

Informing the audit risk assessment for Oadby & Wigston Borough Council 2023/24

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between Oadby & Wigston Borough Council's external auditors and Oadby & Wigston Borough Council's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

Background

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

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Council's oversight of the following areas:

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



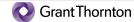
Purpose

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



General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2023/24?	Pension costs and asset valuations are the only items that may cause a significant impact on the accounts for 23/24, information for both is provided by professional experts in their fields. During 23/24 the Council progressed on its commitment to making savings and ensuring that expenditure can be provided for with the funding and income received, the savings are budgeted for 24/25 have enabled the 24/25 budget to balance without the use of any reserves. Whilst it won't have a material effect in year it does have a material effect on our financial outlook.
2. Have you considered the appropriateness of the accounting policies adopted by Oadby & Wigston Borough Council?Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?	Accounting Policies were reviewed March 2024. No.
3. Is there any use of financial instruments, including derivatives? If so, please explain	No
4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?	No



General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	No.
 Are you aware of any guarantee contracts? If so, please provide further details 	No.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	No.
8. Other than in house solicitors, can you provide details of those solicitors utilised by Oadby & Wigston Borough Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	In house only.



General Enquiries of Management

Question	Management response
9. Have any of the Oadby & Wigston Borough Council's service providers reported any items of fraud, non- compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details	No.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Advisors are used for planning DC, local plan, housing (Business plan), business cases. Exi group- Sale of Oadby pool & Horsewell lane. Nexus Planning- town centre and housing studies. Tetra tech- Habitats survey. JBA Consulting- Flood assessment, water cycle study. Knight, Kavanagh and Page- Open spaces studies and plans. Land use Consuting- Infrastructure plan. Ove Arup and Partners- O&W masterplans.
11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details	None.



Fraud

Matters in relation to fraud

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

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

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

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

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

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



Question	Management response
 Has Oadby & Wigston Borough Council assessed the risk of material misstatement in the financial statements due to fraud? How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process? How do the Council's risk management processes link to financial reporting? 	Low risk, strong controls in place, well trained experienced staff in place. SLT create and review Strategic Risk. CMT create and review Operational Risk. Both reviewed and financial impact considered alongside.
2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	Government grants taken fraudulently – outstanding debtors.
3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Oadby & Wigston Borough Council as a whole, or within specific departments since 1 April 2023? If so, please provide details	None.



Question	Management response
4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	We review Operational risk as managers, which are discussed at the Risk Management Group, prior to SLT reviewing and incorporating as part of their Strategic risks review. Strategic Risks are regularly reported to Audit Committee. There is a report on the Council's Anti-Fraud activities including an Fraud Risk Register to be presented to Audit Committee.
5. Have you identified any specific fraud risks? If so, please provide details	Fraud Risk Profiling has been undertaken as part of the anti-fraud activities.
Do you have any concerns there are areas that are at risk of fraud?	No
Are there particular locations within Oadby & Wigston Borough Council where fraud is more likely to occur?	No
6. What processes do Oadby & Wigston Borough Council have in place to identify and respond to risks of fraud?	The finance accounting system has hierarchy of authorisation designed to detect and prevent fraud.



Question	Management response
 7. How do you assess the overall control environment for Oadby & Wigston Borough Council, including: the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken? What other controls are in place to help prevent, deter or detect fraud? Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details 	 Excellent. All finances processes are in constant review to keep them up to date and complete. KPIs are recorded and reviewed by SLT and members. These KPIs are designed to alert members of areas of control weaknesses (e.g. Invoices raised before POs) and identify any fraudulent activity (level of o/s debts). PFD Committee monitoring: Key areas are reported and signed off by SLT and committee – debtors write-off's over £10K, Policies are reviewed by rotation, Exemption reports must be filed etc. No
8. Are there any areas where there is potential for misreporting? If so, please provide details	No



