



Oadby and Wigston Borough Council

TO COUNCILLOR:

G S Atwal
E R Barr
L A Bentley
G A Boulter
J W Boyce

M L Darr
B Dave
Mrs L Eaton
R E Fahey
D A Gamble (Vice-Chair)

J Kaufman
K J Loydall
Mrs S B Morris (Chair)
R E R Morris

Dear Councillor et al

I hereby summon you to attend a meeting of the **POLICY, FINANCE AND DEVELOPMENT COMMITTEE** to be held at the **COUNCIL OFFICES, STATION ROAD, WIGSTON** on **TUESDAY, 20 SEPTEMBER 2016** at **7.00 PM** for the transaction of the business set out in the Agenda below.

Yours faithfully

Council Offices
Wigston
19 September 2016

Mark Hall
Chief Executive

AGENDA UPDATE (NO. 2)

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Report to those charged with governance (ISA 260) 2015/16

**Oadby and Wigston
Borough Council**

September 2016



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This report is addressed to the Authority and has been prepared for the sole use of the Authority. 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.psaa.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 Tony Crawley, the engagement lead to the Authority, 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 PSAA'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 3H.



Section one: Introduction

This document summarises:

- The key issues identified during our audit of the financial statements for the year ended 31 March 2016 for the Authority; and
- Our assessment of the Authority's arrangements to secure value for money.

Scope of this report

This report summarises the key findings arising from:

- Our audit work at Oadby and Wigston Borough Council ('the Authority') in relation to its 2015/16 financial statements; and
- The work to support our 2015/16 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

Our External Audit Plan 2015/16, presented to you in March 2016, set out the four stages of our financial statements audit process.



This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during July 2016.

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

VFM Conclusion

Our External Audit Plan 2015/16 explained our risk-based approach to VFM work. We have now substantially completed the work to support our 2015/16 VFM conclusion. This included:

- Assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;
- Considering the results of any relevant work by the Authority in relation to these risk areas; and
- Carrying out additional risk-based work.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2015/16 financial statements of the Authority.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior recommendations and this is detailed in Appendix 2.

Acknowledgements

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



Section two: Headlines

Section two

Headlines

This table summarises the headline messages for the Authority. Sections three and four of this report provide further details on each area.

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Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2016. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007 and subsequent addendum.
Audit adjustments	<p>The Revaluation gains on the investment property were misallocated to the revaluation reserve instead of the Comprehensive Income and Expenditure statement (CIES). This resulted in a movement of £153k from the revaluation reserve to the CIES under the Financing and Investment Income line.</p> <p>Our audit also identified a number of minor presentational misstatements in the financial statements.</p> <p>These have been discussed with management and the financial statements are amended.</p>
Key financial statements audit risks	<p>We identified the management override of controls as a key financial statements audit risk in our External Audit Plan 2015/16 presented to you in April 2016.</p> <p>We have worked with officers throughout the year to discuss this key risk and our detailed findings are reported in section 3 of this report.</p> <p>There are no other matters of any significance arising as a result of our audit work in this key risk area.</p>

Section two

Headlines (cont.)

This table summarises the headline messages for the Authority. Sections three and four of this report provide further details on each area

Page 7

Accounts production and audit process	<p>We received complete draft accounts on 30 June 2016, in accordance with the requirements of the Accounts and Audit Regulations. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code.</p> <p>Working papers continue to be of an acceptable quality.</p> <p>As in previous years, we will debrief with officers to share views on the final accounts audit. Hopefully this will lead to further efficiencies in the 2016/17 audit process. In particular we would like to thank Authority officers who were available throughout the audit visit to answer our queries.</p>
VFM conclusion and risk areas	<p>We identified financial resilience and capacity as a VFM risk from our risk assessment work which we reported to you in our Audit Plan in April 2016.</p> <p>We have worked with officers throughout the year to discuss this VFM risk and our detailed findings are reported in section 4 of this report. There are no matters of any significance arising as result of our audit work in this VFM risk area.</p> <p>During the year a number of officers lodged a grievance appeal against the senior management team. The Authority responded promptly to the appeal, appointing an independent review team from the LGA to investigate the allegations. The report produced found no grounds for these allegations, but did make recommendations regarding the action that the Authority will need to take in the aftermath of the process. The Authority notified us when the appeal was lodged, kept us informed throughout as to the progress being made with the independent review, and the findings once this had been completed.</p> <p>We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2016.</p>

Section two

Headlines (cont.)

