



External audit report 2016/17

Kirklees Council

—

November 2017



Summary for Corporate Governance & Audit Committee

Financial statements

This document summarises the key findings in relation to our 2016-17 external audit at Kirklees Council ('the Council').

This report focusses on our final audit visit work which started in June 2017, and focused on auditing the Council's draft financial statements. Our findings are summarised on pages 4 – 16.

Our report also includes the significant findings in respect of our controls work which was completed earlier in the year. In particular we report the findings from our audit of the Council's SAP IT system controls. See page 14 for details.

We have identified two significant audit adjustments with a total value of £8.7 million. Officers have not amended the accounts for these adjustments as they are not material. See page 11 for details.

Based on our work, we have raised seven recommendations. These are outlined in Appendix 1 on pages 25 – 32.

During the accounts public inspection period we received two objections from electors relating to Lender Option Borrower Option (LOBO) loans and Private Finance Initiative (PFI) schemes. Although the work to consider the objections is continuing, we have obtained sufficient evidence to conclude that the accounts for 2016/17 are not materially mis-stated. Further details are shown on pages 15-16. **Consequently we expect to give an unqualified audit opinion on the financial statements.**

Resolving objections can be a lengthy process and our work commenced in mid-July. We will continue our work and provide regular updates to the Corporate Governance & Audit Committee. Once the objections have been resolved we will conclude our audit, before issuing our audit certificate.

Our audit work on the Council's Whole of Government Accounts has been completed with no matters arising.

Value for Money conclusion

We have completed our risk-based work to consider whether in all significant respects the Council has proper arrangements to ensure it has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

In November 2016, the Council received an Ofsted report, which concluded that the Council's Children's Services were inadequate. From a review of the report and the Commissioner's follow up report, although the Council is making progress in implementing the improvements required by the report, the Council has not demonstrated that it has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for 2016/17.

We concluded in all other areas relevant to our Value for Money conclusion that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We therefore anticipate issuing an 'except for' qualified value for money conclusion highlighting the Ofsted findings.

See further details on pages 17 - 23.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

We ask the Corporate Governance & Audit Committee to note this report.

Contents

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This report is addressed to Kirklees Council (the Council) and has been prepared for the sole use of the Council. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact John Prentice, the engagement lead to the Council, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 694 8981, or by email to andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

Section one

Financial Statements



Our substantive audit work on the draft financial statements is complete although we have received two objections to the Council's accounts from local electors, relating to material items of account. Although the work to consider the objections is continuing, we have obtained sufficient evidence to conclude that the accounts for 2016/17 are not materially mis-stated. Consequently we are able to give an unqualified audit opinion on the financial statements, although the work to conclude on the objections is continuing.

For the year ending 31 March 2017, the Council reported a deficit on the Provision of Services of £147m almost all due to pensions adjustments. The General Fund balance has reduced by £15m, combined with a reduction in other useable reserves of £8m. The Council overspent against its approved 2016/17 budget of £311.7m by £2.7m.



Significant audit risks

Our *External Audit Plan 2016/17* sets out our assessment of the Council's significant audit risks. We have completed our testing in these areas and set out our evaluation following our work:

Significant audit risks	Work performed
<p>1. Significant changes in the pensions liability due to LGPS Triennial Valuation</p>	<p>Why is this a risk?</p> <p>During the year, the West Yorkshire Pension Fund (the Pension Fund), of which Kirklees Council is a member, has undergone a triennial valuation, with an effective date of 31 March 2016, in line with the Local Government Pension Scheme (Administration) Regulations 2013. The Council's share of pensions assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation.</p> <p>The pensions liability included in the financial statements for 2016/17 is based on the output of the triennial valuation rolled forward to 31 March 2017. For 2017/18 and 2018/19 the actuary will then roll forward the valuation for accounting purposes based on more limited data.</p> <p>There is a risk in 2016/17 that the data provided to the actuary for the valuation exercise is inaccurate, and any inaccuracies affect the actuarial figures in the accounts. Most of the data is provided by the Council to City of Bradford Metropolitan District Council, who administer the Pension Fund, who pass that data on to the Pension Fund actuary.</p> <p>Our work to address this risk</p> <p>We have reviewed the process used to submit the Council's payroll data to the Pension Fund and have found no issues to report. We have also tested the year-end submission process and other year-end controls.</p> <p>We reviewed the output from the Actuary both relating to the Triennial Valuation at 31 March 2016 and the rolled forward values at 31 March 2017. We tested the data provided by the Council to the Pension Fund to confirm that it is materially complete and accurate.</p> <p>We requested Mazars, who are the auditors of the Pension Fund, to provide assurance to us that the data the Pension Fund provided to the actuary on the Council's behalf was materially complete and accurate and subject to appropriate controls. We received that assurance in September 2017. In providing assurance to us, the Mazars' auditor has noted that the Pension Fund investments were understated by £44.3m in the audited accounts. We note that the Council's notional share of the Pension Fund Assets is around 12%, and therefore we conclude that the impact of this understatement is less than our materiality level of £15 million.</p>

Significant audit opinion risks	Work performed
2. Valuation of Council Dwellings	<p data-bbox="444 360 654 387">Why is this a risk?</p> <p data-bbox="444 406 1352 544">The Council undertakes a rolling programme of revaluations of its Property, Plant and Equipment. The Council has changed its valuer of council dwellings in the year to Cushman & Wakefield. The change in valuer increases the inherent risk that valuations are not in line with statutory guidance, and not consistent with previous valuations.</p> <p data-bbox="444 563 1352 789">Council Dwellings 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 DCLG guidance, but this guidance indicates that where a valuer has evidence that this factor is different in the Council's area they can use their more accurate local factor. There is a risk that the Council'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.</p> <p data-bbox="444 808 776 835">Our work to address this risk</p> <p data-bbox="444 853 1352 938">We discussed the risk with officers early in our audit to establish the approach that the Council is taking to revaluing its council dwellings. Our detailed testing incorporated:</p> <ul data-bbox="444 957 1352 1332" style="list-style-type: none"><li data-bbox="444 957 1352 1013">— Assessing of the competence, capability, objectivity and independence of the Council's external valuer;<li data-bbox="444 1031 1352 1087">— Reviewing the terms of engagement of, and the instructions issued to, the valuer for consistency with the Council's accounting policies and the DCLG guidance;<li data-bbox="444 1106 1352 1162">— Reviewing the information provided to the valuer by the Council and agreeing this to the Council's asset records;<li data-bbox="444 1181 1352 1236">— Reviewing the reasonableness of the valuation assumptions used in the valuation model and the valuer's compliance with DCLG guidance; and<li data-bbox="444 1255 1352 1332">— Reviewing the accounting treatment of the revaluation within the Council's financial statements to ensure that any upwards revaluations or impairments have been properly classified and accounted for. <p data-bbox="444 1350 1352 1665">We engaged KPMG's internal valuers to provide assurance that the approach followed by the Council's valuer, and the assumptions underpinning their valuation, were reasonable. Having completed this work we have concluded that the Council's valuer has undertaken detailed calculations on the valuations using the discounted cash flow model, and has determined the valuation to be £578.5 million. As highlighted on page 11 and Appendix 2, we note that the Council has incorrectly included a valuation of £585.8 million for its Council Dwellings. This has arisen because the Council applied a precise 35% Social Housing adjustment factor to the gross valuation, rather than incorporating the actual value determined by the valuer. Although we have identified this as a significant audit difference, we have concluded that the Council Dwellings valuations are materially correctly stated.</p>

