

# The Audit Findings for Oadby & Wigston Borough Council

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Year ended 31 March 2019

23 July 2019



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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 & Wigston Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2019 for those charged with governance.

<b>Financial Statements</b>	<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"><li>• give a true and fair view of the financial position of the Council and its income and expenditure for the year; and</li><li>• 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.</li></ul> <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 was completed on site during June and July. Our findings are summarised on pages 4 to 9. We have identified 1 adjustment to the financial statements that has resulted in a £3.893m adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C. Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion in Appendix C or material changes to the financial statements, subject to the following outstanding matters;</p> <ul style="list-style-type: none"><li>- receipt of management representation letter;</li><li>- responses for our enquiries to the Pension Fund Auditor; and</li><li>- review of the final set of financial statements.</li></ul> <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.</p> <p>Our anticipated audit report opinion will be unmodified</p>
<b>Value for Money arrangements</b>	<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 &amp; Wigston Borough Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix C. Our findings are summarised on pages 13 to 15.</p>
<b>Statutory duties</b>	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"><li>• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and</li><li>• To certify the closure of the audit.</li></ul>	<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 provided by the finance team and other staff during our audit.

# Summary

## 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 Policy, Finance and Development 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 have not had to alter or change our audit plan, as communicated to you in March 2019.

## Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Policy, Finance and Development Committee meeting on 23 July 2019, as detailed in Appendix C. These outstanding items include:

- receipt of management representation letter;
- responses for our enquiries to the Pension Fund Auditor; and
- review of the final set of financial statements.

## 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.

Materiality calculations remain the same as reported in our audit plan. We detail in the table below our determination of materiality for Oadby & Wigston Borough Council.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	420,000	Based on a proportion of forecast gross expenditure (2%) for the financial year. In the prior year we used the same benchmark.
Performance materiality	290,000	Quality of financial systems and processes and the nature of the Council's income and expenditure streams. Quality of accounts and working papers in previous years and level of amendments arising from audit process.
Trivial matters	21,000	Set at 5% of materiality.
Materiality for senior officer remuneration disclosure note	25,000	Lower materiality applied to remuneration disclosures due to their sensitive nature and public interest.

# Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p><b>1</b> <b>The revenue cycle includes fraudulent transactions (rebutted)</b></p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition</p>	<p><b>Auditor commentary</b></p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>In our audit plan we rebutted this presumed risk for Oadby &amp; Wigston Borough Council because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Oadby &amp; Wigston Borough Council, mean that all forms of fraud are seen as unacceptable</li> </ul> <p>This assessment is still appropriate and therefore the risk is rebutted.</p> <p>Whilst not a significant risk, as part of our audit work we did undertake work on material revenue items. Our work did not identify any matters that would indicate our rebuttal was incorrect.</p>
<p><b>2</b> <b>Management override of controls</b></p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p><b>Auditor commentary</b></p> <p>We have:</p> <ul style="list-style-type: none"> <li>• evaluated the design effectiveness of management controls over journals</li> <li>• analysed the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>• tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>• gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence</li> <li>• evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul> <p>Our audit work has not identified any issues in respect of management override of controls.</p>

# Significant findings – audit risks

## Risks identified in our Audit Plan

## Commentary

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### Valuation of land and buildings (Rolling revaluation)

The Authority revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£78million) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value at the financial statements date, for those assets not formally revalued in the year.

We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk.

### Auditor commentary

We have:

- evaluated the processes, controls and assumptions put in place by management to ensure that the PPE 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 PPE 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

Our audit work has not identified any issues in respect of the valuation of land and buildings.

# Significant findings – audit risks

## Risks identified in our Audit Plan

## Commentary

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### Valuation of pension fund net liability

The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£22million in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.

### Auditor commentary

We have, placing assurance 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.

### Impact of the McCloud judgement

The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members. The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits. The LGPS Scheme Advisory Board (with the consent of the Ministry of Housing, Communities and Local Government) commissioned GAD to prepare an assessment of the financial impact of the McCloud judgement on an LGPS scheme-wide basis to inform the financial reporting of participating entities. The report shows the estimates of the cost of the remedy if the LGPS underpin was found to result in unlawful age discrimination.

