



The Interim Audit Findings for Oadby and Wigston Borough Council

Year ended 31 March 2020

November 2020



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Oadby and Wigston Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Financial Statements	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements:</p> <ul style="list-style-type: none"> • give a true and fair view of the financial position of the Council and its income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work remains in progress. At this time we have not identified any matters which would prevent us from issuing an unqualified audit report.</p> <p>However, as noted on page 5 there is still a significant amount of work in progress. Some of the larger areas are:</p> <ul style="list-style-type: none"> • a significant proportion of these are related to the Collection Fund where in association with officers we have identified issues in respect of the year end debtor balances and income and are officers currently updating the reported figures. • in response to findings from the Financial Reporting Council all auditors have been asked to be more challenging in respect of review of the information supporting the assumptions and work of valuers for PP&E. This has introduced a new level of granularity to the audit evidence required which the Council is now pulling together. • Within Council dwellings the Council has identified that up to 100 properties may not have been assigned to the correct beacons for valuation purposes. Officers are currently working through whether this would have a material impact upon the accounts. <p>We do anticipate including an Emphasis of Matter paragraph, highlighting the material uncertainty regarding the valuation of land and buildings (PP&E) due to Covid-19 and similar disclosures in respect of the Council's share of property and infrastructure assets within Leicestershire Pension Fund (pages 7 and 8).</p>
Value for Money arrangements	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').</p>	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Oadby and Wigston Borough Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources</p> <p>We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19,</p> <p>We therefore anticipate issuing an unqualified value for money conclusion. Our findings are summarised on pages 15 to 18.</p>
Statutory duties	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit. 	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.</p>

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented

Audit approach

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and the Audit Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We amended our audit plan, as communicated to you in April 2020, to reflect our response to the Covid-19 pandemic. This included obtaining an understanding of the impact of the pandemic on the organisation and considering how this manifests in the financial statements for the period. In particular, we have increased focus on asset valuations, use of the going concern assumption and narrative disclosure as well as considering this as a potential value for money risk.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

We detail in the table below our determination of materiality for the Council.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	420,000	We determined materiality for the audit of the Council's financial statements as a whole to be £420k in our audit plan which equated to approximately 2% of the Council's 2018-19 gross operating expenses. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in how it has expended its revenue and other funding.
Performance materiality	294,000	Performance materiality drives the extent of our testing and this was set at 70% of financial statement materiality. Our consideration of performance materiality is based upon a number of factors: <ul style="list-style-type: none"> • We are not aware of a history of deficiencies in the control environment; and • There has not historically been a large number or significant misstatements arising.
Trivial matters	21,000	Triviality is the threshold at which we will communicate misstatements to the Audit Committee.
Materiality for Senior Officer Remuneration	25,000	In accordance with ISA320 we have considered the need to set lower levels of materiality for sensitive balances, transactions or disclosures in the accounts. We consider the disclosures of senior manager's remuneration to be sensitive as we believe these disclosures are of specific interest to the reader of the accounts.

Audit approach

Conclusion

Our audit work is currently ongoing. Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion

These key outstanding items include:

- receipt and review of supporting evidence for adjustments made in relation to collection fund and in particular to correct the CTAX income figure;
- receipt and review of a breakdown to support the NNDR Arrears debtor in the accounts;
- receipt and review of the reconciliation for the CTAX Arrears debtor between the general ledger and the CTAX system;
- receipt of evidence for precepts
- receipt and review of a working paper for the 100 properties not included in the correct beacons and the impact on their valuations;
- receipt and review of responses to the variances identified in our MIRS consistency review tool;
- receipt of the underlying evidence to calculate the revaluation for our sample of 12 properties (non-dwellings);
- receipt of evidence to support the 6 outstanding journals from our sample;
- receipt of evidence to support the outstanding items in our expenditure sample;
- receipt of evidence to support the outstanding items in our income sample;
- receipt of working papers which show how the provisions for doubtful debt (bad debt provisions) have been calculated;
- receipt of responses to our queries on provisions;
- receipt of bridging document to between amounts payable at year to amounts paid after the year end;
- receipt of a reconciliation between the aged creditors listing and the amount shown in the trial balance;
- receipt of evidence to support accounts payable balances including the NNDR payment due to central government;
- receipt of the information sent to the actuary in relation to the pension liability;
- receipt of working papers to support the entries within the related party note;
- agreement of the adjustments required to the draft accounts
- final quality checks and senior personnel reviews of the audit work performed;
- receipt of management's signed representation letter; and
- receipt and review of the final set of signed financial statements