Considerations required by professional standards

Fraud risk of revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our *External Audit Plan 2016/17* we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.



Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

There are no matters arising from this work that we need to bring to your attention.

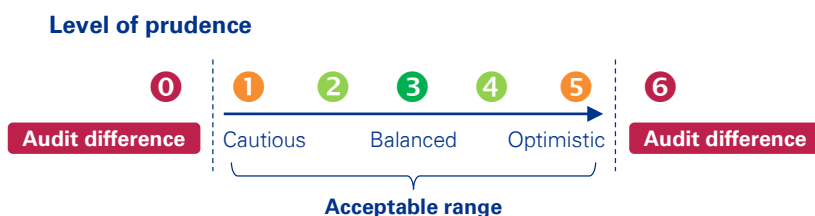
Other areas of audit focus

We identified one area of audit focus. This is not considered as a significant risk as it is less likely to give rise to a material error. Nonetheless this is an area of importance where we would carry out substantive audit procedures to ensure that there has been no material misstatement.

Other areas of audit focus	Our work to address this area
1. Disclosures associated with retrospective restatement of the Comprehensive Income & Expenditure Statement, Expenditure Funding Analysis and Movement in Reserves Statement	<p>Background</p> <p>CIPFA introduced changes to the 2016/17 Local Government Accounting Code (Code):</p> <ul style="list-style-type: none">— Allowing local authorities to report on the same basis as they are organised by removing the requirement for the Service Reporting Code of Practice (SeRCOP) to be applied to the Comprehensive Income and Expenditure Statement (CIES); and— Introducing an Expenditure and Funding Analysis (EFA) which provides a direct reconciliation between the way local authorities are funded and prepare their budget and the CIES. This analysis is supported by a streamlined Movement in Reserves Statement (MiRS) and replaces the current segmental reporting note. <p>The Council was required to make a retrospective restatement of its CIES (cost of services) and the MiRS. New disclosure requirements and restatement of accounts require compliance with relevant guidance and correct application of applicable accounting standards.</p> <p>What we have done</p> <p>During our interim audit visit in January we considered the template form of accounts the Council had produced and confirmed that this was compliant with the requirements of the Code.</p> <p>During our final audit visit in June we tested the Council’s restatements, and reported results for 2016/17; confirmed that they were consistent with the requirements of the Code; and also consistent with the information the Council had reported internally. We have also agreed the disclosed figures to the Council’s SAP general ledger and found no issues to report.</p>

Judgements

We have considered the level of prudence within key judgements in your financial statements and accounting estimates. We have set out our view below across the following range of judgements.



Subjective areas	2016/17	2015/16	Commentary
Provisions	2	3	The provisions included in the accounts are balanced. Our work did however identify that one area included as a provision did not meet the definition of a provision, and in our view should have been accounted for as a liability. See page 11 and Appendix 2 for more information on this area.
Accruals	3	3	Our work has not identified any matters arising with the accruals that the Council has made. The accruals tested were supported by detailed calculations and evidence and we conclude that the Council has taken a balanced approach to estimating these accruals.
Property, Plant & Equipment: HRA assets	4	3	As reported on page 7 the Council's valuation of Council Dwellings was a significant risk for our audit. The Council's valuer has carried out detailed valuation calculations and based the valuation of Council Houses on the discounted cash flow model. Our work has concluded that the Council's valuer has taken a balanced and reasonable approach to valuing the assets, and that the resulting valuation is compliant with the DCLG's <i>Stock Valuation for Resource Accounting</i> published in November 2016. We have however reported on page 11 and Appendix 2, that the Council has not recorded the correct valuation of Council Dwellings in its financial statements. The difference of £7.3 million is not material.
PPE: Asset lives	3	3	The continued appropriateness and relevance of the Council's useful asset lives are considered each year as part of its revaluation exercises. We have satisfied ourselves that the asset lives used by the Council are in line with those adopted in previous years, and appear reasonable for the categories of assets.

Proposed opinion and audit differences

Subject to all outstanding queries being resolved to our satisfaction, we intend to issue an unqualified audit opinion on the Council's financial statements following approval of the Statement of Accounts by the Corporate Governance & Audit Committee on 17 November 2017.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix 3 for more information on materiality) level for this year's audit was set at £15 million. Audit differences below £750,000 are not considered significant.

We did not identify any material misstatements. We identified two non-material but significant audit differences which are detailed in Appendix 2. These relate to the categorisation of a liability as a provision (£1.4 million), and the value included in the accounts relating to council dwellings (£7.3 million). Management has not adjusted the financial statements as these issues do not have a material effect on the financial statements.

In addition, as reported on page 6, the West Yorkshire Pension Fund auditor reported that the Pension Fund Assets were understated by £44.3 million. Based on the Council's share of the West Yorkshire Pension Fund, this would have reduced the Council's Pension Fund liability by around £5 million. Because this error is estimated based on the Pension Fund audit conclusions and the Council's share of the Pension Fund assets, it has not been included in the tables opposite.

The tables on the right illustrate the impact the audit differences would have on the Council's General Fund and HRA for the year and balance sheet as at 31 March 2017.

There would be no impact on the General Fund and HRA, and the balance sheet would show an increase in Net Worth of £7.3 million were these two adjustments be made.

