of next year's accounts closedown and financial statement audit but we would encourage officers to progress this recommendation to the extent possible in the remaining months of the 2024-25 financial year.</p>	<p>No further update since the February report to CGAC.</p>

<p>This change in accounting has eliminated the need for an internal recharge and it is our view that this has brought about simplification in respect of both the accounts closedown and audit process. As external auditors, we would encourage the Council to continue with its endeavours to simplify its internal accounting processes.</p>		
<p>6. Maintaining up to date knowledge of the Council's buildings estate:</p> <p>Our audit work has identified examples where changes to the function, internal floors areas of buildings within the Council's buildings portfolio including one school that has been taken out of service, and these changes in estate have not been notified to the finance function or management's external expert valuer.</p> <p>In the cases identified, decisions appear to have been taken by the service but the relevant information and likely impact on the buildings portfolio, has not flowed to the capital finance team to be considered and reflected as appropriate in the annual accounts. The recommendation is not being made to suggest that proper governance procedures have not been followed in the decision making, but that the free flow of information and fluid communication between Council functions has not taken place as could be expected.</p> <p>This has resulted in additional challenge of Council officers during the external audit process and also two resulting audit misstatements have been identified:</p> <ul style="list-style-type: none"> i. Impairment of Almondbury Community School totaling £16.7m which closed 31 August 2020. Expectation that this is to be demolished for the site to accommodate a new SEN school – impaired down to land value. ii. Our valuation testing of floor areas to property records & AutoCAD drawings identified errors in source data provided to the value. This error has been extrapolated across the population of DRC assets and the extrapolated error totals £3.3m. 	<p>Our recommendation would be for management to build in additional communication between each relevant service, estates, the capital finance team and the external valuer. This would include identifying key changes to buildings such as closure / decommissioning, a significant change in opening hours, repurposing and marketing a building for sale.</p> <p>It is noted that building refurbishments and extensions appear to be captured at present and therefore, we do not consider that further enhancements to existing procedures are required.</p>	<p>No further update since the February report to CGAC.</p>
<p>7. Additions posted in quarter 4 (post valuation) for other land & buildings and council dwellings</p> <p>The Council currently uses a valuation reference date of 31 December each year, which it considers Code compliant and to be sufficiently close</p>	<p>The capital accounting function should consider how current processes can be enhanced to appropriately identify non value enhancing capital spend posted in quarter 4 of the financial year, and for this to be impaired so that the closing valuation of land & buildings</p>	<p>No further update since the February report to CGAC.</p>

<p>to the reporting date for the valuations to be reflective of the assets' current value as at the end of March.</p> <p>All capital spend posted as capital additions is currently accounted for by the Council as value enhancing, and therefore it does not give rise to any immediate impairment of the spend capitalised. For spend capitalised in quarters 1 through to 3 (pre-valuation), the current arrangements may be considered appropriate since the Council's valuers are able to undertake an assessment of whether capital spend is value enhancing or non-enhancing, and either support the new carrying value or impair the asset down to its pre-capital addition carrying value, as appropriate.</p> <p>However, for capital spend posted in quarter 4, current arrangements do not afford the expert land & buildings valuers an opportunity to assess whether amounts capitalised should increase the net book value or alternatively, be capitalised and impaired concurrently.</p> <p>Non-enhancing capital additions that are posted in quarter four of a financial year would be impaired, where appropriate, at the time of their subsequent valuation in the following financial year. The recommendation to enhance arrangements would enable the Council to further ensure that the year end carrying value of land & buildings is appropriate.</p>	<p>is not overstated. This may include additional working with the Council's external expert valuers, to build in additional process steps in order to address this matter.</p> <p>A robust approach to address this matter would be to move the valuation date to 31 March to align with the financial year end. This would enable the expert valuer to be presented with all relevant capital spend to make their assessment on a given asset's year end valuation.</p>	
<p>8. Appropriate challenge by management of the external valuer on the valuation approach – Mainstream schools & Energy from Waste Facility:</p> <p>Management response to the valuation challenge raised by external audit in relation to the valuation of schools and the energy from waste facility.</p> <p>i. Valuation of mainstream schools – in the Council's accounts, schools have been valued based on their 'as built' size. The CIPFA Code prescribes that operational land & buildings should be valued based on a modern equivalent that would deliver an equivalent level of service. For schools, the commonly observed approach to value mainstream schools is by using Building Bulletin 103: Area Guidelines for Mainstream Schools, which offers a calculation for the required gross internal area (m2) based on the actual number of pupils on roll. The Council's external valuer has not used this approach with the valuation based on the 'as built' size. The response to auditor challenge has been that current approach is considered appropriate. The audit team challenged our own auditor's expert to undertake additional work in respect of the valuation of schools since</p>	<p>For the two asset valuations identified, we recommend working with its internal surveyors to discuss and jointly understand the relevant factors around the valuations in question such as current usage, expected remaining service life, capital lifecycle and renewal costs expected in future accounting periods. Particularly for schools, it may also be appropriate to consider whether pupils on roll at a number of schools are broadly stable year-on-year and could therefore be used as a basis for an asset valuation.</p> <p>Management should ensure it is working constructively with its external valuation expert, including raising challenge where appropriate, to ensure that the assumptions and methods that underpin its asset valuations have a sound rationale tailored to local factors and conditions at Kirklees Council.</p>	<p>No further update since the February report to CGAC.</p>

