KPMG

External audit report 2016/17

Oadby and Wigston Borough Council

July 2017

Summary for Policy, Finance and Development Committee

Financial statements

This document summarises the key findings in relation to our 2016-17 external audit at Oadby and Wigston Borough Council ('the Authority').

This report focusses on our on-site work which was completed in June 2017 on the Authority's significant risk areas, as well as other areas of your financial statements. Our findings are summarised in Section one.

Subject to all outstanding queries being resolved to our satisfaction we anticipate issuing an unqualified audit opinion on the Authority's financial statements before the deadline of 30 September.

The following outstanding matters are currently outstanding:

- Responses to our mandatory audit enquiries;
- Receipt of the management representation letter;
- Formal letter of assurance from the Pension Fund audit team;
- Resolution of revaluation accounting for property, plant and equipment;
- Receipt of evidence of in-year fixed asset condition review;
- Post balance sheet events review up to the date of signing the audit opinion; and
- Final review of the revised financial statements.

Based on our work, we have raised three recommendations, which can be found in Appendix 1.

We are now in the completion stage of the audit and anticipate issuing our completion certificate by the deadline of 30 September 2017.

Use of resources

We have completed our risk-based work to consider whether in all significant respects the Authority has proper arrangements to ensure has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We therefore anticipate issuing an unqualified value for money opinion.

See further details in section two

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 Policy, Finance and Development Committee to note this report.

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Contents

Section one

Financial Statements

We anticipate issuing an unqualified audit opinion on the Authority's 2016/17 financial statements by 30 September 2017. We will also report that your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE (*'Delivering Good Governance in Local Government'*) published in April 2016.

For the year ending 31 March 2017, the Authority has reported a deficit on the General Fund of £380,000, which is £231,000 higher than the originally budgeted for deficit of £149,000.

Significant audit risks

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

Significant audit risks - 1. Significant changes in the pension liability due to LGPS Triennial Valuation

Why is this a risk?

During the year, the Pension Fund 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 share of pensions assets and liabilities for each admitted body is determined in detail, and a large volume of data is provided to the actuary to support this triennial valuation.

There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data is provided to the actuary by Leicestershire County Council, who administer the Pension Fund.

Our work to address this risk

We have reviewed the process used to submit payroll data to the Pension Fund and have found no issues to note. We have also tested the year-end submission process and agreed pension costs, liabilities and disclosures under IAS19 to confirmations from the scheme actuary.

We found that there was no documented management review of actuarial assumptions. Management has confirmed that the assumptions used by the actuary are appropriate. Nonetheless, there is a risk that, unless a full review is carried out, inappropriate assumptions were used by the actuary to calculate the Authority's pension liability, potentially resulting in an incorrect liability being recognised. We raised a recommendation in our previous year's ISA 260 report that actuarial assumptions should be formally reviewed to ensure that they are appropriate for the Authority, and that this review should be documented. We reiterate this recommendation again this year. See recommendation 3 in Appendix 2.

We have liaised with our own internal actuary as well as engaged with your Pension Fund audit team to gain assurance over the pensions figures. At the time of writing, we are waiting for the formal letter of assurance from the Pension Fund audit team, however, we do not anticipate any significant issues.

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. These are not considered as significant risks as there are less likely to give rise to a material error. Nonetheless these are areas of importance where we would carry out substantive audit procedures to ensure that there is no risk of material misstatement.

Other areas of audit focus - Disclosures associated with retrospective restatement of CIES, EFA and MiRS

Background

CIPFA has introduced changes to the 2016/17 Local Government Accounting Code (Code):

— 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.

The Authority 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.