Significant audit risks

Risks identified in our Audit Plan

Covid- 19

Auditor commentary

We:

- worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided on time in July 2020;
- liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert
- evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;
- evaluated whether sufficient audit evidence could be obtained through remote technology;
- evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations;
- evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment.

Our work is still on-going in this area. However, in line with other councils with PP&E we anticipate including an Emphasis of Matter paragraph, highlighted PP&E valuation material uncertainties which is the basis upon which the Council's valuers have provided their valuations. The Council will need to reflect this uncertainty in its accounts and we will refer to these material valuation uncertainties in our audit report (see page 7).

We will also require the Council to give consideration to updating its disclosure of post balance sheet events, to include information relating to funding received since 1 April 2020 and other significant events.

The revenue cycle includes fraudulent transactions (rebutted)

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we determined that the risk of fraud arising from revenue recognition could be rebutted, because:

- there is little incentive to manipulate revenue recognition.
- opportunities to manipulate revenue recognition are very limited.
- the culture and ethical frameworks of local authorities, including Oadby & Wigston Borough Council, mean that all forms of fraud are seen as unacceptable.

Therefore we did not consider this to be a significant risk for Oadby & Wigston Borough Council.

There were no changes to our assessment as reported in the audit plan that we need to bring to your attention.

Whilst not a significant risk, as part of our audit work we are undertaking work on material revenue items. Our work has not identified any matters that would indicate our rebuttal was incorrect.

Significant audit risks

Risks identified in our Audit Plan

Management override of controls

Auditor commentary

We have:

- evaluated the design effectiveness of management controls over journals
- analysed the journals listing and determine the criteria for selecting high risk unusual journals
- tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration
- gained an understanding of the accounting estimates, critical judgements applied and decisions made by management and consider their reasonableness with regard to corroborative evidence
- evaluated the rationale for any changes in accounting policies or significant unusual transactions.

Our audit work to address this risk is still underway. Our work to date has not identified any issues however m we are waiting for evidence to support the final 6 journals we have selected for testing.

Valuation of land and buildings (Rolling revaluation)

We have:

- evaluated the processes, controls and assumptions put in place by management to ensure that the PP&E valuation is not materially misstated and evaluate the design of these and whether they are sufficient to mitigate the risk of material misstatement;
- assessed the competence, capabilities and objectivity of management's experts (valuers) who carried out your PP&E valuations;
- evaluated the instructions issued by management to their management expert (a valuer) for this estimate and the scope of the valuer's work;
- communicated with the valuer about the basis on which the valuation is carried out and where necessary challenge the key assumptions
- reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding
- tested revaluations made during the year to ensure they are consistent with the valuer's report and input correctly into the Council's asset register
- evaluated the assumptions made by management for those assets not revalued during the year and how management have satisfied themselves that these are not materially different to current value.

The Council's valuer has prepared their valuations as at 31 March 2020. In their reports, they have confirmed that as a result of the Covid-19 pandemic and the subsequent lockdown and impact on market activity, less certainty – and a higher degree of caution – should be attached to their valuations than would normally be the case. We will be asking officers to refer to this issue in Note 3 Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty.

We will also refer to this material valuation uncertainties in our audit report as an emphasis of matter.

Our work is still underway in relation to this risk and details of the outstanding matters can be found in the following section.

Significant audit risks

Risks identified in our Audit Plan

Valuation of pension fund net liability

Auditor commentary


We have, relying where appropriate on work carried out by ourselves as auditors of the Leicestershire Pension Fund:

- updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls;
- evaluated the instructions issued to the management expert (actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Authority to the actuary, through the Pension Fund, to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;
- undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and
- documented and evaluated the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

The Covid-19 pandemic has created uncertainty surrounding illiquid asset values. As such, the Pension Fund property and infrastructure allocations as at 31 March 2020 are difficult to value. Professional valuers have not been actively valuing many similar sized assets in the market due to the current lockdown environment. As such values have been rolled over from the end of February with an adjustment and may be inaccurate to the true 31 March 2020 position. We will be asking officers to refer to this issue in Note 3 Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty. We will also refer to this material valuation uncertainties in our audit report as an emphasis of matter.