This table summarises the status of Audit work on the date of writing this report. Sections three and four of this report provide further details on each area.

Completion

At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas:

- Testing over the final position of the usable reserves;
- Receipt of satisfactory assurances from the Leicestershire LGPS auditor;
- Final review of our work.

Before we can issue our opinion we require a signed management representation letter.

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.



Section three: Financial Statements

Section three

Proposed opinion and audit differences

We anticipate issuing an unqualified audit opinion in relation to the Authority's financial statements by 30 September 2016.

The wording of your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007 and subsequent addendum.

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Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Committee.

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 5 for more information on materiality) level for this year's audit was set at £500k. Audit differences below £25k are not considered significant.

Investment Property gains: Revaluation gains on the Authority's investment property were misallocated to the revaluation reserve instead of the CIES. An amendment was made to correct this which resulted in a movement of c.£153k from the revaluation reserve to the CIES under the Financing and Investment Income line. This was then moved from the CIES to the Capital Adjustment Account (CAA) in the Movement in Reserves Statement (MIRS), and has no effect on the level of resources available to the Authority.

Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:

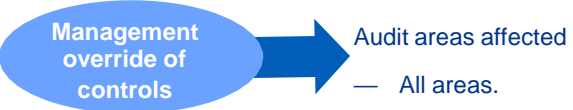
- It complies with Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE; and
- It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

Section three

Significant audit risks

In our External Audit Plan 2015/16 we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition.

The table below sets out the outcome of our audit procedures and assessment on these risk areas.

Areas of significant risk	Summary of findings
<p data-bbox="99 721 124 821" style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 11</p>  <p data-bbox="182 621 331 706">Management override of controls</p> <p data-bbox="486 628 704 699">Audit areas affected — All areas.</p>	<p data-bbox="737 499 1953 606">Our audit methodology incorporates the risk of management override as a default significant risk. 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. We have not identified any specific additional risks of management override relating to this audit.</p> <p data-bbox="737 628 1895 706">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.</p> <p data-bbox="737 728 1953 863">Our review of journals found that finance system users with access rights to post journals can post a value up to a certain limit, which is derived from their job role seniority. Journal authorisation can only be completed by certain members of the team, and only two members of the senior finance team can self approve their journals, up to a limit. We found no issues with the staff members who raised or approved journals and we found the approval limits to be reasonable.</p>

Significant audit risks

Areas of significant risk	Summary of findings
<div style="display: flex; align-items: center;"> <div style="border: 1px solid blue; border-radius: 50%; padding: 10px; margin-right: 20px;"> <p style="text-align: center; color: white;">Leisure Centre accounting</p> </div> <div style="font-size: 2em; color: blue; margin-right: 20px;">➔</div> <div> <p>Audit areas affected:</p> <ul style="list-style-type: none"> — Property, Plant and Equipment — Revaluation </div> </div> <p style="margin-top: 20px; transform: rotate(-90deg); position: absolute; left: -40px; top: 50%;">Page 12</p>	<p>Our audit plan identified the Authority's accounting treatment of the Leisure centres as a significant risk.</p> <p>We reviewed the following areas in relation to the Leisure centres accounting treatment:</p> <ul style="list-style-type: none"> the recognition of expenditure on both the new build and refurbishment; the de-recognition of the previous assets where applicable; and the transfer of the Wigston leisure centre from assets under construction to operational assets. <p>We carried out appropriate controls testing and substantive procedures, including over journal entries, revaluations and impairments on the Property, Plant and Equipment.</p> <p>Our review of the accounting entries for the leisure centres found that all the accounting entries for the capitalisation of the Oadby Swimming pool and Parklands Leisure Centre were correct. The revaluation and subsequent impairment of both schemes were also tested and found to be accounted for correctly.</p>

Section three

Judgements

We always consider the level of prudence within key judgements in your financial statements. We have summarised our view below using the following range of judgement:



Assessment of subjective areas				
Asset/liability class	15/16	14/15	Balance (£m)	KPMG comment
Provisions for business rates appeals	3	3	£0.571 million (PY: £0.326 million)	We have reviewed the calculation of the appeals provision which uses the best information available. Overall, the provision has increased. The increase is mainly due to new appeals made during the year. We also consider the provision disclosures to be proportionate.
Debtors provisioning	3	3	£0.321 million (PY: £0.267 million)	We have reviewed the calculation and are happy with the provision. Whilst the overall amount of outstanding debt has decreased, the proportion of older debts has increased thus requiring a greater provision.
Property, Plant and Equipment (valuations and asset lives)	3	3	£70.3 million (PY: £66.3 million)	Valuations are consistent with information provided by the valuation team. The increase from prior year is mainly due to the completion of the Parklands leisure and Oadby Swimming Pool. The asset lives used in the calculation of depreciation are not unreasonable.
Pensions liability	3	3	£18.6 million (PY: £24.7 million)	The balance represents the deficit on the pension scheme. The reported balance, together with assumptions and disclosures for inflation, discount rate, salary growth, life expectancy etc are consistent with the report from the external actuary. We have recommended that the review of the actuary's assumptions undertaken by the Authority is documented. Best practice would include reporting on these to the Policy, Finance and Development Committee.

Section three

Accounts production and audit process

The Authority has good processes in place for the production of the accounts. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.

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Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's processes for preparing the accounts and their support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	<p>The Authority continues to maintain a good financial reporting process and produce statements of accounts to a good standard.</p> <p>We consider that accounting practices are appropriate.</p> <p>We have made a recommendation regarding the records of intangible assets, and the continuing existence of these assets.</p> <p>The Authority will need to refine the closedown process further in order to enable it to meet the new reporting deadline of 31 May from 2017/18.</p>
Completeness of draft accounts	<p>We received a complete set of draft accounts on 30 June 2016.</p> <p>We have worked with officers throughout the year to identify and discuss potential issues that could affect the closedown process, and the Authority's response to these issues.</p>

Element	Commentary
Quality of supporting working papers	<p>Our Accounts Audit Protocol, which we issued in February 2016 and discussed with the Interim Finance and Accountancy Manager, set out our working paper requirements for the audit.</p> <p>We have worked with officers during the year to suggest ways in which the quality of working papers can be improved.</p>
Response to audit queries	<p>Officers resolved all audit queries in a timely manner.</p>

Accounts production and audit process (cont.)

The Authority has good processes in place for the production of the accounts. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.

Findings in respect of the control environment for key financial systems

Our review of internal controls found that the service level agreement with Leicestershire County Council had not been signed. We have made a recommendation regarding this.

There are no other issues with the design, implementation or effectiveness of the controls that we need to bring to your attention.

Narrative statement

This is a new statement this year, replacing the Explanatory Foreword. We are pleased to report that the draft statement includes all the required disclosures.

Post Balance Sheet Events

We have asked the Authority to add a note referring to the impact of Brexit as a note in the accounts and in the Narrative Statement as a matter impacting on the future. We have supplied a suggested wording to the Authority.

Section three

Completion

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We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinion and conclusion 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 Oadby and Wigston Borough Council for the year ended 31 March 2016, we confirm that there were no relationships between KPMG LLP and Oadby and Wigston Borough 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 3 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 Chief Financial Officer for presentation to the Authority. We require a signed copy of the management representations before we issue our audit opinion.

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 judgment, 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 party, public interest reporting, questions/objections, opening balances etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report.



Section four: Value for Money

VFM Conclusion

Our VFM conclusion considers whether the Authority 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. We have concluded that the Authority 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.

Background

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

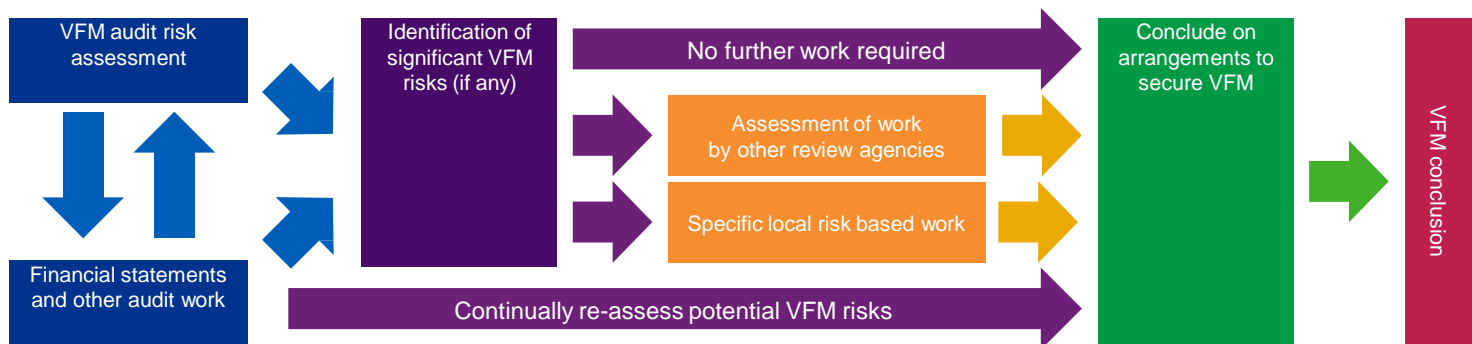
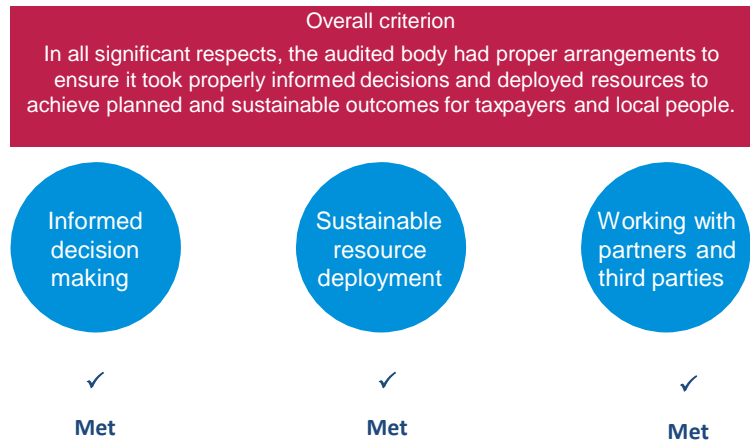
This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to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