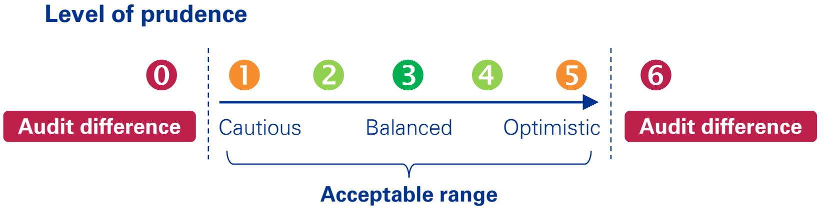
What we have done

We had originally planned to carry out this work during our interim visit in order for us to feed back any findings ahead of our final audit. We were unable to do this as the Authority had not completed the restatement exercise.

For the restatement, we have obtained an understanding of the methodology used to prepare the revised statements. We have also agreed figures disclosed to the Authority's general ledger and found no issues to note.

Judgements

We have considered the level of prudence within key judgements in your 2016/17 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 for business rate appeals	3	3	In 2013/14, changes in local authority funding arrangements meant that the Authority became responsible for a proportion of successful rateable value appeals. The Authority has previously provided for a fixed percentage of outstanding appeals in accounting for the potential liability. We have reviewed the Authority's calculation of the appeals provision, which is based on information provided by Analyse Local. The provision has increased slightly in year to £0.576 million (2015/16: £0.571 million) due to new appeals in year. We consider the provision to be proportionate.
Debtors provisioning	3	3	We have reviewed the calculation and consider the provision to be reasonable. The overall amount of outstanding debt has increased slightly to £2.307 million (2015/16: £2.217 million) due to an increase in council tax arrears. Along with an increase in the proportion of older debts, this has led to an increase in the bad debt provision to £0.760 million (2015/16: £0.706 million). We have no issues to report on the level of provision.
Property, plant and equipment (valuations and asset lives)	3	3	The Authority continues its use of the beacon methodology in line with the DCLG's *Stock Valuation for Resource Accounting* published in November 2016. The Authority has utilised an external valuation expert to provide valuation estimates. We have reviewed the instructions provided and deem that the valuation exercise is in line with the instructions. The resulting increase is in line with regional indices provided by Gerald Eve, the valuation firm engaged by the NAO to provide supporting valuation information. Asset lives used have not changed from the prior year, and are considered reasonable.
Pensions liability	3	3	The balance of £22.677 million (2015/16: £18.586 million) represents the deficit on the pension scheme. The reported balance, together with assumptions and disclosures, are consistent with the report from the external actuary. We have reiterated our prior year recommendation that the review of the actuary's assumptions undertaken by the Authority is not documented. Best practice would include reporting on these to the Policy, Finance and Development Committee. See Appendix 2 for further detail.

Proposed opinion and audit differences

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's 2016/17 financial statements following approval of the Statement of Accounts by the Policy, Finance and Development Committee on 25 July 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 £500,000. Audit differences below £25,000 are not considered significant.

We did not identify any material misstatements. We identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 ('the Code'). We understand that the Authority will be addressing these where necessary.

We also identified that a small number of disclosures have been rolled forward from the prior year financial statements and not amended. We have raised a recommendation in relation to this at Appendix 1.

Annual governance statement

We have reviewed the Authority's 2016/17 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 made a number of comments in respect of its format and content which the Authority has agreed to amend where appropriate.

Narrative report

We have reviewed the Authority's 2016/17 narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority. We have raised a number of presentational comments which the Authority has agreed to amend where significant.

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 the year 2017/18. It also shortens the time available for the audit.

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

We also assessed the Authority's process for preparing the accounts and its support for an efficient audit. The efficient production of the financial statements and good quality working papers are critical to meeting the tighter deadlines.

Accounting practices and financial reporting

The Authority has strengthened its financial reporting by finalising the accounts in a shorter timescale. This puts the Authority in a generally good position to meet the new 2017/18 deadline. Nonetheless, there is scope to improve the process further by ensuring the accounts are fully reviewed prior to being published in draft format as there were some disclosures that had not been updated. See Appendix 1. There are also some examples where information was not provided promptly.