Movements on the general fund 2016/17			
£m	Excl diffs	Incl diffs	Ref ¹
Deficit on the provision of services	147.0	147.0	
Adjustments between accounting basis and funding basis under Regulations	-133.1	-133.1	
Transfers to/(from) earmarked reserves	0	0	
Decrease in General Fund	13.9	13.9	

Balance sheet as at 31 March 2017			
£m	Excl diffs	Incl diffs	Ref ¹
Property, plant and equipment	1,362.3	1,355.0	2
Other long term assets	177.0	177.0	
Current assets	90.2	90.2	
Current liabilities	-121.4	-121.4	1
Long term liabilities	-1,080.6	-1,080.6	
Net worth	427.5	420.2	
Unallocated General Fund	10.7	10.7	
Other usable reserves	155.8	155.8	
Unusable reserves	261.0	253.7	2
Total reserves	427.5	420.2	

¹ See referenced adjustments in Appendix 2.

Section one: financial statements

Annual governance statement

We have reviewed the Annual Governance Statement and confirmed that:

- It complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE;

and

- It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

We have not identified any matters to report from this review.

Narrative report

We have reviewed the Council's narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Council.

Accounts production and audit process

The Accounts and Audit Regulations 2015 introduces a statutory requirement to produce a draft set of financial statements earlier for 2017/18. It also introduces an earlier statutory deadline for the audit opinion. The efficient production of draft financial statements and good-quality working papers are critical to meeting the tighter deadlines.

Auditing standards (ISA 260) require us to communicate our views on the significant qualitative aspects of the Council's accounting practices and financial reporting.



Introduction of KPMG Central

We introduced KPMG Central this year. KPMG Central is an IT-based document storage system which facilitates the secure and efficient transfer of large amounts of data between the Council and the audit team. KPMG Central aligns to our Accounts Audit Protocol and allows the Council's finance team to efficiently share requested information. Feedback from the finance team has been positive, and we will refine the use of the system in 2017/18 to help drive further efficiencies.

Accounting practices and financial reporting

In the past few years the Council has routinely produced its draft financial statements in advance of the 30 June statutory deadline. In 2016/17 the Council's draft financial statements were available by the end of May 2017, demonstrating that the Council has already delivered the earlier closedown required by legislation in 2017/18.

There were no significant delays in the provision of working papers, and our audit commenced at the start of June, and progressed well through June and early July.

We have concluded from our work that the Council's accounting practices are appropriate, and have no matters to report.

Completeness of draft accounts

We received a complete set of draft accounts on 26 May, which is a month earlier than the 2016/17 statutory deadline.

Quality of supporting working papers

We issued our *Accounts Audit Protocol 2016/17* ("Prepared by Client" request) in March 2017 which outlines our documentation request. This helps the Council to provide audit evidence in line with our expectations. We followed this up with regular meetings with the finance team to discuss specific requirements of the document request list, along with other emerging closedown issues.

The working papers provided for audit were prepared to a high quality, to the standards requested in our Prepared by Client request, and consistent with the quality provided in previous years.

The Council provided working papers promptly, with most being available on the KPMG Central sharepoint site before the start of our final audit visit. Where requested, additional supplementary working papers were provided promptly and were prepared to the same high quality standard.

Section one: financial statements

Response to audit queries

Officers responded to our audit queries promptly, and the timeliness and quality of responses did not cause any delays or other consequential issues with the progress of our audit. We have developed a positive and proactive working relationship with the Council's finance team, and this has helped to deliver the audit to the planned timetable while minimising the impact on the finance team.

Most of our audit queries were directed to the Council's central finance team, but on occasions staff in other departments, for example HD One, Revenues & Benefits, IT or Kirklees Neighbourhood Housing, were involved in providing assistance and evidence to our audit team. The responses from each of these teams were similarly prompt and helpful as those received from the central finance team.

Group audit

The Council produces group accounts, incorporating its interests in its significant subsidiary and joint venture:

- Kirklees Neighbourhood Housing Limited (turnover of £23.4m and net liabilities, inclusive of IAS19 Pension Liabilities, of £32.5m); and
- Kirklees Stadium Development Limited (turnover of £2.3m and net assets of £5.5m).

To provide our audit opinion on the Council's consolidated financial statements we carry out work on the consolidation process and substantively test elements of the group financial statements. We do not seek assurance from the subsidiary/joint venture component auditors, this is consistent with previous years, and reflects our efficient approach to obtaining group accounts audit evidence.

There are no specific matters to report pertaining to the group audit. We are also pleased to report that there were no issues to note in relation to the consolidation process.

Additional findings in relation to the Council's control environment for key financial systems

We completed the majority of our audit work on the Council's control environment and key financial systems in January 2017. We reported our findings to the Corporate Governance & Audit Committee through our routine Audit Progress Reports, and there were no control weaknesses identified from that work.

However one element of our work was not completed in January - our work on the Council's IT environment, incorporating our testing of the key IT controls in the main financial systems. This work was completed in May 2017.

We have enhanced our approach to testing IT controls in

2016/17, in particular to respond to the increased focus in IT controls and the risk of a cyber-attack. One of the elements of our work was to look in detail at the controls within the Council's SAP main financial system, which provides the General Ledger along with integrated Payroll, Accounts Payable and Accounts Receivable modules.

Our work identified some significant weaknesses in the control environment in the SAP system. In particular the key weaknesses related to the:

- Lack of audit trails where system changes had been made;
- Number of users having 'administrator' access rights;
- Weak system password configuration requirements; and
- Timeliness of removal of user access to SAP system modules.

We have worked with the Council's IT officers to make recommendations that strengthen the control framework, and provide robust controls. We have outlined these recommendations in Appendix 1.

Prior year recommendations

There were no recommendations made in 2015/16, and all our previous years' recommendations had been implemented by the end of 2015/16.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Council's financial statements. Before we can issue our opinion we require a signed management representations letter.

We will not be able to formally conclude our audit until we have completed our consideration of the two objections. Once we have completed that work we will prepare our Annual Audit Letter and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Kirklees Council for the year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and the Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 4 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Service Director (Finance, IT & Transactional Services) for presentation to the Corporate Governance & Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

In particular, although we are required to request amendment to the accounts, we alternatively need confirmation that management are not adjusting the financial statements for the two significant matters reported in Appendix 2.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgement, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related parties, public interest reporting, questions and objections, opening balances etc.).

Except for the two objections discussed below, there are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Council's 2016/17 financial statements.

LOBO objection

On 7 July 2017, we received an objection to the Council's LOBO loans totalling £77.3m, requesting that we apply to the Court for a declaration that the loans are unlawful and that we issue a public interest report. As the objection met the relevant criteria, it was accepted for audit consideration on 17 July 2017.

