

Informing the audit risk assessment for Oadby & Wigston Borough Council 2020/21

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between the council's external auditors and its 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 Audit Committee under auditing standards.

Background

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

This two-way communication assists both the auditor and the 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 Audit Committee and supports the 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 councils oversight of the following areas:

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

Purpose

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

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?	Presentation of the Covid Business grant payments /PPE
2. Have you considered the appropriateness of the accounting policies adopted by the Borough Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	Yes, the accounting policies adopted by OWBC have been considered as appropriate
3. Is there any use of financial instruments, including derivatives?	No
4. Are you aware of any significant transaction outside the normal course of business?	No

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	No
6. Are you aware of any guarantee contracts?	No
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No
8. Other than in house solicitors, can you provide details of those solicitors utilised by the council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	The Council uses outside legal council for advice on certain matters. The Head of Legal services would be the best person to contact on any legal matters. I am not aware of any legal cases that would have a material affect on contingencies from prior years.

General Enquiries of Management

Question	Management response
9. Have any of the council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	No
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	I do not have details of all of the advisors the Council would have used

Fraud

Issue

Matters in relation to fraud

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

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

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

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

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

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

Fraud risk assessment

Question	Management response
<p>1. Have the authority assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the authority's risk management processes link to financial reporting?</p>	<p>Yes this has been assessed.</p> <p>Internal audit provide a strategic and operational risk management service for the Council. They regularly meet staff to review processes in each of the departments.</p> <p>The Risk management information is reported to Internal audit</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Creditors – to avoid possible duplicate payments</p>

Fraud risk assessment

Question	Management response
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within the authority as a whole or within specific departments since 1 April 2020?</p> <p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>I am not aware of any fraud since 1 April 2020</p>
<p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within the authority where fraud is more likely to occur?</p>	<p>No specific fraud risk has been identified</p>
<p>5. What processes do the authority have in place to identify and respond to risks of fraud?</p>	<p>There is a programme regular reviews of operational and strategic risks. This facilitated by the internal audit team. There are also policies in place which state procedures for certain tasks.</p>

Fraud risk assessment

Question	Management response
<p>6. How do you assess the overall control environment for the authority, 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)?</p>	<p>The Council does have various internal controls in place which are effective, These are reviewed by our Internal audit team and brought to the attention of Senior Management and the Audit Committee.</p>
<p>7. Are there any areas where there is potential for misreporting?</p>	<p>No</p>

Fraud risk assessment

Question	Management response
<p>8. How do the authority communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p>	<p>There are policies in place within the organisation to cover these areas. Staff can report matters to there line manager, Senior Manager or to HR on any concerns.</p>
<p>9. 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>The Council migrates risk by the separation of duties for posts and electronic authorisation processes. For example raising invoices, payments from the Council bank account. These procedures are regularly reviewed.</p>
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>I am not aware of any issues</p>

Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Audit Committee? How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What has been the outcome of these arrangements so far this year?</p>	<p>The audit committee reviews the risk management reports and receives regular updates. Challenges are made to officer if there are areas of concern. Further information or an investigation could be requested.</p>
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>No I am not aware of any or potential complaints by whistle blowers.</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>I am not aware of any reports made under the Bribery Act.</p>

Law and regulations

Issue

Matters in relation to laws and regulations

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

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

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

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

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does the authority have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the authority's regulatory environment that may have a significant impact on the council's financial statements?</p>	<p>The Council complies with the CIPFA code of practice and regulations stipulated by government bodies or legislation</p>
<p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The audit committee receive guidance on the relevant laws and regulations the Council have to comply to</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2020 with an on-going impact on the 2020/21 financial statements?</p>	<p>Not that I am aware of since 1 April 2020</p>
<p>4. Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>There is no litigation or claims that would affect the 2020/21 financial statements</p>

Impact of laws and regulations

Question	Management response
5. What arrangements does the authority have in place to identify, evaluate and account for litigation or claims?	Insurance claims are recorded as well as any legal claims against the Council
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	I am not aware of any reports of non compliance

Related Parties

Issue

Matters in relation to Related Parties

The authority are required to disclose transactions with entities/individuals that would be classed as related parties. These may include:

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

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

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

Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in the Authority's 2019/20 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"> • the nature of the relationship between these related parties and the authority • whether the authority has entered into or plans to enter into any transactions with these related parties • the type and purpose of these transactions 	<p>I am not aware of any changes</p>
<p>2. What controls does the Authority have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>Checks are made with management and year the end closedown timetable to ensure</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>There is a delegated authority list which identifies officers financial limit levels of authority to approve expenditure. Expenditure above an officers authorisation limit would then be allocated to an officer with a higher limit. The S151 Officer is responsible for approving officers limits. These limits are periodically reviewed with the statutory officers to ensure they are appropriate.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>There is delegated authority list of authorisers with set financial authorisation limits. S151 Officer/Chief Executive have the highest limit and tend to authorise large expenditure items. Senior Leadership are also available to authorise significant expenditure outside of the normal course of business. The Financial Regulations and any delegated authority is adhered to.</p>

Accounting estimates

Issue

Matters in relation to Related Accounting estimates

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

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

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

Specifically do Audit Committee members:

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

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

Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	The valuation of the Councils assets such as housing stock or property's it owns would be the most significant item in the accounts
2. How does the Authority's risk management process identify and addresses risks relating to accounting estimates?	The Council risk management process checks that correct accounting processes are in place and being operated by OWBC.
3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	Review of data and information required are done as part of setting the closedown timetable. Reviews of External and Internal comments on any points that need to be addressed to ensure or enhance the accuracy data, methods used for accounting estimates.
4. How do management review the outcomes of previous accounting estimates?	Quarterly Budget monitoring to continuously review performance.
5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?	I am not aware of any changes

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?</p>	<p>Review of the finance team skills and assessing any training or supervision required to ensure specialised skills are applied and there is an appropriate level of knowledge.</p>
<p>7. How does the Authority determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?</p>	<p>Follows CIPFA code of practice guidance and financial regulations.</p>
<p>8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?</p>	<p>Monthly budget monitoring reports, quarterly monitoring reports to committee meetings. Discuss and review these reports at the Senior Leadership team meetings</p>
<p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <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. 	<p>Work produced is reviewed by management and reviewed and challenged by the audit committee. CIPFA guidance and use of standard models used by other local authorities. Adhere to standard accounting practices</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of 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)?	Management would be made aware of any key issues by S151 Officer of any key issues, events etc
11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes they are reasonable
12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Audit committee is consulted on accounting estimates and S151 Officer meets periodically with the Chair of that committee to discuss issues.

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?
Property, plant and equipment valuations.	Existing use value	Comparison against the previous year any large variation queried	Valuations of PPE each year by Valuer	No material shift in value not already reported by valuer or any significant changes after this date and the date of reporting the information	No
Estimated remaining useful lives of PPE	Part of the fixed asset register	Comparison against the previous year any large variation queried	Valuer used	Useful life time not subject to change in year	No
Depreciation and amortisation	Follow CIFA guidance on method used	Comparison against the previous year any large variation queried	No	Straight line depreciation	No

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?
Impairments	Follow CIPFA Guidance and code of practice rules	Stock survey, Visual inspections	No	No material shift in asset value not already reflected in professional valuation. No assets destroyed that the Council has not been notified off.	No

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?
Measurement of financial instruments	CIPFA guidance	Assumptions are reviewed and checked to see they comply with the standard accounting code of practice rules	No	Fair value for PWLB borrowing Book Value	No
Provisions for liabilities	CIPFA guidance	Assumptions are reviewed and checked to see they comply with the standard accounting code of practice rules	No	Review possible liabilities and check with management.	No
Bad debt provision	CIPFA guidance/ Follow OWBC Financial procedures rules	Assumptions are reviewed and checked to see they comply with the standard accounting code of practice rules	No	No significant change in the risk profile of debts	No

Appendix A Accounting Estimates (Continued)

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?
Accruals	Follow CIPFA guidance	These are reviewed for accuracy	No	Review assumptions	No
Non-adjusting events after the balance sheet date	Follow CIPFA guidance	These are reviewed for accuracy	No	Review assumptions	No

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?
Pension Fund (LGPS) Actuarial gains/losses	<i>Actuary</i>	<i>Review for significant movements in pension liability</i>	<i>Yes – County Council manage this process on OWBC behalf</i>	<i>Review actuary assumptions</i>	<i>No</i>



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