We consider the Authority's accounting practices appropriate.

Completeness of draft accounts

We received a set of draft accounts on 13 June 2017. As noted above, a small number of disclosures were not amended from the prior year financial statements.

Quality of supporting working papers

We issued our Prepared by Client ("PBC") list in April 2017 which outlines the documentation requested for our audit. This helps the Authority to provide audit evidence in line with our expectations.

Whilst the authority provided working papers produced to prepare the accounts, they did not in all cases meet the requirements of our PBC list. Additionally, our PBC list was not referenced to these working papers at the outset of the audit. This has caused delays and placed additional pressures on the audit. We anticipate that the delays will have an impact on the final audit fee.

There is an opportunity for improvements to be made in providing a clear set of working papers that fully meet our audit requirements. We have raised a recommendation in respect of this, see Appendix 1.

Response to audit queries

In the main officers dealt with our audit queries within 5 working days of inquiry. There were however delays in relation to payroll information, supporting documentation for our journals sample, and receipt of related party declarations from members. One declaration is currently outstanding.

Delay in the provision of information impedes our ability to conclude our audit work. This needs to be addressed if the Authority is to meet the earlier statutory deadline in 2017/18.

Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in last years ISA 260 report.

The Authority has not yet implemented two out of three recommendations from our ISA 260 Report 2015/16. We reiterate the importance of implementing these recommendations. Appendix 2 provides further details.

Controls over key financial systems

We have tested controls as part of our focus on significant audit risks and other parts of your key financial systems on which we rely as part of our audit. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Based on the work performed, we are satisfied that the controls are performing effectively. We are able to place reliance on the Authority's control framework.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2016/17 financial statements.

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

Once we have finalised our opinions and conclusions we will 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 and for the year ending 31 March 2017, 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 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 Interim Finance and Accountancy Manager for presentation to the Policy, Finance and Development Committee. We require a signed copy of your 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 other 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 Authority's 2016/17 financial statements.

Section two

Value for money

Our 2016/17 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions, worked with partners and other third parties and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions, worked with partners and other third parties 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 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.'

Our VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions, worked with partners and other third parties 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.

1 Identification of significant VFM risks (if any)

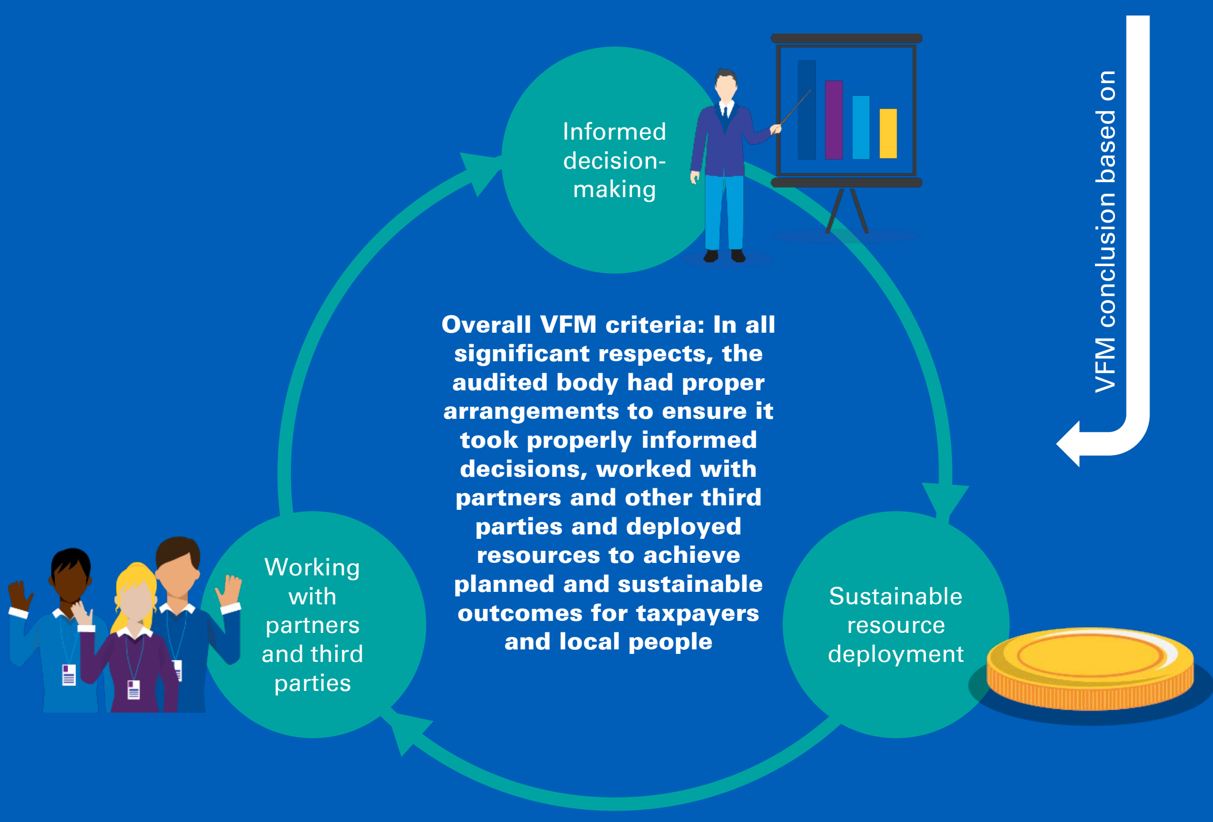
- VFM audit risk assessment
- Financial statements and other audit work

