

# Oadby and Wigston Borough Council

Audit progress report and sector updates

October 2024



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and, in particular, we cannot be held responsible to you for reporting all the risks which may affect the Council or all weaknesses in your internal controls. 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.

# Introduction

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This paper provides the Audit Committee with a report on our progress in delivering our responsibilities as your external auditors.

The paper also includes a series of sector updates in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications:

<https://www.grantthornton.co.uk/industries/public-sector/local-government/>

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

# Progress at October 2024

## Financial Statements Audit

Our audit work has been delivered both on site and remotely during July to September 2024. Whilst our audit work is well progressed, there are still some key areas where we require further evidence and explanation from Management. As a result, we are not able to present our Audit Findings Report to October's Audit Committee, as previously planned.

The key areas where we are still to conclude our audit procedures include:

- resolution of queries relating to sample testing of fees and charges, operating expenditure, debtors and associated impairments, creditors, land and building revaluations, council dwelling revaluations, and provisions;
- finalisation of substantive analytical procedures on collection fund income, housing rent income, pension assets and liabilities, and payroll expenditure;
- finalisation of consistency procedures for disclosures including financial instruments, capital expenditure and financing, and the expenditure and funding analysis;
- resolution of queries relating to testing of journals;
- resolution of queries raised with the Council's expert property valuer;
- receipt of IAS 19 assurances from the Leicestershire Pension Fund auditor;
- receipt of IFRC 14 assessment from the Council's actuary;
- final quality reviews by the audit manager and key audit partner;
- receipt of management representation letter; and
- receipt and review of the final set of financial statements, to confirm that all required audit adjustments have been made.

We know that the finance team are working hard to address our remaining queries and are grateful for their ongoing cooperation at this busy time.

Our audit work to date has not identified any matters that would require modification of our audit opinion or material changes to the financial statements.

As part of our work in auditing the Council's net pension fund liability, we have requested that Management engage with the Leicestershire County Council Pension Fund actuary to understand the impact of IFRIC 14 (IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction) on the Council's accounts. IFRIC 14 assessments have been requested as at 31 March 2023 and 31 March 2024. An adjustment to the 31 March 2024 net pension liability and a prior period adjustment to the 31 March 2023 net pension liability will be required, should the impact be material. Note this is an emerging issue in the sector and our request in relation to this was only raised on Thursday 19 September. Please refer to Appendix A, for further details regarding this issue.

Subject to resolution of these outstanding matters, we will conclude our 2023/24 financial statements audit work in October 2024 and share our Audit Findings Report with Management. This report will be presented to the next Audit Committee.

# Progress at October 2024

## Value for Money Audit

Our work to date has identified one significant weakness in arrangements. On 16 January 2024 we reported a significant weakness in relation to the Council's latest financial projections showing a cumulative budget gap to 2025/26 of £6.883m before planned savings. We raised a key recommendation that the Council needed to take urgent action to implement the savings plans identified to ensure that the use of reserves to balance the budget does not continue and that the Council does not find itself in a position where it is unable to fund its expenditure in 2025/26. The Council accepted this recommendation and has taken forward actions to address the identified weaknesses.

Our Value for Money work is well progressed but not yet complete. Our work to date has not identified any other risks of significant weaknesses. Our detailed commentary will be set out in our Auditor's Annual Report, which will be presented to the next Audit Committee.

The Code of Audit Practice requires the Auditor's Annual Report should be published no later than 30 September each year. Where the auditor is unable to do this, they should issue an audit letter including a statement explaining the reason for the delay. This letter has been shared with the Council and is included as a separate agenda item.

From 2023-24, provisions are no longer in place to allow exception reporting on Value for Money arrangements to take place after the auditor's report on the financial statements has been issued. This means that we will issue our auditor's report on the financial statements and certificate confirming closure of the audit, when our Value for Money work is complete.

## Application of the local authority backstop

As outlined on page 8, a plan for restoring timely assurance to the Local Government audit system was announced by the Minister of State for Local Government and English Devolution on 30 July 2024. The instrument to introduce statutory deadlines for publication of audited accounts has now been laid before parliament. For 2023/24, this deadline will be 28 February 2025.

We note that the next Audit Committee is scheduled for 25 January 2025. It is our intention to bring our proposed Audit Report, Audit Findings Report and Auditor's Annual Report to this Committee. This will allow us to conclude our audit more than 1 month in advance of the backstop date.

# Audit deliverables

Below are the audit deliverables planned for 2023/24.