<p>Kirklees Council is an outlier in terms of the valuation approach adopted for mainstream schools. Our expert reported to us that some schools would likely be of a similar value using the pupil numbers approach, a number would decrease in value and some were indicated to increase in value. They reported it would not be practicable to draw meaningful conclusions across the whole population of mainstream schools based on the sample checked of around 10 schools. We have therefore drawn our audit conclusion that our expert's work does not indicate any material misstatement exists in respect of this schools subpopulation, however, we are of the view that the Council should develop a clearer rationale as to whether BB103 pupil numbers would be an appropriate valuation methodology for the Council and whether this would give a more true and fair valuation of mainstream schools in the Council's accounts.</p> <p>ii) Valuation of the energy waste facility – in the Council's accounts, this asset has been valued at £12m based on its end life being 2028 giving a 4-year remaining useful economic life. It is understood that the Council is considering its options beyond the end of the current contract with Suez Recycling and Recovery in 2028. A Cabinet paper dated April 2024 suggests that £25m of capital investment would be required to maintain current operations beyond 2028. A new-build facility is estimated to cost north of £120m and so we have challenged whether the £12m is an appropriate valuation or whether the value should be higher than than based on the fact that the Council will obtain the operational capacity close to that of a new facility with only £25m of capital investment. Our challenge concluded this year on the basis that the Council engaged a RICS registered valuer to conduct the valuation but we note that it would be beneficial for Council officers to conduct additional stand-back reviews of the valuations provided, which in this case may include reviewing valuations against actual build costs or those publicly available from other authorities.</p>		
<p>9. IFRS 16 'Leases' implementation from 1 April 2024: IFRS 16 will need to be implemented by local authorities from 1 April 2024. This Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS17. The objective is to ensure that lessees and lessors provide relevant</p>	<p>We recommend the Council to accelerate the implementation of IFRS16 to ensure such leased assets are completely and accurately captured before 2024-25 accounts closedown.</p>	<p>No further update since the February report to CGAC.</p>