2 Continually re-assess potential VFM risks

- Assessment of work by other review agencies
- Specific local risk-based work

3 VFM conclusion

- **Conclude on arrangements to secure VFM**



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	✓	✓	✓
2. Implementing Change	✓	✓	✓
Overall summary	✓	✓	✓

In consideration of the above, we have concluded that in 2016/17, the Authority has made proper arrangements to ensure it took properly-informed decisions, worked with partners and other third parties 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 the following pages.

Significant VFM risks

We identified two significant VFM risks, as communicated to you in our *2016/17 External Audit Plan*. We are satisfied that a combination of external and internal scrutiny and our own review provides us with sufficient assurance to enable us to conclude that the Authority's current arrangements in relation to these risk areas are adequate. Nevertheless, there are significant challenges ahead.

Significant VFM risks - Financial resilience

Why is this a risk?

The Authority continues to face similar financial pressures and uncertainties to those experienced by others in the local government sector, such as the future of business rate distribution. The Medium Term Financial Strategy (MTFS), last updated in April 2016, projects total saving requirements on the General Fund Revenue Account of £4,165k by year 2019/20.For 2017/18, the Authority has a balanced budget with £802k savings identified and £150k funded from the general fund reserves.

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 MTFS forecasts a reduction in reserve balances of the Housing Revenue Account to £300k by 2019/20, the recommended minimum level of reserves, with a forecast funding gap in that year of £272k.

The Authority needs to have effective arrangements in place for managing its annual budget, generating income and identifying and implementing any savings required to balance its medium term financial plan. We consider financial resilience to be a significant risk given the potential impact on the financial standing of the Authority. This is relevant to the sustainable resource deployment sub-criterion of the VFM conclusion.

Summary of our work

We have reviewed the Authority's outturn report for 2016/17 and noted the Authority achieved a deficit on the General Fund of £380,000 which is £231,000 higher than the revised budgeted deficit of £149,000. The increase in deficit is principally due to the Authority receiving lower than anticipated funding from both Non Domestic Rates and Section 31 Grant for small business rate relief amounting to £218,000. The outturn position for Housing Revenue Account (HRA) shows HRA surplus of £433,000, which is £133,000 higher than the revised budgeted surplus of £300,000. This increase in surplus is due to reduction in hired staff, deferring planned revenue maintenance to 2017/18 and improvement of debt collection.