2023/24 deliverables	Planned date	Status
<p><b>Audit Plan</b></p> <p>We are required to issue a detailed audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2023/24 financial statements.</p>	July 2024	Complete
<p><b>Audit Findings Report</b></p> <p>The Audit Findings Report will be reported to the Audit Committee.</p>	January 2025 (revised date)	Delayed
<p><b>Auditor's Report</b></p> <p>This includes the opinion on your financial statements.</p>	January 2025	Not yet due
<p><b>Auditor's Annual Report</b></p> <p>This report communicates the key outputs of the audit, including our commentary on the Council's value for money arrangements.</p>	January 2025	Not yet due

# Sector Update

# Ending the local audit backlog

A plan for restoring timely assurance to the Local Government audit system was announced by the Minister of State for Local Government and English Devolution on 30th July 2024.

Secondary legislation has been used to amend the Accounts and Audit Regulations (2015) and to introduce five new backstop dates:



1. Financial years up-to-and-including 2022/23: 13 December 2024;
2. Financial year 2023/24: 28 February 2025;
3. Financial year 2024/25: 27 February 2026;
4. Financial year 2025/26: 31 January 2027;
5. Financial year 2026/27: 30 November 2027; and
6. Financial year 2027/28: 30 November 2028.

Paul Dossett, Grant Thornton Partner and Head of Local Government, has had an article published in The MJ, where he reviews the reasons for the delays in audited accounts and considers what is required for a long-term solution:

<https://www.themj.co.uk/beyond-the-local-audit-backstop>

Key messages from the Minister are that:

For financial years up to and including 2022/23, if financial audits are not complete by 13 December 2024, disclaimed or modified opinions will be required. The Minister recognises that in most cases these may remain in place for up to two years.

The Minister's statement is, however, "crystal clear" that where there are modified opinions for financial accounts, auditors' other statutory duties – including to report on Value for Money (VfM) arrangements, to make statutory recommendations, and to issue Public Interest Reports, will still be a high priority.

There will be some limited grounds for exemption to meeting the audited accounts backstop dates: Where auditors are considering a material objection; where recourse to the court could be required; or from 2023/24, where the auditor is not yet satisfied with the body's Value for Money arrangements. Nevertheless, Councils need to be aware that the Government intends to publish a list of bodies and auditors that do not have an exemption and yet still do not meet the proposed new dates.

To help Councils comply with these arrangements, for financial years 2024/25 to 2027/28, the Minister states that the deadline for filing Category 1 'draft' (unaudited) accounts will be extended from 31 May to 30 June (allowing higher quality draft accounts); and there will be no routine inspections of local audits (by the Financial Reporting Council or by the Institute of Chartered Accountants in England and Wales) for financial years up to and including 2022/23, unless there is a clear case in the public interest to do so.

Once implemented, the hope is that the new arrangements will help to restore the robust assurance needed to underpin good governance and accountability.

**For the full statement, see [Written statements - Written questions, answers and statements - UK Parliament](#).**



# Lessons from recent Auditors' Annual Reports

In July 2024, Grant Thornton shared findings from a review of just under 100 recent Auditors' Annual Reports (AARs), covering around 30% of all Councils in England. With around 730 different areas for improvement identified, the AARs highlighted five key areas where local government is facing increased challenge:



1. Transformation and saving plans;
2. The Dedicated Schools Grant;
3. Financial governance and internal control;
4. Performance management and procurement; and
5. The Housing Revenue Account.



To help Councils with their challenge, Grant Thornton's Lessons report summarised suggestions for improvement into a single checklist for success.

## Key questions for Audit Committees from the checklist for success:

- External audit recommendations – are we up to date with monitoring progress and implementation and prior year recommendations?
- Savings and reserves – is our medium-term financial plan up to date?
- Workforce – do we have an up-to-date strategy?
- The Housing Revenue Account – when did we last review the strategy and arrangements for governance and internal control?

Even before the July 2024 general election, local authorities were key to delivering nationally important policies. Under the new government, the sector looks likely to play an even more pivotal role as, for example, proposed reforms to planning and housebuilding get underway. Audit Committees can use the Grant Thornton checklist for success to assess how ready their organisation is to take advantage of the new opportunities likely to open-up and to step into the new, higher profile role they are likely to be invited to play.

For a full copy of the report, see [Lessons from recent auditor's annual reports \[grantthornton.co.uk\]](https://www.grantthornton.co.uk)

# Audit Committee resources

**The Audit Committee and organisational effectiveness in local authorities (CIPFA)**

<https://www.cipfa.org/services/support-for-audit-committees/local-authority-audit-committees>

**LGA Regional Audit Forums for Audit Committee Chairs**

These are convened at least three times a year and are supported by the LGA. The forums provide an opportunity to share good practice, discuss common issues and offer training on key topics. Forums are organised by a lead authority in each region. Please email [ami.beeton@local.gov.uk](mailto:ami.beeton@local.gov.uk) LGA Senior Adviser, for more information.