Question	Management response
9. How does Oadby & Wigston Borough Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?	Through regular mandatory company-wide training. Managers meet fortnightly as CMT and share any concerns and support each other where necessary. Any issues are escalated to SLT or their line manager.
How do you encourage staff to report their concerns about fraud? What concerns are staff expected to report about fraud? Have any significant issues been reported? If	O&W's positive culture ensures all teams work together for the good of the council. Continuous training of managers furthers this positive culture.
fraud? Have any significant issues been reported? If so, please provide details	There is a whistle-blowing procedure in place. Any member of staff noticing any fraud would notify their line manager immediately.
10. From a fraud and corruption perspective, what are considered to be high-risk posts?How are the risks relating to these posts identified, assessed and managed?	Segregation of duties reduces the risk of fraud. Fraud would need to be via management over-ride but the finance staff are encouraged to question everything even their manager, and if they suspect something is not right, they are to escalate it.
11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details	No
How do you mitigate the risks associated with fraud related to related party relationships and transactions?	N/A



Question	Management response
12. What arrangements are in place to report fraud issues and risks to the Audit Committee?	Audit Committee (AC) approves the Risk management Policy, and the Strategic Risk Register is presented to AC quarterly. AC challenges and scrutinises the Policy and all assessments. The Policy, Finance and Development Committee approved the Council's Anti-fraud Policy in June 2023.
How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal	An Activity Report covering 2023/24 as well as an activity plan for 2024/25 will be presented to AC in July 2024.
control?	There are numerous measures in place across the whole of the Council to reduce fraud, however, if there were any breaches of internal control or fraud they would be reported to Audit Committee as a
What has been the outcome of these arrangements so far this year?	matter of course.
13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	None
14. Have any reports been made under the Bribery Act? If so, please provide details	None



Law and regulations

Matters in relation to laws and regulations

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

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

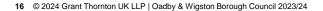
As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of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

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



Impact of laws and regulations

Question	Management response
1. How does management gain assurance that all relevant laws and regulations have been complied with?	Staff have regular updates but also engage Internal Auditors (360 Assurance) to keep track of all matters including compliance with Legislation.
What arrangements does Oadby & Wigston Borough Council have in place to prevent and detect non-compliance with laws and regulations?	360 Assurance reports into CMT meetings.
Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?	Νο
2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	Internal and External Auditor reports comment on these.
3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2023 with an on-going impact on the 2023/24 financial statements? If so, please provide details	No
4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details	Νο





Impact of laws and regulations

Question	Management response
5. What arrangements does Oadby & Wigston Borough Council have in place to identify, evaluate and account for litigation or claims?	The Legal Section handles all legal matters.
6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details	No



Related Parties

Matters in relation to Related Parties

Oadby & Wigston Borough Council are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

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

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

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



Related Parties

Question	Management response
 Have there been any changes in the related parties including those disclosed in Oadby & Wigston Borough Council's 2023/24 financial statements? If so please summarise: the nature of the relationship between these related parties and Oadby & Wigston Borough Council whether Oadby & Wigston Borough Council has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions 	No
2. What controls does Oadby & Wigston Borough Council have in place to identify, account for and disclose related party transactions and relationships?	Annual questionnaire sent to all Senior Officers and members plus new staff and members disclose upon entrance into office.
3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?	Integra hierarchy of authorisations and controls are in place.
4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?	Legal must sign off large contracts and all exemption forms too.



Going Concern

Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

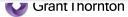
For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government / NHS bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.