As part of the 2016/17 budget setting process, the Authority set a number of ambitious savings targets totalling £633,000. The outturn report confirms that some of these schemes were deferred to 2017/18; however the Authority largely achieved this target through reductions in net expenditure relating to:

- General fund salaries budget of £351,000;
- Recycling Income exceeding its 2016/17 budget target by £127,000; and
- Planning application fees exceeding its 2016/17 budget target by £56,000.

In October 2016 the Authority submitted its four-year efficiency plan to the DCLG. This was in response to the invitation from the Secretary of State in March 2016 for local authorities to engage with Government to secure a multi-year settlement for Revenue Support Grant, thus helping to strengthen the Authority's financial management. The provisional financial settlement for 2017/18 was announced by the Secretary of State on 15 December 2016 and therefore the levels of Revenue Support Grant for the next four years are known which aids medium-term financial planning and target setting.

The income and expenditure assumptions underpinning the 2017/18 budget are reasonable. For 2017/18 it is proposed to use General Fund reserves of £150,000 to balance the budget.

A recent Council meeting considered Budget Options for 2018/19 and 2019/2020, and identified that £1.4 million of further net recurrent savings are required by 2020. £700,000 was identified when setting the budget for 2017/18, leaving a further £700,000 to be found over the next two years. The Medium Term Financial Strategy (MTFS) anticipates that the net saving will be found in two 'lots' of £350,000: the first to be delivered in 2018/19 and the second in 2019/20.

Since Council agreed the budget for 2017/18 in February 2017, the Authority's SMT has been working with service managers across the Authority to develop proposals for net savings that reflect the Authority's financial plans as set out in the four-year efficiency plan and the MTFS.

Significant VFM risks - Implementing change

Why is this a risk?

The Independent Investigator's report made recommendations regarding the action that the Authority will need to take in the aftermath of the investigation process.

The Authority has set up a Change Management Committee to address the issues raised in the report, and a change management project plan has been put in place to take appropriate action to help improve the working arrangements of the Authority. The Committee also decided on a plan for further review of the implementation of the cultural changes and lessons required, consisting of planning the way forward, staff involvement, the role of leadership, employee buy-in, infrastructure, capabilities and measuring success..

The challenge now facing the Authority is to continue delivering quality services with a reduced middle management team, whilst implementing change. It also needs to rebuild trust between staff, management and members.

As part of our consideration of the sustainable resource deployment element of the value for money conclusion we will continue to monitor the Authority's progress in implementing change.

Summary of our work

We have reviewed the arrangements the Authority has put in place to address the issues raised in the Independent Investigator's report.
As part of the response to the Investigator's report a short-term action plan was agreed to address a range of issues that had been identified as urgent. All the actions agreed have now been implemented. We understand the investigation cost £200,000.

In addition, the Authority implemented a '*Plan for Change: Oadby & Wigston Borough Council*' setting out an action plan for members, senior and middle managers under the following activities:-

- The culture, values and behaviours needed to drive the organisation forward;
- The ambitions and priorities that the Authority can deliver, or aim to help achieve, for the Borough – with an eye on future funding streams and alternative delivery approaches;
- The most effective ways of working; including Councillor and officer roles, governance, structures and processes; and
- The means of enabling people to carry out their roles responsibly, effectively and with confidence.

The plan set out the resources required to deliver the needed improvements and also proposed that the LGA conduct a Corporate Peer Challenge of the Authority '*to validate its journey so far, to consider how well it has appraised its own situation and how well prepared and focussed it is for the opportunities and challenges ahead.*'

As a result the Authority agreed to have an LGA Corporate Peer Challenge which took place in March 2017. The purpose of this challenge was to provide the Authority with a general "health check", to consider how well it has appraised its own situation and how well prepared and focussed it is for the opportunities and challenges ahead. In delivering this challenge the Peer Team also explored the core components (the underpinning features of good performance) that all corporate peer challenges cover.