Guidance has been received from the National Audit Office (NAO) following consideration of similar, earlier objections at other authorities. Although work is ongoing, we are satisfied that any outcome would not have a material impact on the 2016/17 financial statements.

Completion (cont'd)

PFI schemes objection

On 14 July 2017, we received an objection to three of the Council's PFI schemes, requesting that we apply to the Court for a declaration that the PFI schemes are unlawful and that we issue a public interest report. As the objection met the relevant criteria, it was accepted for audit consideration on 29 August 2017.

Following initial consideration, and subject to confirming that the Council's PFI contracts are enforceable under the Local Government Contracts Act 1997, we are satisfied that any outcome would not have a material impact on the 2016/17 financial statements.

As neither objection would have a material impact on the 2016/17 financial statements, we expect to issue an unqualified audit opinion shortly after the accounts are approved at the Corporate Governance and Audit Committee on 17 November 2017.

We will not be able to issue the audit certificate until work on both objections has been completed.



Section two

Value for money

Our VFM conclusion considers whether the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have concluded that except for the Council's children's services arrangements, highlighted in its Ofsted report dated 25 November 2016, the Council has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.



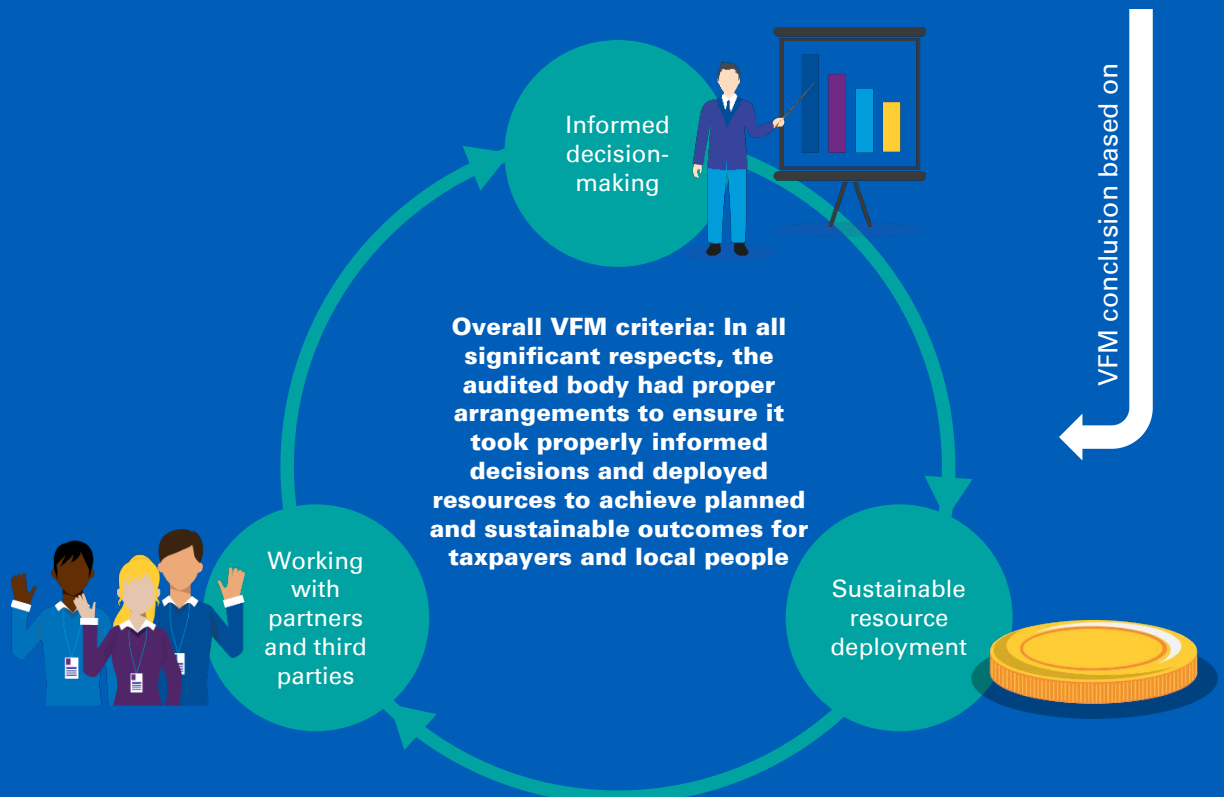
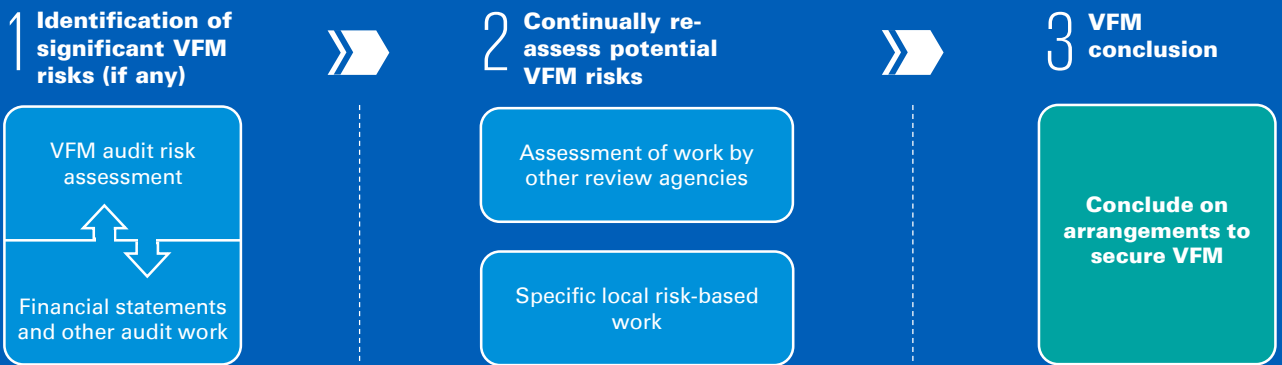
VFM conclusion

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the Council 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

Our VFM conclusion considers whether the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We follow a risk based approach to target audit effort on the areas of greatest audit risk.



Section two: value for money

The table below summarises our assessment of the individual VFM risks identified against the three sub-criteria. This directly feeds into the overall VFM criteria and our value for money opinion.