Our audit work on this risk is still ongoing however it has not, so far, identified any other issues in respect of the valuation of the Council's pension fund net liability


Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Council Housing - £62.477m	<p>The Council owns 1,202 dwellings and is required to revalue these properties in accordance with MHCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged Innes England to complete the valuation of these properties. The year end valuation of Council Housing was £62.477m, a net increase of £0.884 from 2018/19.</p> <p>In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19.</p>	<p>We have:</p> <ul style="list-style-type: none"> evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation expert and the scope of their work evaluated the competence, capabilities and objectivity of the valuation expert written to the valuer to confirm the basis on which the valuations were carried out tested on a sample basis revaluations of the Council's council housing properties during the year to ensure they have been input correctly into the Council's asset register and financial statements <p>Our testing has identified that within the asset register 100 council dwellings were either no allocated a beacon or were allocated the wrong beacon for valuation purposes. Officers have estimated that this results in an undervaluation of approximately £400k.</p> <p>We are awaiting a detailed breakdown and summary of this error to review.</p>	

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key estimates and judgements

Accounting area	Summary of management’s policy	Auditor commentary	Assessment
Land and Buildings – Other - £24.907m	<p>Operational land and buildings comprises £24.907m of assets which are valued at existing use value (EUV) where market data is available or if specialised i.e. leisure centres at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision</p> <p>The Council has engaged Innes England to complete the valuation of properties as at 31 March 2020, this includes all assets which are required to be measured at fair value.</p> <p>Management have demonstrated through correspondence with the valuer their challenge of assumptions used in the estimation of asset values.</p> <p>In line with RICS guidance, the Council’s valuer disclosed a material uncertainty in the valuation of the Council’s land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures in relation to estimation uncertainty at Note 18.</p> <p>The valuation of properties valued by the valuer has resulted in a net surplus on revaluation of £3.719m</p>	<p>We have:</p> <ul style="list-style-type: none"> evaluated management’s processes and assumptions for the calculation of the estimate, the instructions issued to the valuation expert and the scope of their work, which has included the user of our own valuer to assist with our review and challenge evaluated the competence, capabilities and objectivity of the valuation expert written to the valuer to confirm the basis on which the valuations were carried out considered the completeness and accuracy of the underlying information used to determine the estimate tested on a sample basis revaluations of the Council’s operational properties and investment properties during the year to ensure they have been input correctly into the Council’s asset register and financial statements considered the Council’s process for reviewing the carrying value of assets not revalued in the year. <p>Our work in this area is still underway. We are awaiting assurance on the underlying information used by the valuer to prepare their valuations for our sample of 12 properties. This greater challenge of the assumptions used by valuers is now expected by the Financial Reporting Council. The Council’s officers are working on collating this but our experience from elsewhere does indicate this is not always straightforward.</p>	

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider cautious
- We consider management’s process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment																								
Net pension liability – £22.522m	<p>The Council's total net pension liability at 31 March 2020 is £22.522m (PY £25.358m) comprising the Leicestershire Local Government Pension Scheme and unfunded defined benefit pension scheme obligations in relation to Teachers.</p> <p>The Council uses Hymans Robertson LLP to provide actuarial valuations of the Council's assets and liabilities derived from (this scheme/these schemes). A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £3.873m net actuarial gain during 2019/20.</p>	<p>We have</p> <ul style="list-style-type: none"> Undertaken an assessment of management's expert Reviewed and assessed the actuary's roll forward approach taken, Used an auditors expert (PWC) to assess the actuary and assumptions made by the actuary. This led to further detailed discussions with the Pension Fund and Actuary whereby we challenged these assumptions and the calculation method applied <table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.3%</td> <td>2.3%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>1.9%</td> <td>1.8% - 2%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>2.4%</td> <td>Scheme specific</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>22.2 / 21.5 years</td> <td>Consistent</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>25.2 / 23.8 years</td> <td>Consistent</td> <td>●</td> </tr> </tbody> </table> <p>In addition to this, we have:</p> <ul style="list-style-type: none"> identified no issues with the completeness and accuracy of the underlying information used to determine the estimate. confirmed there have been no changes to the valuation method since the previous year, other than the updating of key assumptions above. We are working to satisfied ourselves in respect of the reasonableness of: <ul style="list-style-type: none"> the Council's share of pension assets. of the decrease in the estimate, and the adequacy of disclosure of estimate in the financial statements 	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.3%	2.3%	●	Pension increase rate	1.9%	1.8% - 2%	●	Salary growth	2.4%	Scheme specific	●	Life expectancy – Males currently aged 45 / 65	22.2 / 21.5 years	Consistent	●	Life expectancy – Females currently aged 45 / 65	25.2 / 23.8 years	Consistent	●	
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Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
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- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary

Management's assessment process

Management has considered:

- The Council's historical balanced financial position including its level of reserves
- Oversight and assessment of financial risk and performance
- Looking forward to 2020/21 and beyond

Auditor commentary

- We are satisfied that it is appropriate that management has used the going concern assumption in the preparation and presentation of the financial statements
- In particular, we are satisfied that management has considered all pertinent areas relevant for consideration of the Council's ability to continue as a going concern.

Work performed

We reviewed management's assessment by:

- Ensuring the assessment concurred with our knowledge of the Council
- Reviewing the Medium Term Financial Strategy to 2023/24 which was approved by Council in February 2019

We are satisfied there is no material uncertainty about the Council's ability to continue as a going concern.

Concluding comments

We are satisfied the use of the going concern assumption is appropriate.

We did not identify any events or conditions during the course of our audit that casted any significant doubt on the Council's ability to continue as a going concern.

There is no impact on our audit opinion which is unmodified in relation to Going Concern

Other matters for communication

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	We will be requesting a letter of representation from the Council prior to issuing our audit report. This will be circulate to members of the Audit Committee at a later date.
Confirmation requests from third parties	We requested from management permission to send a confirmation request to your bank. This permission was granted and the appropriate confirmation was obtained.
Disclosures	Our review found no material omissions in the financial statements
Audit evidence and explanations/significant difficulties	Due to the departure of Director of Finance and officers with detailed knowledge of systems in use there have been difficulties in the provision of suitable audit evidence. This has been coupled with the challenge of remote working due to the ongoing pandemic alongside prioritisation of officers in responding to the pandemic within the Borough. A later commencement of the audit was agreed with officers to seek to be able to manage the delivery from both sides without incurring unnecessary additional costs. As a result there are significant parts of the audit which are still ongoing. Both ourselves and officers are working to meet the statutory deadline of the 30 November but there remains a risk this will not be achieved.

Other responsibilities under the Code

Issue	Commentary
Other information	<ul style="list-style-type: none"><li data-bbox="478 297 1976 382">• We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. <p data-bbox="478 396 1483 425">No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect</p>
Matters on which we report by exception	<p data-bbox="478 446 1384 475">We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"><li data-bbox="478 489 1964 539">• If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit<li data-bbox="478 554 1100 582">• If we have applied any of our statutory powers or duties <p data-bbox="478 596 944 625">We have nothing to report on these matters.</p>
Specified procedures for Whole of Government Accounts	<p data-bbox="478 639 1953 696">We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p data-bbox="478 718 1808 746">This is not required at Oadby & Wigston Borough Council as the Council does not exceed the threshold of £500m for 2019/20.</p>
Certification of the closure of the audit	<p data-bbox="478 768 1763 796">We intend to certify the closure of the 2019/20 audit of Oadby & Wigston Borough Council when we issue our audit report.</p>