The LGA Team provided a headline summary of their findings on 23 March 2017. Overall the team made many positive comments about the Authority. The areas they focused on in their briefing were:

- Does the Council understand the local place, i.e. the Borough, and use that to set its priorities?
- Does the Council provide effective leadership of place, i.e. the Borough, and play an effective role in the wider place i.e. Leicestershire?
- Does the Council have a financial plan in place to ensure its long-term viability and is it being implemented successfully?
- Is there effective political and managerial leadership that responds to the key challenges and opportunities and enables changes and transformation to take place?
- Is the organisational capacity being used to best effect to deliver the Council's priorities?

To each of these questions the LGA challenge team concluded that the answer for Oadby and Wigston Borough Council was "Yes".

The team has highlighted some areas where the Authority can do better. This includes looking at the suitability of Bushloe House as a modern working environment, improving ICT, making bigger decisions more timely (particularly financial ones), developing transparency further and bringing in extra resources to make sure that the Authority has the capacity to face the challenges facing local government in the future.

Significant VFM risks - Implementing change

Why is this a risk?

The Independent Investigator's report made recommendations regarding the action that the Authority will need to take in the aftermath of the investigation process.

The Authority has set up a Change Management Committee to address the issues raised in the report, and a change management project plan has been put in place to take appropriate action to help improve the working arrangements of the Authority. The Committee also decided on a plan for further review of the implementation of the cultural changes and lessons required, consisting of planning the way forward, staff involvement, the role of leadership, employee buy-in, infrastructure, capabilities and measuring success..

The challenge now facing the Authority is to continue delivering quality services with a reduced middle management team, whilst implementing change. It also needs to rebuild trust between staff, management and members.

As part of our consideration of the sustainable resource deployment element of the value for money conclusion we will continue to monitor the Authority's progress in implementing change.

Summary of our work (continued)

The Authority has put together an action plan to address these areas.

Additionally a conscious decision was made in 2016 to bring forward the Authority's full Investors in People ("IiP") assessment which was due to take place in 2017. The conscious decision was also taken for the Authority to have itself assessed against the new stretching Generation Six IiP Standard rather than just be assessed against the existing Generation Five Standard.

The assessment took place in October and November 2016.

Main outcomes were:

- The Authority retained its like for like full Generation Five IiP accreditation;
- The Authority only missed achieving the new Generation Six by not fully meeting three out of the nine new standards;
- The overall results of the staff survey, which was completed by over 100 staff, showed that in eight of the nine categories surveyed the Authority scored higher satisfaction levels than the national average for the public sector;
- The Authority has asked to be reassessed against the Generation Six IiP Standard again in December 2017 and has agreed an action plan with IiP;
- The LGA peer challenge highlighted that the Authority had been "very brave" to volunteer to be assessed against the new Generation Six Standard whereas many other organisations were not prepared to take that risk.

As a result of this report the Authority has put an action plan in place to address issues.

The Authority has made good progress in implementing change, but needs to continue working on medium to long term recommendations raised in the investigator's report.

Appendices

Key issues and recommendations

Our audit work on the Authority's 2016/17 financial statements have 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 Authority 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.

High priority – 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.

Medium priority – 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.

Low priority – 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 if introduced.

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

2016/17 recommendations summary

Priority	Number raised from our year-end audit	Total raised for 2016/17
High	-	-
Medium	2	2
Low	-	-
Total	**2**	**2**

Medium priority

1. Preparation of audit working papers

Our Prepared by Client list, issued in April 2017 to the Interim Finance and Accountancy Manager, sets out our working paper requirements for the audit. As part of our final accounts visit, it was noted that:

- Working papers provided were not fully checked against the requirements listed in the Prepared by Client list. As a result, we were required to request working papers during the audit which could have been provided at the outset. In particular, this related to payroll, debtors and creditors. This caused avoidable delays to the audit process.
- The Prepared by Client list was not clearly referenced to the working papers provided. This caused delays and avoidable queries where we were not able to clearly identify the location or contents of the working papers.