<p>information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. This is a shadow year (23-24) for the implementation of IFRS 16.</p> <p>IFRS 16 updates the definition of a lease to: “a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.”</p> <p>In the public sector the definition of a lease is expanded to include arrangements with nil consideration.</p> <p>IFRS 16 requires all leases to be accounted for 'on balance sheet' by the lessee (subject to the exemptions below), a major departure from the requirements of IAS 17 in respect of operating leases.</p> <p>The implementation process is expected to be a time and resource consuming exercise, to identify such lease contracts and ensure they are complete and accurate. A Council of Kirklees' size (large metropolitan council) would potentially have many such contracts to be considered/identified, to ensure those are within the scope of IFRS16 standard.</p> <p>The Council has reported on this Standard at Note 3 to the account, Accounting Standards that have been issued but have not yet been adopted. In that note, the Council has indicated that work on the implementation of the above Code change is ongoing and the full impact on the Council's single entity and group accounts has not been fully assessed yet.</p> <p>On page 17 of this report, the volume and types of leases that may be captured by this Standard have been indicated to readers. In addition, there are other considerations when it comes to application of IFRS16 in the public sector. This includes assets with peppercorn rents which are within the scope of IFRS16. Also, exemptions for leases with low value assets and short-term leases.</p> <p>In addition, the impact on the accounting for the Council's four PFI/PPP schemes also requires due consideration. Some accounting impact may arise due to the treatment of annual indexation under IFRS 16 requiring remeasurement of the liability as opposed to simply expensing to the CIES as 'contingent rents' under IAS 17.</p>	<p>Managements should ensure that there appropriate arrangements to be in place to support with the initial adoption of the IFRS 16 standard in 2024-25.</p>	
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<p>Considering this is a time and resource consuming task and potentially high number of such contracts at the Council, the implementation of this exercise should be accelerated and the resource requirements to complete the work should be reviewed for sufficiency. We note that the 2024-25 financial statements year-end is circa four months from this report date. If this work is not completed satisfactorily to the accounts closedown timetable, there is a risk that the Council does not identify and properly account for all the contracts within the scope of IFRS16, which may give rise to the potential for misstatements in 2024-25 Statement of Accounts.</p>		
<p>10. Inclusion of appropriate detail in the Narrative Report to ensure compliance with CIPFA Code of Practice 2023-24:</p> <p>Our audit opinion expresses an opinion on whether the Other information, comprising the Annual Governance Statement and Narrative Report, is misleading in any way and highlights any inconsistencies with information presented in the financial statements.</p> <p>As such we are not required to conduct the full scope audit procedures on the Other information, nonetheless the Council is required to present an Annual Governance Statement and Narrative Report that are fully compliant with the CIPFA Code of Practice.</p> <p>Our review of these documents highlighted a number of areas where we consider additional detail could be added in order to more clearly satisfy the requirements of the CIPFA Code. We have listed the key additions that we consider to be necessary for full compliance.</p> <p><u>Narrative Report</u></p> <p>Our review of the Narrative Report identified a comprehensive finance commentary covering key metrics. Our principal challenge to officers was how the report covers off non-financial performance and operational performance - ultimately how well the Council is delivering on its non-financial objectives in the Council plan. The Code is clear that the Narrative Report should identify and present a range of the Council's non-financial performance indicators (e.g. KPIs) and provide an accompanying narrative commentary setting out an assessment of the Council's non financial performance during the year.</p> <p>The Code also states that the Narrative Report should contain appropriate detail for a user to evaluate future sustainability and the effect on service provision, including assessing future cash flows. We are</p>	<p>We recommend the Council refreshes its Narrative Report checklist to ensure all Code requirements are captured.</p> <p>Early work in this regard should enhance the quality and detail included in the draft reports and ensure that all Code requirements have been covered in the draft Narrative Report presented to CGAC and External audit.</p> <p>We note that this recommendation does not entail the Authority disclosing additional information that is highlighted as best practice in the Code but it is around ensuring the minimum disclosure requirements have been addressed so that the Authority is fully compliant with the CIPFA Code of Practice.</p>	<p>No further update since the February report to CGAC.</p>

of the view that additional detail would be beneficial in the report to properly address this requirement.

Appendix A – Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land and buildings valuations	CIPFA Code of Practice and RICS valuation guidance	Valuations compared to net book values	Yes	No uncertainty or alternative estimate	No
Council dwelling valuations	CIPFA Code of Practice, Valuation of Housing Stock guidance and RICS valuation guidance	Valuations compared to net book values	Yes	No uncertainty or alternative estimate	No
Investment property valuations	CIPFA Code of Practice and RICS valuation guidance	Valuations compared to net book values	Yes	No uncertainty or alternative estimate	No
Depreciation	CIPFA Code of Practice component accounting	Comparatives each year	No	No uncertainty or alternative estimate	No
Valuation of defined benefit net pension fund asset/liabilities	The liability estimate is calculated by an actuarial expert, taking into account changes in retirement ages, mortality rates and discount rates.	The actuary selects the assumptions and management reviews the reasonableness of these assumptions. An actuary advises on the accounting estimates	Yes	The Pension Fund provides data on pension benefits and membership numbers, to enable the actuary to undertake their estimate. An actuary advises on the accounting estimates. Management review the assumptions and officers discuss these assumptions and underlying	No

				estimation techniques with the West Yorkshire Technical Accountants Group, to ensure a consistent view.	
Fair value disclosures of debt instruments	Fair values calculated using discounted rates for debt instruments	Officers review reasonableness of air values to book value	Yes, Arlingclose	Impact of 1% rise and fall considered and disclosed	No
Credit loss allowance	CIPFA Code of practice Expected credit loss using simplified approach	Officers review reasonableness of provision	No	Estimates based on assumptions of likely cashflows and probabilities of default. Degree of uncertainty limited to knowledge of current defaults.	No
Right of Use Asset	CIPFA Code of Practice	Lease software to calculate lease liability at year end and journals. Officers review reasonableness of liability	No	No uncertainty or alternative estimate	No
PFI Liabilities	CIPFA Code of Practice PFI model	The source information is the original contractor's model updated for current and known future changes, plus current information based on the annual unitary payment.	No	The accounting model and the basis on which all assumptions are made are reviewed on an annual basis. Changes to the Code of Practice are also reviewed for all relevant developments in relation to PFI accounting. In addition to this, specific changes to each of the individual contracts are monitored to ensure that their impact is reflected in the accounting model. All factors affecting the accounting model are monitored – Code of Practice, the original contractors' model and annual unitary payments. A point estimate is not used.	No