VFM assessment summary			
VFM risk	Informed decision-making	Sustainable resource deployment	Working with partners and third parties
1. Financial resilience in the local and national economy	✓	✓	✓
2. Children's Services arrangements	✗	✗	✗
Overall summary	Unqualified 'except for' children's services	Unqualified 'except for' children's services	Unqualified 'except for' children's services

In consideration of the risks above, we have concluded that except for the arrangements operating over children's services, the Council has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Further details on the work done and our assessment are provided on pages 21 to 23.

Significant VFM risks

We have identified two significant VFM risks. Children’s services was originally included within the financial resilience risk in our *2016/17 External Audit Plan* but the *Ofsted* report then justified it being treated as a second risk. Except for children’s services, we are satisfied that external or internal scrutiny provides sufficient assurance that your arrangements in relation to these risk areas are adequate.

Significant VFM risks	Work performed
<p>1. Financial resilience in the local and national economy</p>	<p>Why is this a risk?</p> <p>There has been a significant shift in the national outlook over the last 12 months, primarily driven by the outcome of the referendum on 23 June 2016 on the UK’s membership of the European Union. Consequently GDP growth forecasts have been revised downwards, which potentially reduces the level of any growth in business rates income. Inflationary pressures, service pressures, and a reduction in the local government finance settlement will impact on the Council’s finances.</p> <p>The Council’s Medium Term Financial Plan (MTFP) covering the period 2016/17 to 2018/19 incorporates the 2016/17 budget and indicative plans for the following 2 years. The MTFP included a plan for savings of £31 million over the 3 year period and in 2016/17 required £15.7 million of balances to be used to achieve a balanced budget. In 2017/18 and 2018/19 the MTFP identifies budget gaps of £16 million and £30 million respectively.</p> <p>Summary of our work</p> <p>Like most of local government, the Council faces a challenging future driven by funding reductions and an increase in demand for services.</p> <p>For 2016/17 the Council reported an overspend of £2.7 million against its revised net expenditure budget of £311.7 million. Predominantly this was due to significant overspends in Children’s Services (relating to both demand pressures and the resource impact of the response to the Council’s Ofsted report), and Adults’ Services (relating to demand pressures). These overspends were partially offset by the delivery of savings in other areas and better than expected Treasury Management results. During 2016/17 the Council’s unallocated General Fund balance reduced from £26 million to £10.7 million.</p> <p>For 2017/18 the Council set a net expenditure budget of £294.7 million, £20 million lower than the actual net expenditure delivered in 2016/17, although this was increased to £302.7 million during the year to reflect one-off in year commitments. The budget includes significant increases in resources for Children’s Services and Adults’ Services, and assumes a further use of reserves of £19 million. To deliver the budget the savings required are £54 million. As part of the budget reporting the Council outlined the indicative budgets for the next 3 years which shows budget surpluses being planned, albeit with increasing savings targets supporting those years, £82 million in 2018/19, £99 million in 2019/20 and £104 million in 2020/21.</p> <p>In-year monitoring indicates that the budget is forecast to be overspent but the Council is implementing a range of mitigations to reduce the impact of any overspend at the end of 2017/18.</p> <p>While the results for 2016/17 show a deterioration in the Council’s financial position, we have concluded that it has adequate arrangements to achieve financial resilience in the medium term. This conclusion is based on a number of factors including: the level of usable reserves available to support the MTFP; the clarity of communication and reporting to senior management, Executive and Council leadership; and a robust and transparent approach to setting and reporting the 2017/18 budget.</p>

Significant VFM risks	Work performed
2. Children’s Services arrangements	<p data-bbox="444 406 1352 493">Why is this a risk?</p> <p data-bbox="444 406 1352 493">On 25 November 2016 Ofsted published its report from its Inspection of services for children in need of help and protection, children looked after and care leavers, and its review of the effectiveness of the Local Safeguarding Children Board.</p> <p data-bbox="444 509 1352 650">The report rated Children’s Services overall in Kirklees as Inadequate. The component ratings for Children who need help and protection, Children looked after and achieving permanence, and Leadership management and governance, were also all rated Inadequate. The report included details of Ofsted’s conclusions on the serious and widespread failures.</p> <p data-bbox="444 667 1352 839">Following the report, the Secretary of State appointed a commissioner to advise on the most appropriate way forward. The commissioner’s report was published in September 2017 although it was based on a period of 4 months after the initial Ofsted report. This report endorsed the action that the Council had already put in place for a partnership arrangement with Leeds City Council to improve Children’s Services, and this has been supported by the Secretary of State.</p> <p data-bbox="444 855 1352 1085">Children’s Services is of fundamental importance to the Council delivering its responsibilities, and we determined that this was a significant risk to our value for money conclusion which impacted on all three of the VFM sub criteria as set out on pages 19 and 20. Our work was focused on the progress the Council made between the publication of the report and the end of the financial year to which our VFM conclusion relates (31 March 2017). Although we have considered progress after that date in order to understand fully the Council’s improvements, our VFM conclusion relates to the 2016/17 financial year.</p> <p data-bbox="444 1102 698 1131">Summary of our work</p> <p data-bbox="444 1147 1352 1319">We have considered the range of reports and information published and available. Since the publication of the ‘Inadequate’ Ofsted report the Council has embarked in a number of further fundamental changes in addition to many ongoing changes. It has embarked on a partnership arrangement with Leeds City Council (LCC) to improve its Children’s Services. As part of this arrangement the LCC are supporting the Council in a number of ways, including:</p> <ul data-bbox="444 1336 1352 1566" style="list-style-type: none"><li data-bbox="444 1336 1352 1390">— providing the Director of Children Services for the Council and line managing the senior staff in the Council;<li data-bbox="444 1408 1352 1462">— supporting the Council’s Children’s Services management in responding to the recommendations in the Ofsted report; and<li data-bbox="444 1481 1352 1566">— providing expertise and advice on the required improvements to the performance information and IT system requirements, as the Council progresses with the procurement of a new software package for social care. <p data-bbox="444 1583 1352 1696">For the 2016/17 financial year the Council did not demonstrate sufficient tangible improvements, although the Council has now strengthened the leadership and made significant investment in 2017/18 in order to address the weaknesses it and Ofsted had identified, providing sound foundations for rapid progress.</p> <p data-bbox="444 1713 655 1742">(continued overleaf)</p>