Recommendation

The Authority should ensure that, at the outset of the audit, a set of working papers is provided that fully meets the requirements of the Prepared by Client list, and that these are clearly referenced to the list. This will aid the completion of the audit in line with next year's tighter deadline.

Working papers should provide a clear and concise trail from the financial statements through to sufficient and appropriate evidence within supporting documentation.

Management Response

Accepted

In previous years the Finance Team has been complimented on the quality of the working papers provided to auditors. In bringing forward the deadline for closure it is accepted the Prepared for Client list could have been more clearly cross-referenced to specific working papers and this will be addressed in future years.

Owner

Chief Finance Officer/Head of Finance, Revenues & Benefits

Deadline

Evidence for interim audit - February 2018 and main audit - June 2018.

Medium priority

2. Review of draft financial statements

Our audit identified that a small number of notes in the financial statements had not been updated for the current year, and still reflected the content of the previous year's accounts. These were:

- Details of the capital programme in the Narrative Report; and
- Capital commitments disclosed as part of the Property, Plant and Equipment note.

This has led to the Authority having to process subsequent alterations to the draft accounts. We would expect these issues to be identified as part of the review process prior to publishing the draft financial statements.

Recommendation

The Authority should ensure that, prior to publication of the draft financial statements for 2017/18, a full review is carried out to ensure that no content has been rolled forward from the previous year's template. This is particularly important with the tighter deadline in place next year, as the Authority will have less time to process amendments.

Management Response

Accepted

In rolling forward the standard notes to the financial statements from last financial year (2015/16) some of the commentary that was specific to the previous year was unintentionally duplicated in the draft 2016/17 notes. In future years a full review of the notes will be undertaken to ensure this does not happen again.

Owner

Chief Financial Officer

Deadline

Main audit - June 2018.

Follow-up of prior year recommendations

In the previous year, we raised three recommendations which we reported in our *External Audit Report 2015/16 (ISA 260)*. The Authority has not yet implemented two out of three recommendations. We re-iterate the importance of the outstanding recommendations and recommend that these are implemented by the Authority.

We have used the same rating system as explained in Appendix 1.

Each recommendation is assessed during our 2016/17 work, and we have obtained the recommendation's status to date. We have also obtained Management's assessment of each outstanding recommendation.

Below is a summary of the prior year's recommendations.

2015/16 recommendations status summary

Priority	Number raised	Number implemented / superseded	Number outstanding
High	-	-	**-**
Medium	3	-	**2**
Low	-	-	**-**
Total	**3**	**-**	**2**

Medium priority

1. Payroll System

Our review of the Service Level Agreement ("SLA") 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.

Recommendation:

Review the Service Level Agreement and ensure that it is signed.

Management original response

Agreed

Finance along with Human Resources will review the SLA with the service provider and sign both the current and any future agreements

Date 31 December 2016

Responsible Officers – Chief Financial Officer and Head of Corporate Services

KPMG assessment

The SLA was signed on 17 June 2017.

Fully implemented

Management July 2017 response

The SLA has now been signed. The arrangement with the County Council is on a rolling contract and the 12-monthly renewal has now been moved from 1 April to 1 July to ensure that the paperwork is in order at the annual close of accounts date of 31 March.

Medium priority

2. Intangible assets

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.

Recommendation

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.

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.

Management original response

Agreed

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.

Date: 31 March 2017

Responsible Officer – Interim Finance and Accountancy Manager

KPMG assessment

These assets still remain on the Fixed Asset Register as at 31 March 2017.

Not implemented

Management July 2017 response

Some assets are still in use despite being amortised to a nil value in the accounts. A full review of all items to be removed will be carried out as part of the year-end exercise to be completed by September 2017. In advance of next year's audit a review of depreciation for new assets will also be conducted.