The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria.

These sub-criteria provide a focus to our VFM work at the Authority.

Conclusion

We have concluded that the Authority 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.



Section four

Specific VFM Risks

We identified a single specific VFM risk.

We are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to this risk area are adequate.

Work completed

In line with the risk-based approach set out on the previous page, and in our External Audit Plan we have:

- Assessed the Authority's key business risks which are relevant to our VFM conclusion;
- Identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit; and
- Considered the results of relevant work by the Authority, inspectorates and review agencies in relation to these risk areas.


Key findings

On the next page we set out the findings in respect of the area where we have identified a residual audit risk for our VFM conclusion.

We concluded that we needed to carry out additional work over the future rental income in the Medium Term Financial Strategy (MTFS) and how this will impact the Authority's reserves. This work is now complete and we also report on this on the next page.

Section four


Specific VFM Risks (cont.)

We identified a single specific VFM risk. Relating to financial resilience and capacity.	Key VFM risk	Risk description and link to VFM conclusion	Assessment
<p>We are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to this risk area are adequate.</p>	<p>Financial resilience and capacity</p> 	<p>The Government's Autumn Statement and Spending Review confirmed their intention to move to a different funding system over the next few years – with less reliance on Revenue Support Grant and an increasing dependence on business rate income as a major source of income. That, together with likely significant reductions in New Homes Bonus funding from 2017/18 means that the Authority like most of local government, faces a challenging future. The Authority's Medium Financial Strategy, last updated in October 2015, covering the period to 2018/19 showed deficits for the years 2016/17 to 2018/19, with a closing General Fund balance of only £58k in 2018/19.</p> <p>The Authority will need to ensure that it continues to deliver efficiencies and moves forward its workstreams for generating income and service design and transformation. It is against this backdrop that we will assess the arrangements the Authority, has in place to achieve efficiency savings against a worsening national picture.</p>	<p>In reaching our VFM conclusion we have considered the Authority's arrangements for securing financial resilience. This has included detailed reviews of key documents including the Medium Term Financial Plan and the Corporate Plan.</p> <p>We have reviewed the assumptions contained within the MTFS for pay and price inflation and concluded they are reasonable. We have agreed amounts included in the MTFS to the "Core spending power" notifications from DCLG.</p> <p>Our work concluded that the planning assumptions made by the Authority were reasonable. We recognise that there are significant uncertainties about the future of local government financing, for example the details of reform to Business Rates and New Homes Bonus. When clarity is provided by Central Government, we will discuss the implications with the S151 officer at our regular liaison meetings.</p> <p>The Authority set its final General Fund 2016/17 budget in February 2016, with a net revenue budget of £6.4 million, £600k lower than the figure included within the MTFS approved in October 2015. The Authority has identified £633k of efficiency targets to support this budget, which forecast the use of £145k of general revenue reserves</p> <p>The Authority approved an updated MTFS in April 2016, which covers the four years to 2019/20.. This reflects the Autumn Statement and Spending Review, and shows an overall reduction in general fund balances of £428k with net savings required of £1.4m over the period.</p> <p>Following the July 2015 Budget, which introduced a 1% per annum rent reduction for tenants over the next four years, the Authority reviewed its HRA business plan to assess the impact of these reductions. The updated plan showed that the plan was still viable, but that HRA balances would drop to their minimum sustainable level and remain there until around 2023. The updated MTFS forecasts for the Housing Revenue Account show a reduction in balances to £300k by 2019/20, the recommended minimum level of reserves, with a forecast funding gap in that year of £272k.</p>

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Section four

Specific VFM Risks (cont.)