Significant VFM risks	Work performed
2. Children’s Services arrangements (continued)	<p>(continued)</p> <p>The commissioner considered the progress made by the Council in the first four months after the Ofsted report. Although this report was not published until September 2017 due to the impact of the local and general elections in 2017, the findings are relevant to our VFM conclusion for 2016/17. The commissioner’s conclusion was that the Council did not have the leadership and management capacity and capability to drive forward the necessary changes, and their recommendation was to progress the partnership arrangements with LCC to deliver the improvements.</p> <p>Ofsted followed up their report with a visit in June 2017 and published their findings in July 2017. This concluded that the Council is making limited progress in improving Children’s Services, noting that the plans to address the issues are too recent to have had an impact on children and families.</p> <p>The Kirklees Safeguarding Children’s Board has been active in monitoring the delivery of its action plan in response to the relevant recommendations from the Ofsted report, and these have been reported regularly to Board meetings. However, during 2016/17 the Board has had some personnel changes which has led to a loss of knowledge and experience, and the changes have not yet had time to deliver tangible improvements overall.</p> <p>Overall conclusion</p> <p>Since the publication of the Ofsted report the Council has been proactive in developing its response and has engaged with Leeds City Council to provide significant assistance in helping to develop its Children’s Services arrangements.</p> <p>As noted by Ofsted and the appointed commissioner, delivering tangible improvements has been limited during 2016/17, although the Council expects that progress to be demonstrable in 2017/18. Our overall conclusion is that, in regard to Children’s Services, the Council has not had adequate arrangements in place for 2016/17, as a result of:</p> <ul style="list-style-type: none">— the overall inadequate conclusion from the Ofsted review;— the Ofsted conclusion that the way the case management system is being used and performance information are still not fit for purpose;— the Ofsted conclusion that operational management arrangements have not been effective leading to children being placed at risk;— the Ofsted conclusion that partnership working has not been effective; and— the views of the commissioner and the Ofsted update report that progress since November 2016 has been limited.

A close-up, shallow depth-of-field photograph of a stack of books on a wooden surface. The books are stacked vertically, with a red book visible at the bottom. A silver pen lies horizontally in the foreground, its tip pointing towards the left. The background is softly blurred, showing more books and a warm, golden light. The word "Appendices" is overlaid in a thin, dark red font, centered horizontally and partially enclosed by two vertical lines of the same color.


Appendices


Key issues and recommendations


Our audit work on the Council’s financial statements, specifically the work on SAP IT system has identified a number of issues. We have listed these issues in this appendix together with our recommendations which we have agreed with Management. We have also included Management’s responses to these recommendations.

The Council should closely monitor progress in addressing the risks, including the implementation of our recommendations. We will formally follow up these recommendations next year.

Each issue and recommendation have been given a priority rating, which is explained below.

- 

Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.
- 

Issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.
- 

Issues that would, if corrected, improve internal control in general but are not vital to the overall system. These are generally issues of good practice that we feel would benefit you if introduced.

The following is a summary of the issues and recommendations raised in the year 2016/17.

2016/17 recommendations summary	
Priority	Total raised for 2016/17
High	2
Medium	5
Low	0
Total	7

High
priority

1. SAP System Opening

The SAP system allows for the live system to be opened or unlocked to allow direct changes to be made by individuals with appropriate access assigned in the event of an emergency or a fault that cannot be fixed through the normal change process.

Our testing identified that no automated logging is in place to record when the system was opened or unlocked. Therefore it is not possible to verify that for each instance of the system being opened that the system was then closed in a timely manner or that each instance was appropriately approved and that additional measures were taken to avoid other users making changes inappropriately whilst open (i.e. locking out all other users).

Therefore we cannot confirm that during this period no inappropriate or unauthorised changes were not made to the system or the data contained therein.

Whilst there is no evidence that changes were made, the lack of evidence for testing means it is not possible to rely on the system for audit purposes.

Recommendation

Automated logging of all changes to the open status of the system (including both opening and closing) should be enabled.

In addition when the system is opened the option for automated logging of all activity should be selected to provide additional evidence that only approved, appropriate changes have occurred.

Management Response

Accepted

The logging of both opening and closing of production systems is being enabled. Access to the logs will be given to the council's Internal Audit department. In addition, a pro forma will be used for all opening requests to capture the business justification. We will log the user's activity during the period the system is open.

Owner

IT Principal Officer

Deadline

Action completed



2. SAP Privileged Profiles

The SAP application includes the ability to assign highly privileged profiles to user accounts (i.e. SAP_ALL). These profiles grant super user status to those accounts, allowing them control over all aspects of the system, including the ability to delete or amend all activity logs (including system changes).

Through our testing we identified 26 accounts which had been assigned super user access for an extended period and where either there was no clear, current requirement, a lower privileged profile could be assigned or where the account type could be amended to a type that does not allow direct login.

To minimise risk, good practice dictates that these profiles only be assigned for limited periods of time and always for a specific purpose. When required to be assigned to a system account for operational activity, if possible, the account should be set to an account type that does not allow direct login.

Where this level of privileged access assignment is not appropriately restricted it is not possible to confirm that no inappropriate changes have been made to the SAP system. This is due to the ability for changes to be made by users with this access level and then any record of the change to be removed.

Whilst there is no evidence that changes were made, the lack of evidence for testing means it is not possible to rely on the system for audit purposes.

Recommendation

A review should occur over all SAP user accounts which are currently assigned this level of access. This should confirm that in each instance there is a current requirement for this level of access and that a lower level of privilege cannot be used. For system accounts this should also include review of the option for the account to be set to an account type that does not allow direct user login. Periodic reviews should then occur to ensure that any changes to job roles or requirements are reflected in a timely manner.

Management Response

Accepted

An exercise to review all authorisation roles and user assignments is being undertaken to ensure appropriate authorisation assignment, starting with users assigned privileged profiles. It is anticipated the number of users with privileged profiles will reduce significantly.

Owner

IT Principal Officer

Deadline

Privilege removal – November 2017

Creating new profiles – December 2017

Medium
priority

3. SAP Privileged Transactions

The SAP application also includes the ability to assign privileged access at a more granular 'transaction' level. This enables user accounts to have high levels of privilege in relation to certain functions and activities (i.e. user account maintenance, changes to the system setup).

Through our testing we identified 58 user accounts which had this level of privileged access assigned for one or more system areas. In a number of instances it was confirmed that there was not a current requirement linked to the user's job role.

To minimise risk these privileged transactions should only be assigned when required based on the user's job role or for a specific operational purpose. When required to be assigned to a system account for operational activity the account should, if possible, be set to an account type that does not allow direct login.

Where privileged access is not appropriately controlled the risk is increased that changes to the system, user accounts and data are made without appropriate review and approval.