Medium priority

3. Review of actuarial assumptions

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.

Recommendation

The Authority should document their review of these assumptions, and as part of best practice the actuarial assumptions report should be taken to the Policy, Finance and Development Committee for approval by members. This in in line with the best practice approach taken at a number of Authorities.

Management original response

Agreed

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.

Date: 31 May 2017

Responsible Officer – Interim Finance and Accountancy Manager

KPMG assessment

Our discussions with management identified that actuarial assumptions and data used in the actuarial report are reviewed. However, this is not documented. Management should document this review to confirm that it has been carried out in a timely fashion.

Not implemented

Management July 2017 response

In future the Council's s151 Officer will meet with pension fund actuaries ahead of the close of accounts and the production of their annual report to review assumptions and report these to Policy, Finance & development Committee.

Materiality and reporting of audit differences

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 used the same planning materiality reported in our External Audit Plan 2016/17, presented to you in March 2017.

Materiality for the Authority's accounts was set at £500,000 which equates to around 1.9 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 £25,000.

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 (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 his. 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.

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 Oadby and Wigston Borough Council for the financial year ending 31 March 2017, 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.

Non-audit work and independence

Below we have listed the non-audit work performed during 2016/17 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**
Pooling of Housing Capital Receipts claim 2015/16 (performed in 2016/17)	£4,000	**Self-interest**: This engagement is entirely separate from the audit through a separate contract, engagement team and lead partner. In addition, the audit fee scale rates were set independently to KPMG by the PSAA. Therefore, the proposed engagement will have no perceived or actual impact on the audit team and the audit team resources that will be deployed to perform a robust and thorough audit. **Self-review:** The nature of this work is auditing these grant claims. The Pooling of Capital Receipt claim has no impact on the main audit because completed after the audit was completed. Therefore this does not impact on our opinion and we do not consider that the outcome of this work threats to our role as external auditors. Consequently we consider we have appropriately managed this threat. **Management threat:** This work will be audit work only – all decisions will be made by the Authority. **Familiarity**: This threat is limited given the scale, nature and timing of the work. The existence of the separate team for this work is the key safeguard. **Advocacy**: We will not act as advocates for the Authority in any aspect of this work. We will draw on our experience in such roles to provide the Authority with a range of approaches but the scope of this work falls well short of any advocacy role. **Intimidation**: not applicable
Total estimated fees	**£4,000**	
Total estimated fees as a percentage of the external audit fees	**9%**	

Appendix 5

Audit fees

Audit fees

As communicated to you in our External Audit Plan 2016/17, our scale fee for the audit is £42,784 plus VAT *(£42,784 in 2015/16)*, which is in line with the prior year. However, we are in discussions over additional fee in relation to delays to the audit.

Our work on the certification of Housing Benefits (BEN01) is not yet complete. The planned scale fee for this is £9,314 plus VAT (£6,864 in 2015/16). See further details below.

PSAA fee table		
Component of audit	**2016/17** *(planned fee)* £	**2015/16** *(actual fee)* £
Accounts opinion and use of resources work		
PSAA scale fee set in 2015/16	42,784	42,784
Estimated additional work to conclude our opinions (note 1)	TBC	-
Subtotal	**42,784***	**42,784**
Housing benefits (BEN01) certification work		
PSAA scale fee set in 2015/16 – planned for September 2017	9,314	6,864
Total fee for the Authority set by the PSAA	**52,098**	**149,777**

All fees are quoted exclusive of VAT.

Note 1: Accounts opinion and use of resources work

For 2016/17, we have discussed additional fee in relation to the work undertaken in respect of the CIES restatement and the triennial pension revaluation with the S151 officer. We have also discussed additional fee relating to the delays noted earlier in this report. This is still subject to final agreement and PSAA approval.

*Total excludes this additional fee.