We identified a single specific VFM risk. Relating to financial resilience and capacity.	Key VFM risk	Risk description and link to VFM conclusion	Assessment
<p>We are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to this risk area are adequate.</p>		<p>The Government's Autumn Statement and Spending Review confirmed their intention to move to a different funding system over the next few years – with less reliance on Revenue Support Grant and an increasing dependence on business rate income as a major source of income. That, together with likely significant reductions in New Homes Bonus funding from 2017/18 means that the Authority like most of local government, faces a challenging future. The Authority's Medium Financial Strategy, last updated in October 2015, covering the period to 2018/19 showed deficits for the years 2016/17 to 2018/19, with a closing General Fund balance of only £58k in 2018/19.</p> <p>The Authority will need to ensure that it continues to deliver efficiencies and moves forward its workstreams for generating income and service design and transformation. It is against this backdrop that we will assess the arrangements the Authority, has in place to achieve efficiency savings against a worsening national picture.</p>	<p>During the year a number of officers lodged a grievance appeal against the senior management team. The Authority responded promptly to the appeal, appointing an independent review team from the LGA to investigate the allegations. The report produced found no grounds for these allegations, but did make recommendations regarding the action that the Authority will need to take in the aftermath of the process. The majority of the officers bringing the complaint have now left the Authority and disciplinary proceedings have been taken against the staff remaining in post.</p> <p>The Authority notified us when the appeal was lodged, kept us informed throughout as to the progress being made with the independent review, and the findings once this had been completed.</p> <p>The challenge now facing the Authority is to continue delivering quality services with a reduced middle management team. The Authority has set up a Change Management Committee to address the issues raised in the LGA report, and change management project plan has been put in place. As part of our consideration of the sustainable resource deployment element of the value for money conclusion for next year we will continue to monitor the Authority's progress in implementing change.</p>



Appendices

Appendix 1: Key issues and recommendations

Appendix 2: Audit differences

Appendix 3: Materiality and reporting of audit differences

Appendix 4: Independence and objectivity

Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

Priority rating for recommendations		
1	Priority one: 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.	2
		Priority two: 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.
		3
		Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
1	2	<p>Payroll System</p> <p>Our review of the Service Level Agreement with the payroll provider, Leicestershire County Council, found that it had not been signed. This could result in payment disputes in future and the potential for disagreements over service delivery.</p> <p>Recommendation:</p> <p>Review the Service Level Agreement and ensure that it is signed.</p>	<p>Agreed</p> <p>Finance along with Human Resources will review the SLA with the service provider and sign both the current and any future agreements</p> <p>Date 31 December 2016</p> <p>Responsible Officers – Chief Financial Officer and Head of Corporate Services</p>

Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
2	2	<p>Intangible assets</p> <p>Our review of intangible assets showed that a large proportion of them had been fully amortised. There is a possibility that some of these assets are no longer in use and should be written out of the cost and accumulated amortisation.</p> <p>Recommendation:</p> <p>Complete a thorough review of all items on the intangibles listing and determine whether the assets are still in use. If an asset is no longer in use then it should be removed from the asset register.</p> <p>Where assets are found to still be in use, but fully amortised, the Authority should consider whether the amortisation period is appropriate, and also whether it is exposed to a risk of using out of date software.</p>	<p>Agreed</p> <p>A full review of all assets on the fixed asset register will take place before year end. In particular this will take in Intangible Assets and Plant and Equipment to establish the assets continual use.</p> <p>Date: 31 March 2017</p> <p>Responsible Officer – Interim Finance and Accountancy Manager</p>
3	2	<p>Review of actuarial assumptions</p> <p>Our review of the Authority's documentation and discussion with relevant officers identified that the Authority do not evidence their review of the assumptions used by the actuaries upon receipt of their report. There is therefore a risk of potential errors arising from incorrect assumption applied by the actuaries, which impacts on the Authority's financial statements.</p> <p>Recommendation</p> <p>The Authority should document their review of these assumptions, and as part of best practice the actuarial assumptions report should be taken to the Governance and Audit Committee for approval by members. This in line with the best practice approach taken at a number of Authorities.</p>	<p>Agreed</p> <p>Although a sense check is carried out on the assumptions each year this is not generally documented. In 2016/17 any review will be documented and evidence that the review was carried out will be kept. A new triennial review will be taking place during 2016/17.</p> <p>Date: 31 May 2017</p> <p>Responsible Officer – Interim Finance and Accountancy Manager</p>