Value for Money

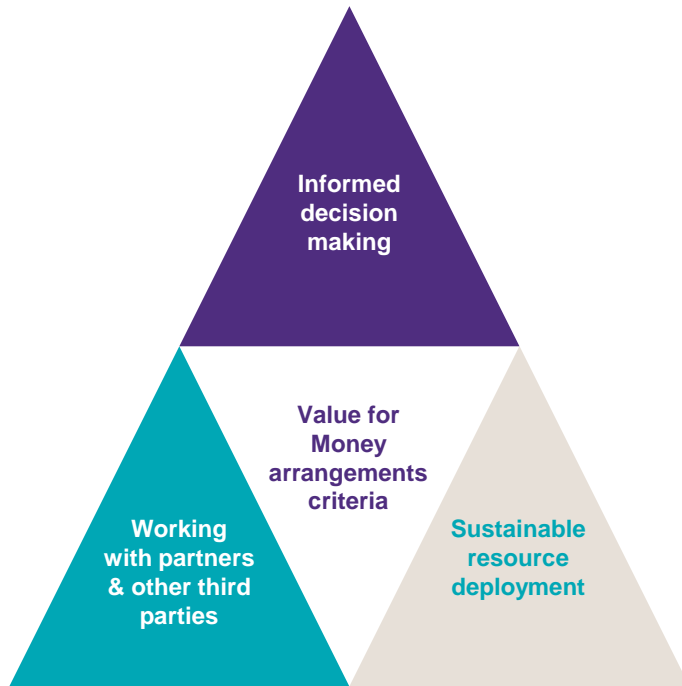
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment February 2020 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 4 March 2020

We have continued our review of relevant documents up to the date of giving our report, including giving consideration to the impact of the Covid-19 pandemic, and have not identified any further significant risks where we need to perform further work. It is likely that Covid-19 may have a more significant impact on our VFM conclusion work in 2020/21, given the timing of the initial outbreak

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- Review of the MTFs and the 2020/21 budget and assessment of the Authority's savings/income generation plans.
- Creation of a standalone Audit Committee

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages [XX to YY].

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk

Financial Sustainability

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. For 2020/21 the Council is proposing a balanced budget with the use of £101k of General Fund reserves.

The Authority has historically been able to achieve savings through making incremental changes to services and ways of working, however, there is a growing acceptance that more challenging decisions are needed to ensure financial stability in the longer term. The Council's new medium term financial strategy (MTFS) to 2024/25 has been prepared to make the Council financial sustainable and shows the Council rebuilding its general fund reserves from 2022/23. To achieve this the MTFS includes a range of savings and 'invest to save' proposals alongside a number of income generation opportunities, that result in cumulative savings of £4.9m and additional income of £3.4m over the MTFS period.

We will review the:

- Council's arrangements for identifying and agreeing savings plans and income generation to ensure that the Council is resilient to the increasing financial challenges of future years, and
- the outturn for 2019/20 and the updated MTFS to 2024/25 to gain a better understanding of how the Council plans to remain financially sustainable in the medium to long term.

Findings

The Council reported an overspend of £72k on its net expenditure revised general fund budget for 2019/20. General Fund reserve stands at £1.004m with an additional £2.195m of earmarked general fund reserves as at 31 March 2020.

From a review of 2018/19 Value for Money Profiles because of its size the Council's absolute reserves level are in the lower quartile nationally. In relation to reserves the Council is below the mean for unallocated reserves as a % of expenditure when compared to other District Councils (4% versus a mean of 13%) and are also below the mean for earmarked reserves (19% versus a mean of 37%). However, the Council has set a minimum General Fund reserve balance (excluding earmarked reserves) of 10% of net expenditure (£649.5k) and the current General Fund reserve is therefore above this and an increase from last year. Based upon its historic financial management this level should give the Council sufficient resilience in the short-term.

In February 2020 the Council set a General Fund balanced net budget of £6.119m for 2020/21. The Authority has also set a balanced HRA budget. At Quarter 2 of 2020/21 the Council has reported an adverse variance of £251k against this budget. The main reason for this variance is the current pandemic, which has a net impact of £167k. The pandemic has led to the Council incurring additional costs of £384k (a mixture of supplies and additional staff costs) and income losses of £1,192k. The Council has received government grants of £1,409k in the first half of the year leaving unfunded costs of £167k in relation to Covid-19.

Officers are currently finalising their budget proposal for 2021/22. The Council is modelling scenarios which take into account the current economic situation and pressures from the pandemic as part of its decision-making process.