This was confirmed on 15 July 2019 in a statement released by The Chief Secretary to the Treasury. The quote extracted and shown below is of greatest interest as it recognises remedies will need to be applied to the LGPS and hence supports the Authority's stance in the recognition of increased liabilities:

*"As 'transitional protection' was offered to members of all the main public service pension schemes, the government believes that the difference in treatment will need to be remedied across all those schemes. This includes schemes for the NHS, civil service, local government, teachers, police, armed forces, judiciary and fire and rescue workers. Continuing to resist the full implications of the judgment in Court would only add to the uncertainty experienced by members."*

<https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2019-07-15/HCWS1725/>

As a result of the ruling we have worked with the Council to consider the implications and as a result the Council have undertaken a further actuarial assessment to include the impact of the findings. As a result of the actuarial assessment there has been a significant impact on the asset liabilities disclosed by the Council and has resulted in amendment in the financial statements. Appendix A summarises the amendments made.

### Outstanding

We are awaiting assurances from the auditor of the Leicestershire Pension Fund as to 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.

# Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
<b>Land and Buildings – Council Housing - £61.59m</b>	The Council owns 1,207 dwellings and is required to revalue these properties in accordance with DCLG'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 using the "Beacon Principle". The year end valuation of Council Housing was £61.59m, a net increase of £3.68m from 2017/18 (£57.91m).	<p>We have considered in respect of the Land and Buildings – Council Housing:</p> <ul style="list-style-type: none"> <li>assessed the competence, capabilities and objectivity of Innes England who carried out your valuations</li> <li>the completeness and accuracy of the underlying information used to determine the estimate</li> <li>the impact of any changes to valuation method</li> <li>the consistency of estimate against near Gerald Eve report</li> <li>the reasonableness of the increase in estimate from the prior year</li> <li>the adequacy of disclosure of estimate in the financial statements</li> </ul>	 <b>Green</b>
<b>Land and Buildings – Other - £24.3m</b>	Other land and buildings comprises of £24.3m of assets that are considered non-specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged Innes England to complete the valuation of properties as at 31/03/2019 on a five yearly cyclical basis. The valuation of properties valued by the valuer has resulted in a net increase of £0.4m. Management have considered the year end value of non-valued properties by engaging Innes England to undertake a desktop review of these properties to identified any changes in their total value. The total year end valuation of Other land and buildings was £24.3m, a net increase of £0.4m from 2017/18 (£23.9m).	<p>We have considered in respect of the Land and Buildings – Other:</p> <ul style="list-style-type: none"> <li>assessed the competence, capabilities and objectivity of Innes England who carried out your valuations</li> <li>the completeness and accuracy of the underlying information used to determine the estimate</li> <li>the impact of any changes to valuation method</li> <li>the consistency of estimate against near Gerald Eve report</li> <li>the reasonableness of the increase in estimate from the prior year</li> <li>the adequacy of disclosure of estimate in the financial statements</li> </ul>	 <b>Green</b>