Follow up of last year's recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

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No.	Risk	Issue and recommendation	Update at September 2016
1	3	<p>Payroll system:</p> <p>The Authority had not requested, received or considered an annual assurance statement from Leicestershire County Council (LCC) in respect of the payroll services that LCC provides. Following our audit a copy of LCC's internal audit report was requested and reviewed by your officers to support the Annual Governance Statement.</p> <p>Recommendation</p> <p>Ensure that assurances over the operation of the payroll system are received in future years.</p>	<p>Following this recommendation the Authority, has been working with LCC to implement this recommendation. An internal audit was performed over the whole of the payroll system which came back with moderate/significant assurance. The Service Level Agreement was not signed by the Authority.</p>
2	3	<p>Payroll system –monitoring spreadsheet</p> <p>The Authority maintains a detailed monitoring spreadsheet of the payroll throughout the year. This provides an excellent mitigating control over the lack of assurances reported above. However the spreadsheet had not been completed at the time of the final accounts visit for figures for March 2015. We asked officers to complete this during the visit in order to provide us with the necessary assurances over the payroll system, and this was provided to us at the end of July.</p> <p>Recommendation</p> <p>Ensure that the payroll monitoring spreadsheet is updated on a monthly basis.</p>	<p>Implemented.</p> <p>There were monthly payroll reconciliations completed throughout the 2015/16 FY.</p>

Appendix 1

Follow up of last year's recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

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No.	Risk	Issue and recommendation	Update at September 2016
3	2	<p>Cash and Bank reconciliations</p> <p>At our interim audit in March we noted that the cash and bank reconciliation had not been completed since November 2014. This reconciliation is a key control and has a pervasive effect throughout the Authority's accounts. The reconciliation was found to be up to date at our accounts visit, however it was noted that the process takes around 6 weeks to complete.</p> <p>Recommendation</p> <p>Ensure that reconciliations are undertaken on a timely basis.</p> <p>Review the reconciliation process to identify opportunities for completing reconciliations more quickly.</p>	<p>Implemented.</p> <p>The bank reconciliations were completed in a timely and accurate manner.</p>

Audit differences

This appendix sets out the audit differences.

The financial statements have been amended for all of the errors identified through the audit process.

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 Policy, Finance and Development 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.

Uncorrected audit differences

We confirm that there are no uncorrected misstatements, other than those that we believe are clearly trivial.

Corrected audit differences

Material misstatements

There were no material misstatements that affected any of the primary financial statements.

Non-material misstatements

Investment Property gains: Revaluation gains on the investment property were misallocated to the revaluation reserve instead of the CIES. This resulted in a movement of c.£153k from the revaluation reserve to the CIES under the Financing and Investment Income line, and a corresponding transfer through the MIRS to the CAA.

Our audit identified a number of minor presentational misstatements in the financial statements. These have been discussed with management and the financial statements are amended for these.

Materiality and reporting of audit differences

For 2015/16 our materiality is £500k for the Authority's accounts.

We have reported all audit differences over £25k for the Authority's accounts to the Policy, Finance and Development Committee.

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Materiality

The assessment of what is material is a matter of professional judgment 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.

We updated the materiality based upon the draft set of accounts from what was presented to you in March 2016.

Materiality for the Authority's accounts was set at £500k which equates to around 1.82 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Policy, Finance and Development 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 Policy, Finance and Development Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under 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.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £25k for the Authority.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Policy, Finance and Development 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.

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Requirements

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 Policy, Finance and Development 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.

Declaration of independence and objectivity (cont.)

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

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General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual

ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

In relation to the audit of the financial statements of Oadby and Wigston Borough Council for the financial year ended 31 March 2016, we confirm that there were no relationships between KPMG LLP and Oadby and Wigston Borough 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.

Appendix 4

Audit Independence

Audit Fees

Our scale fee for the audit is £42,784 excluding VAT (£65,768 actual in 2014/15). This fee is in line with that highlighted within our audit plan agreed by the Policy, Finance and Development Committee in March 2016. We are discussing an additional fee in relation to the additional work undertaken on the leisure centre with your Chief Finance Officer. The indicative scale fee for certification of housing benefits subsidy for 2015/16 is £6,864 excluding VAT (£12,419 actual in 2014/15).