This creates the risk that changes could be made that could impact on the integrity of system functionality, reporting and data held within SAP.

Recommendation

A review should occur over transaction level privileged access assigned to all SAP user accounts. This should confirm that in each instance there is a current requirement for this level of access. Periodic reviews should then occur to ensure that any changes to job roles or requirements are reflected in a timely manner.

Management Response

Accepted

An exercise to review all authorisation roles and user assignments is being undertaken to ensure appropriate authorisation assignment. Functional leads are reviewing role authorisations and user assignment for appropriateness. Changes to roles and user assignments will then be made as required. Access to table maintenance in production systems has been removed.

Owner

IT Principal Officer / SAP Functional Leads

Deadline

December 2017



4. SAP Passwords and System Configuration

The SAP system allows for configuration at a detailed level over the structure of user passwords, as well as a number of additional system settings in relation to user access.

Through our testing we identified that user passwords used for direct login to the SAP system (i.e. not via Windows Single Sign On authentication) are not required to be complex and to be changed periodically.

In addition the parameter within the SAP system configuration that blocks a built-in system account, when deleted, being recreated with the widely known default password has not been configured correctly.

Where passwords and system configuration are not set up in line with good practice the risk is increased that inappropriate or unauthorised access to the system could occur and allow for activity that may then compromise the integrity of the system and data held therein.

Recommendation

The SAP system configuration should be reviewed and, where possible, aligned with good practice in relation to passwords and user access controls.

Where a decision is taken to not undertake this alignment (i.e. due to increased complexity for users accessing the system) a risk assessment should be undertaken to understand the risk exposure created. This assessment should be reviewed periodically to ensure it is aligned with the Council's risk tolerance.

Management Response

Accepted

The password settings for manual login will be amended to conform to standards with Active Directory. This will require consultation and communication with users prior to implementation.

System parameters for built-in accounts will be amended to fulfil recommended security requirements.

Owner

IT Principal Officer / HD One

Deadline

November 2017



5. SAP Built-in Accounts

The SAP system contains a number of built-in, system accounts which are used for specific purposes such as initial system setup and version upgrades.

Through our testing we identified two privileged built-in system accounts were both active and not set to a user type that would block direct login occurring. Further it was noted that a non-privileged built-in account was active within the live system and had not had its password changed from the commonly known default.

Where default accounts are not controlled appropriately (including being disabled when not required and changing default passwords) the risk of inappropriate access is increased.

Further due to the nature of these accounts the risk is increased due to the lack of direct accountability to a named individual or group of individuals for any activity undertaken, Where accounts are privileged this risk is further increased.

Recommendation

A review should be undertaken over all built-in system accounts to confirm a current requirement. Where there is no current requirement the account should be locked, where the account is required but does not require direct user access the account type should be updated to one that does not allow direct login. Any default passwords identified as in use should be changed immediately.

Management Response

Accepted

SAP built-in accounts will be reviewed and locked where possible. Changes to prevent direct login will also be made. All default passwords will be changed.

Owner

IT Principal Officer

Deadline

November 2017



6. SAP Change Segregation of Duty

The SAP system includes functionality for user access to be segregated to ensure that an individual is only able to create or approve changes to the live system. This is to ensure that no individual is able to make changes to the system without independent approval.

During the financial year a significant number of changes (520) were developed and approved for movement into the live system by the same person

It was noted that where a small SAP support team exists this may be required to ensure the system continues to operate and avoid delays. There is however currently no compensating process for an independent review to ensure all changes made in this manner can be linked either to an approved change request or formally recorded incident.

Where changes are developed and implemented by a single individual without independent approval or review, the risk is increased that a change is made to the live system which has not followed the agreed process and which could compromise the integrity of the system and data.

Recommendation

A review should be undertaken over all SAP user accounts which are able to both develop and implement changes to ensure that this access is required based on team structure and current job roles.

Where this level of access is deemed appropriate by management, a process should be implemented whereby periodic reviews of all such changes occur to validate their authenticity and ensure no misuse of privilege is occurring.

Management Response

Accepted

The Development and Basis teams will ensure that transports into production are not performed by the originator of the change.

Internal Audit will be granted access to review changes as recommended.

Owner

IT Principal Officer

Deadline

Action complete



7. SAP and Northgate user access

Through our testing of user access for individuals at all levels in both the SAP and Northgate systems we identified that there were a number of users who still had access to elements of the systems that they no longer required in their specific job role/function and one person still had access but had left the Council.

Through discussions with management we identified that access rights reviews are not undertaken on a regular basis due to resource constraints.

There is a risk that individuals could be accessing areas of the system that are inappropriate for their job role.

Recommendation

A review should be undertaken over all Northgate user accounts on a periodic basis to check whether this level of access is appropriate based on team structure and current job roles.

At a minimum, when an individual moves to a new job role a review should be undertaken to determine whether any access rights that they currently have need to be removed. Access rights for leavers should be removed as part of their exit process.

Management Response

Accepted

Details of Customer & Exchequer leavers and transfers will be sent to the SAP Support Team and IT where action will be taken to review their Northgate access rights. A process is also being established to disable accounts of users who have not logged in for a determined period. In addition, regular reports including job roles will be sent to Customer and Exchequer to allow for manual inspection/review of current staff access rights.

Owner

IT Principal Officer / Customer & Exchequer

Deadline

SAP user access – action complete
Northgate – December 2017

Audit differences

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Corporate Governance & Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Adjusted audit differences

Our audit did not identify any material misstatements.

Our audit identified a few minor disclosure adjustments focused on presentational improvements. The Council has adjusted the financial statements for these.

Unadjusted audit differences

The following table sets out the uncorrected audit differences identified by our audit. These differences are individually and cumulatively below our materiality level of £15 million. Cumulatively, the impact of these uncorrected audit differences is £8.7 million. We have also considered the cumulative impact of these unadjusted audit differences on the Council's financial statements in forming our audit opinion.