Like most of local government, the Council faces a challenging future driven by funding reductions and an increase in demand for services. This is further complicated by the uncertainty relating to the current pandemic which has impacted on income and expenditure of the Council. It has also delayed government decisions on the future of long-term financing of local government, particularly business rate reform, the fair funding review and the strategy for funding social care.

The Council is aware that it will need to monitor decisions from the Government with regard to funding and respond accordingly. Inevitably, there will be an ongoing need for the Council to continue revisiting its projections and forecasts as new information comes to light. This may involve making difficult and challenging decisions on priorities in order to deliver balanced budgets over the coming years, including reviewing how it delivers its services going forward, while also maintaining strict budgetary control to minimise overspends.

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk

Changes in Governance Arrangements

During 2019/20 the Council have created a standalone Audit Committee. We will gain an understanding of how this change has been implemented and embedded into the Council's governance arrangements.

We will:

- review the changes to the committee structure and governance arrangements.
- review the training and guidance provided to the new Audit Committee and arrangements for determining its effectiveness

Findings

The Audit Committee was introduced into the Constitution on 30 July 2019, following approval by the Full Council on the same date. From a review of the Constitution the role and function of the Audit Committee are in line with our expectations. Committee members have received suitable training to help them develop in their new roles. The Committee is still embedding itself within the Council's governance arrangements but from attendance at Committee we have observed that members are developing in their roles and challenging the reports presented to the Committee.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in [Appendix B](#)

Independence and ethics

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefit Claim	10,250	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £10,250 in comparison to the total fee for the audit of £39,194 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Housing capital receipts grant	3,250	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £3,250 in comparison to the total fee for the audit of £39,194 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Non-audit related			
None			

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee. None of the services provided are subject to contingent fees.

Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit fees	Proposed fee	Final fee
Council Audit	£39,194	£TBC
Total audit fees (excluding VAT)	£39,194	£TBC

Covid-19 has impacted on the audit of your financial statements in several ways. These impacts include:

- Revisiting planning** - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has driven additional areas of audit work
- Management's assumptions and estimates** - there is increased uncertainty over many estimates including property, pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management. There are similar challenges for management and ourselves on areas such as credit loss allowances, financial guarantees, and other provisions.
- Financial resilience assessment** – we are required to consider the financial resilience of audited bodies. I know from our discussions over the last few months that Covid-19 has had a major impact on the Council's finances. This has increased the amount of work that we need to undertake on going concern and value for money (financial sustainability).
- Remote working** – the most significant impact in terms of delivery is the move to remote working (both our teams and yours). We, as other auditors, are experiencing considerable delays as a result of remote working, including the delays in receiving accounts, quality of working papers, and delays in responses. These are understandable and arise from the availability of the relevant information and/or the availability of relevant staff (due to shielding, being diverted to other essential functions, or other additional Covid related demands). In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming. The Government's current expectation to work from home as the default position is now likely to make this a greater issue for the audit than if we had been able to gradually return to our offices and council premises over the autumn of this year, as originally anticipated.

We have been discussing the impact Covid-19 has been having on audits with PSAA over the last few months and note that these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines being extended by 4 months and NHS deadline by a month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached <https://www.frc.org.uk/covid-19-guidance-and-advice> (see guidance for auditors) sets out the expectations of the FRC.

To date, we estimate that the issues highlighted above are increasing the time taken on audits by an average of 25%, in some cases higher. We understand from discussions with the ICAEW that this is similar to other firms.

Pls be assured that we are trying to mitigate this as far as possible through reduced travel time and travel costs and will be looking how we can absorb some of the remaining overrun ourselves. However, it is unlikely that this will not be sufficient to cover the full additional cost. We are aware that the Council's finances are constrained and we will seek to minimise these costs as best we can and will also consider our own performance in delivering to the November deadline. We will discuss any variations to the planned audit fee with the Director of Finance before reporting to the Audit Committee at its next meeting.

Fees

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services		
• Housing Benefit (Subsidy) Assurance Process	£9,750	TBC
• Certification of Housing capital receipts grant	£3,250	
Non- Audit Related Services	N/A	N/A
• None		
Total non- audit fees (excluding VAT)	£13,000	TBC



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