Non-audit services

During the financial year 2015/16 we undertook a review of the Authority's Capital Receipts Return for 2014/15 made to the Department of Communities and Local Government. We charged a fee of £3,500 for this, as reported in our 2014/15 Annual Report on Grants and Returns Work. We have considered the ethical standards and given the nature of the work and the level of fee we do not consider that there is a threat to our independence.



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Policy, Finance and Development Committee	Tuesday, 20 September 2016	Matter for Information and Decision
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Title: **Christmas and Festive Lights**

Author: **Adrian Thorpe (Planning, Development and Regeneration Manager)**

1. Introduction

- 1.1 Each town centre has a set of Christmas or Festive lights installed each year for the festive period. They are referred to differently in each town as some of the lights also cover other festivals. The lights will be referred to as Christmas lights for this report.
- 1.2 Oadby and Wigston Borough Council currently have a contract in place with a supplier to install the Christmas lights in Oadby, Wigston and South Wigston each year. The contract includes the testing, installation, attendance at switch on and dismantling of the Christmas lights in the 3 town centres.
- 1.3 The current contractor is Central Electrical Services (Hinckley) Ltd, which is in the third year of a 3 year contract. Subject to performance there is the option to extend the contract by another 2 years.
- 1.4 During 2015 there were several incidents in each town centre where sections of the lights were not operating. This in the main was caused by water ingress into the sockets, which shorted the circuit. In the majority of these cases the lights were able to be switched back on. Other causes of failure were manufacturing faults, lamp column faults and damage resulting from the cutting by Leicestershire County Council.
- 1.5 Unfortunately this lead to a small number of complaints regarding the lights. The purpose of this report is to set out the way forward for 2016 and the future.

2. Recommendations

- 2.1 It is recommended that:
 - Members note the issues experienced during the 2015/16 festive period and the works that will be put in place during the year to rectify these.
 - The reporting of any Christmas light failures follows the procedure as set out in section 7.

3. Information

4. History

- 4.1 Oadby and Wigston Borough Council has provided Christmas lights for Wigston, Oadby and South Wigston for many years and the previous contractor Flag and Flagpole had been installing the lights for approximately 7 years. The previous lights were under appreciated and the coverage seemed to decrease each year, though the contract price remained the same (approx £37,000 per year).
- 4.2 The Christmas lights were placed under the remit of the Town Centre Manager in

May 2013 – leaving a short lead in time to organise a new display in each town.

- 4.3 With this in mind a new approach to the Christmas lights was developed, whereby the Borough Council would provide a basic set of lights to each centre and then each of the traders groups would then supplement additional lights to this. It was agreed that the installation would be organised by the Borough Council, to ensure that the correct Health and Safety requirements were met.
- 4.4 All three centres have supplemented their displays over the years by getting grants from Leicestershire County Council, from the Borough Council's Resident Forums or from their own businesses. In total there has been an investment of over £86,000 in new Christmas lights over the last 3 years.

5. Issues Affecting Lights

- 5.1 There were several times during the last festive period where lights in all three towns were not working. This is not always avoidable, due to the nature of electrical services that are placed outside in all weather. It must also be noted that the weather during the period had been quite extreme, with some of the wettest and windiest weather experienced during the last few years.
- 5.2 South Wigston had several issues of light failures. Firstly the lights that were installed in some of the trees failed at some point. At the test and subsequently the switch on, all of the trees that had lights and power were working. Unfortunately, around a week later a run of 4 trees failed. This was more than likely linked with the fact that Leicestershire County Council had trimmed the trees in the spring of 2015 and had probably cut through some lights. This then appears to have shorted the lights in these trees. Unfortunately there was nothing that could be done to get these lights back on during the festive period, without it costing a significant amount of extra money.
- 5.3 Also within South Wigston several runs of lights tripped out during the festive period. This was caused by rain ingress into plug sockets, which caused the fuse to trip. These were easily reset and the contractor came out on several occasions to do this.
- 5.4 Another issue that occurred in South Wigston was that a lamp column shorted out and set the fuse board on fire.
- 5.5 Oadby also had a couple of issues, the first of which was the cone tree in the Oadby Centre. On the day of their switch on the tree had tipped, but given that it had been attached to the Oadby centre, it did not fall to the ground. The tree was put back into place by the contractor. At first it was thought that the wind had done this, unfortunately this occurred again a couple of times, the third of which there was no wind present. Therefore it must be presumed that someone had tipped the tree over. The contractor remedied this by drilling the tree into the ground and the problem ceased.
- 5.6 Similar to South Wigston, in Oadby 3 runs of lights all trip out at different times. This was also caused by the severe weather. The lights were reset on several occasions.
- 5.7 Wigston also had a few issues, one of which was the cone tree on Bell Street being tipped over. This was rectified by the same solution as to the Oadby tree.
- 5.8 Also Wigston had 1 run of lights fail, this was also caused by the severe weather. The contractor reset these lights and they stayed on for the rest of the festive period.
- 5.9 Also a small cone tree on top of the precinct fell over during the windy weather – this