Going Concern

Question	Management response
1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Oadby & Wigston Borough Council will no longer continue?	Effective budget management, setting a balanced budget, so not to deplete funds. Cash flow management.
2. Are management aware of any factors which may mean for Oadby & Wigston Borough Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?	No.
3. With regard to the statutory services currently provided by Oadby & Wigston Borough Council, does Oadby & Wigston Borough Council expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for Oadby & Wigston Borough Council to cease to exist?	Yes, O&W will continue to provide statutory services.
4. Are management satisfied that the financial reporting framework permits Oadby & Wigston Borough Council to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?	Yes



Accounting estimates

Matters in relation to accounting estimates

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

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

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

Specifically do Audit Committee members:

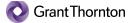
- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- · Evaluate how management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

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



Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	Estimates on valuations only. Valuations are done for the council's portfolio: Housing stock (~1184 properties), main operational buildings, 3 shops, community assets (parklands and open spaces), Oadby Pool (surplus asset for sale).
2. How does the Council's risk management process identify and address risks relating to accounting estimates?	A qualified valuer must be appointed. Full valuation every 5 years of all assets. Desktop valuation is permitted in between full valuations.
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	N/A
4. How do management review the outcomes of previous accounting estimates?	N/A
5. Were any changes made to the estimation processes in 2023/24 and, if so, what was the reason for these?	None.



Accounting Estimates - General Enquiries of Management

Question	Management response
6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?	An appropriately qualified and experienced valuer is appointed by the Finance Manager in consultation with the s151. Other estimates include pensions figures which are done by Actuaries (external professional). Internal estimates are provisions, prepayments and accruals done by the finance team and approved by a senior accountant.
7. How does the Council determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	Where professional estimates are required the Council use reputable, experienced professionals.
8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	Professional experts are used for Pension and Asset valuations, reports and information received are analysed for changes and these are queried with the providers to ensure the basis of the movement can be accurately explained. Further checks are made once the information has been entered to compare to previous years and examine the changes, these transactions are checked and approved by a manager.
 9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: Management's process for making significant accounting estimates The methods and models used The resultant accounting estimates included in the financial statements. 	Where the Council is required to use professional experts for accounting estimates, reputable, skilled and experienced professionals are procured. All information is reviewed at service level and approved by a manager, all variations are also queried by the officers and fed back to the manager for approval. When Accounting estimates are undertaken by Finance methods are fully scrutinised by the manager, all Finance managers are CCAB qualified and use professional knowledge to ensure that the basis is correct and that any estimate has detailed documented process. Changes to MRP were reported and accepted by Council. The Council are also happy to work with audit and take there recommendations for assumptions onboard.



Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?	None
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	The valuations are done by an experienced and qualified valuer. Pensions estimates done by actuaries, accruals and prepayments by qualified accountants and approved by an experienced manager.
12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	The valuations are done by an experienced and qualified valuer. Pensions estimates done by actuaries, accruals and prepayments by qualified accountants.



Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of defined benefit net pension fund liabilities	Done by Actuaries	Formal annual report from actuaries	Actuary employed by the pension fund.	Assumptions made by actuary. Clarity would be sought in the event of significant shifts in values.	No
Level 2 investments	N/A	N/A	N/A	N/A	N/A
Level 3 investments	N/A	N/A	N/A	N/A	N/A
Fair value estimates	This is set out in detail in the Authority's accounting policies under "Fair Value Measurement".		No		No



Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions	GAAP	There is a annual review of provisions as part of annual closedown process	No	Provisions made for redundancy pay and pension strain in 23/24 on basis of information provided by payroll.	No
Accruals	GAAP	Accruals set out in detail in closing instructions to budget managers, and reviewed by finance team.	No	Accruals are either determined per the relevant invoices or, if the invoice for the service has yet to be received, based on informed judgement.	No
Finance lease liabilities	IFRS 16 in place.	Ledger scrutinised to identify lease transactions. Where meeting the definition of finance lease, information on asset value is sought from lessor.	No	Lifetime of assets will be as determined in lease. Value of assets is as specified by lessor.	No



Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation	See valuation report	Report from RICS- qualified independent valuation expert, which is then scrutinised and challenged if necessary	Professional valuer	For property, the useful remaining life of PPE is assessed in accordance with the opinion of the valuer, and varies between property types. For vehicles, an assumption of 7 years is made. For software and IT equipment, 5 years.	No





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