Table 1: Unadjusted audit differences (£'000)						
No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
1				Dr Account Provisions £1,418 Cr Account Accruals £1,418		The Council has included £1,418k for exit packages within the provisions balance. These individuals are named and have agreed the amount of their exit package in the 2016/17 year and therefore we believe these items should be held as accruals rather than provisions.
2			Cr PPE £7,300	Dr Capital Adjustment Account £7,300		The Council's external valuer provided an existing use social housing valuation of £578.5 million as the value of the HRA dwellings. The Council however has used a value of £585.8 million as the value of the HRA dwellings in the accounts based on applying the 35% social housing adjustment factor to the valuer's original existing use valuation.
	£0	£0	Cr £7,300	Dr £7,300	£0	Total impact of uncorrected audit differences

In addition, as noted on page 6 and page 11, the West Yorkshire Pension Fund auditor reported that the Pension Fund Assets in total were understated by £44.3 million. Based on the Council's share of the Pension Fund, the estimated impact is that the Council's Pension Fund liability is overstated by £5 million with a corresponding overstatement of the Pensions Reserve.

Materiality and reporting of audit differences

The assessment of what is material is a matter of professional judgement and includes consideration of three aspects: materiality by value, nature and context.

Material errors by value are those which are simply of significant numerical size to distort the reader’s perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.

Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.

Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

In our External Audit Plan 2016/17, presented to you in January 2017, we reported that our materiality for audit planning purposes was £15m. When we received the Council’s draft financial statements, we reassessed our materiality level to ensure that it accurately reflected the performance reported in the financial statements. The outcome of this was that our materiality level for the Council remained at £15m. This equates to around 1.5% of the Council’s gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision than materiality, reflecting the risk that a number of smaller misstatements, when aggregated, may lead to a material misstatement.

Reporting to the Corporate Governance & Audit Committee

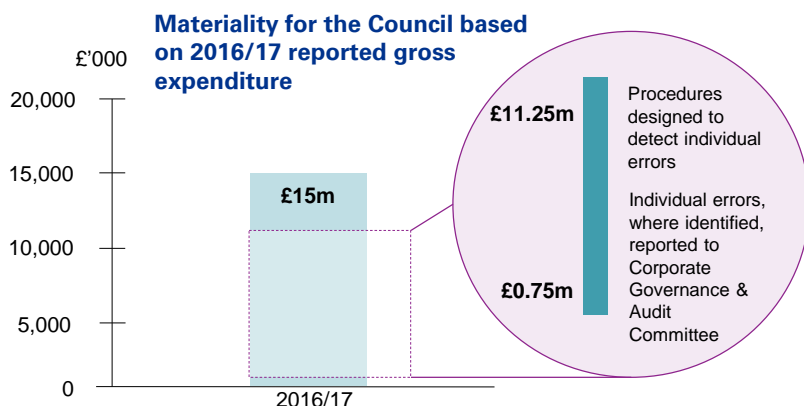
Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Corporate Governance & Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under Auditing Standards (*ISA 260*), we are obliged to report omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. *ISA 260* defines ‘clearly trivial’ as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

Auditing Standard *ISA 450* requires us to request that uncorrected misstatements are corrected which we have done on page 15.

In the context of the Council, we consider that an individual difference could normally be considered to be clearly trivial if it is less than £750,000.

Where management have corrected material misstatements identified during the course of the audit, we consider whether those corrections should be communicated to the Corporate Governance & Audit Committee to assist it in fulfilling its governance responsibilities.



Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice (the 'Code') which states that:

"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd Terms of Appointment ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 Integrity, Objectivity and Independence ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of *ISA (UK&I) 260 'Communication of Audit Matters with Those Charged with Governance'* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately

disclosed. We do this in our Annual Audit Letter.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from this. These matters should be discussed with the Corporate Governance & Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings.

Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: Instilling professional values, Communications, Internal accountability, Risk management and Independent reviews.

We would be happy to discuss any of these aspects of our procedures in more detail.

Auditor declaration

In relation to the audit of the financial statements of Kirklees Council for the financial year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and Kirklees Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

Non-audit work and independence

Below we have listed the non-audit work performed and set out how we have considered and mitigated (where necessary) potential threats to our independence.

Summary of non-audit work		
Description of non-audit service	Estimated fee	Potential threat to auditor independence and associated safeguards in place
Assurance reports provided for grant claims and returns no longer within the PSAA regime. <ul style="list-style-type: none"> Teachers Pensions return Pooling of Housing Capital Receipts NCTL teacher training return Skills Funding Agency subcontracting arrangements 	£15,000	<p>Self-interest: These engagements are entirely separate from the audit through separate contracts. The fee rates are low in comparison to the audit fees and they are not contingent on any outcomes from the assurance work.</p> <p>Self-review: The nature of this work is to provide an independent assurance report to the relevant external body. This does not impact on our other audit responsibilities and there is no threat of our work under these engagements being reviewed through our audit.</p> <p>Management threat: This work provides a separate assurance report and does not impact on any management decisions.</p> <p>Familiarity: This threat is limited given the scale, nature and timing of the work. This is the second year we have completed these assurance reports.</p> <p>Advocacy: We will not act as advocates for the Council in any aspect of this work. The output is an independent assurance report to the relevant external body applying an approach issued by that body.</p> <p>Intimidation: not applicable to these areas of work.</p>
Total estimated fees	£15,000	
Total estimated fees as a percentage of the external audit fees	10%	

Appendix 5

Audit fees

Audit fees

As communicated to you in our External Audit Plan 2016/17, our scale fee for the audit is £158,729 plus VAT (£158,729 in 2015/16). We have requested from Public Sector Audit Appointments (PSAA) an additional fee of £5,820 due to the additional work we were required to undertake in relation to the weaknesses identified in the SAP IT system. In particular this reflects the additional audit testing arising from the weaknesses in the system. Approval from PSAA has not yet been received.

In addition our ongoing work on the two objections received will be subject to a request to PSAA for additional fees under arrangements put in place by PSAA. Once the work on the objections has been completed we will discuss and agree the additional fees with officers.

Our work on the certification of the Council's Housing Benefits subsidy return for 2016/17 is underway and will be completed by 30 November 2017. The planned scale fee for this work is £37,718 plus VAT.

PSAA fee table		
Component of audit	2016/17 (planned fee) £	2015/16 (actual fee) £
Accounts opinion and use of resources work		
PSAA scale fee	158,729	158,729
Additional work relating to SAP IT control weaknesses (note 1)	5,820	0
Additional work on objections to the accounts (note 2)	TBC	0
Subtotal	164,549	158,729
Housing benefits certification work		
PSAA scale fee	37,718	28,301
Total fee for the Council set by the PSAA	192,267	177,030

All fees are quoted exclusive of VAT.

Note 1: This is still subject to PSAA approval.

Note 2: The additional fees relating to our work on the two objections to the Council's 2016/17 accounts will be discussed and agreed with officers once that work has been completed. Our additional fee requests will require approval from PSAA.



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