was rectified by the contractor.

- 5.10 There was also an issue with a run of lights at the Bell Street entrance, where the lamp column completely failed, therefore there was no power at all to the lights in that area. This occurred two weeks after the switch on and was reported to Leicestershire County Council which is responsible for the column. Unfortunately the County Council did not rectify the problem before the lights were taken down.

6. Planned Works

- 6.1 To rectify the issues that occurred last year the following work will be completed to ensure that the lights have the minimal amount of disruption possible.
- 6.2 The Christmas lights are supplied with an IP44 rated socket, which is designed to be splash proof. Unfortunately in severe weather this is not adequate enough. Therefore we will be investing in replacement IP56 rated sockets that are actually waterproof. Unfortunately the budget will not allow for all sockets to be replaced, therefore the sockets will be replaced in priority order – so the areas that suffered failures last year will all get replaced.
- 6.3 The tree lights that were trimmed by Leicestershire County Council will be fully replaced. The installation of these is part of the contract and will not hold an additional cost to install and these lights will be replaced partly from some stock we hold and partly with some newly purchased lights. Only trees that already have power fitted to them will have lights in for 2016.
- 6.4 All cone trees will be drilled into the ground to ensure they are not toppled.
- 6.5 Several lighting displays have failed, including the cone tree in Oadby, cone tree in Wigston and an overhead in South Wigston. As these lights are under warranty, they have been sent back to the supplier for repair/replacement.
- 6.6 Leicestershire County Council will be responsible for repairing any lamp columns which there have had electrical issues. This will be done before the contractors start work in September.
- 6.7 A separate plan for all three centres will be drawn up prior to the installation of the lights. The plan will show the location of the lights and the location of the infrastructure. This will be conveyed to each trader group and made accessible to Members, to ensure they know the extent of the lighting that should be operational and there can be no ambiguity of where they expect lights as to where they are actually installed.
- 6.8 Meetings with all three trader groups will be organised to ensure they know exactly what the Council plans to install and where, as well as to agree dates and times of Switch on's.

7. Reporting Procedures

- 7.1 It has been suggested that a new reporting process is put into place that Councillors, traders and the general public can follow to ensure that any lighting issues are recorded and dealt with consistently and effectively.
- 7.2 If a member of the public, Councillor or trader sees that there is a fault with the lights, this must be reported to the Council's Customer Services Centre. Customer Services staff will then log the incident on their system to track the incident. The Town Centre Manager will be notified and this will also be able to be picked up by other members

of the team in the absence of the Town Centre Manager.

7.3 Once a matter is reported, a response will be given to the person reporting the issue within 2 working days.

8. Conclusion

8.1 Although there were several issues in each town centre, it should be noted that the majority of the lights in each town were operational throughout the whole festive period.

8.2 It should also be noted that since 2013 the lights have been much improved compared to previous years and many compliments have been received.

8.3 Although outdoor electrical works cannot be guaranteed to work at all times, the work the Council and the contractor will do this year should minimise the issues as far as possible for 2016 onwards. This does not mean that all issues will be eliminated though.

8.4 The proposed reporting process and also the fact that the plans will be supplied to the businesses prior to the festive period should ensure that issues are dealt with in an improved way.

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Implications	
Financial (CR)	Budget is in place to cover the works mentioned within the report.
Legal (AC)	No significant implications.
Risk (AT)	CR4 Reputation Damage - There is a risk to the Council's reputation if the lights are not operational through the festive period. The works and procedures set out in this report are designed to reduce this risk.
Equalities (AT)	No significant implications.
	Equality Assessment:- <input type="checkbox"/> Initial Screening <input type="checkbox"/> Full Assessment <input checked="" type="checkbox"/> Not Applicable