**Public Sector Internal Audit Standards**

<https://www.gov.uk/government/publications/public-sector-internal-audit-standards>

**Code of Audit Practice for local auditors (NAO)**

<https://www.nao.org.uk/code-audit-practice/>

**Governance risk and resilience framework: material for those with a leadership responsibility on good governance (CfGS)**

<https://www.cfgs.org.uk/material-for-those-with-a-leadership-responsibility-on-good-governance/>

**The Three Lines of Defence Model (IAA)**

<https://www.theiia.org/globalassets/documents/resources/the-iias-three-lines-model-an-update-of-the-three-lines-of-defense-july-2020/three-lines-model-updated-english.pdf>

**Risk Management Guidance / The Orange Book (UK Government)**

<https://www.gov.uk/government/publications/orange-book>

**CIPFA Guidance and Codes**

The following all have a charge, so do make enquiries to determine if copies are available within your organisation.

**Audit Committees: Practical Guidance For Local Authorities And Police**

<https://www.cipfa.org/policy-and-guidance/publications/a/audit-committees-practical-guidance-for-local-authorities-and-police-2022-edition>

**Delivering Good Governance in Local Government**

<https://www.cipfa.org/policy-and-guidance/publications/d/delivering-good-governance-in-local-government-framework-2016-edition>

**Financial Management Code**

<https://www.cipfa.org/fmcode>

**Prudential Code**

<https://www.cipfa.org/policy-and-guidance/publications/t/the-prudential-code-for-capital-finance-in-local-authorities-2021-edition>

**Treasury Management Code**

<https://www.cipfa.org/policy-and-guidance/publications/t/treasury-management-in-the-public-services-code-of-practice-and-crosssectoral-guidance-notes-2021-edition>

# Appendix A – Applying IFRIC 14

This paper provides the Audit Committee with an overview of IFRIC 14 '*IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*'.

The application of IAS 19 Employee Benefits when an authority has a net pension asset, and in some cases where it has a net liability, can be complex. To help practitioners, the International Accounting Standards Board (IASB) issued an interpretation to support the paragraph 64 of IAS 19: '*IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*'.

Historically, local authorities have reported significant net pension liabilities on their balance sheets, and therefore the impact of IFRIC 14 could reasonably be assumed to be minimal. However, recent market fluctuations have meant that, for some authorities, net pension liabilities have significantly reduced, and in some cases the balance reversed so there is a net pension asset. As a result, the consideration of IFRIC 14 has become much more important.

Applying IFRIC 14 itself is not always straightforward, and therefore we have prepared this briefing to help the members of the Audit Committee understand the potential implications for the Authority's financial statements.

If you would like further information on this matter, please contact either your Engagement Lead or Engagement Manager.

# Applying IFRIC 14

## Background

As part of the terms and conditions of employment of its officers, a local authority makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the authority has a commitment for them at the time the employees earn their future entitlement. The cost of retirement benefits is therefore recognised in the cost of services, with the Comprehensive Income and Expenditure account, as they are earned by employees. However, under statute the charge that is required to be made against Council Tax is based on the cash contributions payable in the year.

The authority participates in the Local Government Pension Scheme (the 'Scheme') which is a funded defined benefit final salary scheme. This means the authority and employees pay contributions into a fund, at a level intended to balance the pensions liabilities with investment assets. The level of employer contributions is set by the Scheme actuary and it is our understanding these contributions represent the minimum funding requirements for the authority's participation in the Scheme. Employee contribution rates are set by regulation.

At any given reporting date, the present value of an authority's defined benefit obligation, calculated in accordance with IAS 19 Employee Benefits, is expected to differ from the fair value of the plan assets, also calculated in accordance with IAS 19. This may result in a net pension liability or net pension asset.



# Applying IFRIC 14

## Recognition of an IAS 19 asset

An authority can recognise an IAS 19 pension asset on its balance sheet to the extent that associated future economic benefits will be available to it. This benefit would be in the form of a reduction in future employer pension contributions.

The economic benefit available to an authority as a reduction in future contributions is any reduction in the minimum funding requirement arising from an early payment, and the estimated future service cost less the minimum funding requirement contributions for future service contributions, if no early payment had been made. If this is less than the net asset initially calculated, it acts as a ceiling on the asset value which can be recognised on the balance sheet.

Has management engaged with the Leicestershire Pension Fund actuary to understand the impact of IFRIC 14 on the Council's accounts?

In some cases, the actuary may determine that, as well as contributions for future service costs, there is a requirement for the authority to make good an existing pension shortfall in respect of services already received. This may be reflected in the actuary's certificate as required secondary contributions. Where this is the case, consideration needs to be given as to whether these contributions will be available to the authority after they are paid into the plan. To the extent that they will not be available, the authority needs to recognise a liability as the obligation arises. This can have the effect of reducing a net pension asset or increasing a net pension liability.

The potential impact of IFRIC 14 can be highly material to an authority's financial statements. Actuaries, generally, will not consider the impact of IFRIC 14 unless specifically requested to do so by the authority.

Further audit work may be required in this area, the extent of which will depend on the level of previous consideration of IFRIC14.