## Assessment

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

# Significant findings – key judgements and estimates

Summary of management's policy	Audit Comments	Assessment																							
<b>Net pension liability – £25.5m</b>	<p>The Council's net pension liability at 31 March 2019 is £25.538m (PY £22.048m) comprising of its share of Leicestershire Pension Fund and unfunded defined benefit pension scheme obligations. The Council uses Hymans Robertson to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £3.49m net actuarial loss during 2018/19.</p>	<p>PwC were engaged by the Audit Commission (and subsequently the NAO) as consulting actuary to undertake a central review of the actuaries used by the Local Government Pension Scheme (LGPS). They produce a report designed to provide support to auditors when assessing the competence and objectivity of, and assumptions and approach adopted by, actuaries producing IAS 19 figures in respect of the LGPS, Police and Fire schemes as at 31 March 2019.</p> <p>We use this report to inform our assessment of the valuation of the pension fund liability in the Authority's accounts. We have compared the assumptions used by the Authority's actuary against industry benchmarks. Based on the work performed we are able to conclude that management's assumptions overall are reasonable.</p>	 <b>Green</b>																						
<table border="1"> <thead> <tr> <th data-bbox="808 592 1429 655">Assumption</th> <th data-bbox="1429 592 1675 655">Actuary Value</th> <th data-bbox="1675 592 1957 655">PwC range</th> <th data-bbox="1957 592 2152 655">Assessment</th> </tr> </thead> <tbody> <tr> <td data-bbox="808 655 1429 715">Discount rate</td> <td data-bbox="1429 655 1675 715">2.4%</td> <td data-bbox="1675 655 1957 715">2.4 – 2.5%</td> <td data-bbox="1957 655 2152 715"> (G)</td> </tr> <tr> <td data-bbox="808 715 1429 774">Pension increase rate</td> <td data-bbox="1429 715 1675 774">2.4%</td> <td data-bbox="1675 715 1957 774">2.4 – 2.5%</td> <td data-bbox="1957 715 2152 774"> (G)</td> </tr> <tr> <td data-bbox="808 774 1429 863">Salary growth</td> <td data-bbox="1429 774 1675 863">3.5%</td> <td data-bbox="1675 774 1957 863">Scheme &amp; Employer specific</td> <td data-bbox="1957 774 2152 863"> (G)</td> </tr> <tr> <td data-bbox="808 863 1429 952">Life expectancy – Males currently aged 45 / 65</td> <td data-bbox="1429 863 1675 952">23.8 / 22.1 years</td> <td data-bbox="1675 863 1957 952">23.7–24.4 / 21.5-22.8 years</td> <td data-bbox="1957 863 2152 952"> (G)</td> </tr> <tr> <td data-bbox="808 952 1429 1031">Life expectancy – Females currently aged 45 / 65</td> <td data-bbox="1429 952 1675 1031">26.2 /24.3 years</td> <td data-bbox="1675 952 1957 1031">26.2-26.8 / 24.1-25.1 years</td> <td data-bbox="1957 952 2152 1031"> (G)</td> </tr> </tbody> </table>		Assumption		Actuary Value	PwC range	Assessment	Discount rate	2.4%	2.4 – 2.5%	 (G)	Pension increase rate	2.4%	2.4 – 2.5%	 (G)	Salary growth	3.5%	Scheme & Employer specific	 (G)	Life expectancy – Males currently aged 45 / 65	23.8 / 22.1 years	23.7–24.4 / 21.5-22.8 years	 (G)	Life expectancy – Females currently aged 45 / 65	26.2 /24.3 years	26.2-26.8 / 24.1-25.1 years
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The High Court has ruled that defined benefit pension schemes must remove any discriminatory effect that guaranteed minimum pension entitlements (GMP) have had on members benefits. The Government announced an “interim solution” for members in public service schemes who reach State Pension Age (SPA) between 6 April 2016 and April 2021. We have reviewed the approach of the scheme's actuary, Hymans Robertson (HR), in estimating the impact of these on the Council's pension liability. HR have not made allowance for pre 2021 retirements in their estimate. Utilising the 2018/19 PwC report and our own actuary we believe this would mean that liabilities are understated by approximately 0.1-0.3% (£90k-180k). This is within our acceptable range and we are therefore satisfied that the Council's estimation methodology is reasonable.

We have also reviewed the:

- the completeness and accuracy of the underlying information used to determine the estimate
- the impact of any changes to valuation method
- the reasonableness of the Council's share of LPS pension assets.
- the reasonableness of the increase/decrease in estimate from the prior year
- the adequacy of disclosure of estimate in the financial statements

and have no findings to bring to your attention in this regard.

# 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).

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## 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 2019/20 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.

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### Work performed

We reviewed management's assessment by:

- Ensuring the assessment concurred with our knowledge of the Council
- Reviewing the Medium Term Financial Strategy for 2019 to 2022 which was approved by Council in October 2018

### Auditor commentary

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

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### Concluding comments

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

### Auditor commentary

- 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
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# Other communication requirements

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	Commentary
① <b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Policy, Finance and Development 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.</li> </ul>
② <b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related parties or related party transactions which have not been disclosed</li> </ul>
③ <b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>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.</li> </ul>
④ <b>Written representations</b>	<ul style="list-style-type: none"> <li>A letter of representation has been requested from the Council, which is included in the Policy, Finance and Development Committee papers</li> </ul>
⑤ <b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We requested from management permission to send requests to confirm year end bank and loan balances. This permission was granted and the requests were sent, and all received to confirm year end balances.</li> </ul>
⑥ <b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements</li> </ul>
⑦ <b>Audit evidence and explanations/significant difficulties</b>	<ul style="list-style-type: none"> <li>All information and explanations requested from management was provided.</li> </ul>

# Other responsibilities under the Code

Issue	Commentary
① <b>Other information</b>	<ul style="list-style-type: none"> <li>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.</li> </ul> <p>Inconsistencies have been identified but have been adequately rectified by management. We plan to issue an unmodified opinion in this respect – refer to Appendix C</p>
② <b>Matters on which we report by exception</b>	<p>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>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> <li>If we have applied any of our statutory powers or duties</li> </ul> <p>We have nothing to report on these matters</p>
③ <b>Specified procedures for Whole of Government Accounts</b>	<p>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>This is not required at Oadby &amp; Wigston Borough Council as the Council does not exceed the threshold of £500m for 2018/19.</p>
④ <b>Certification of the closure of the audit</b>	<p>We intend to certify the closure of the 2018/19 audit of Oadby &amp; Wigston Borough Council in the audit opinion, as detailed in Appendix C.</p>

# Value for Money

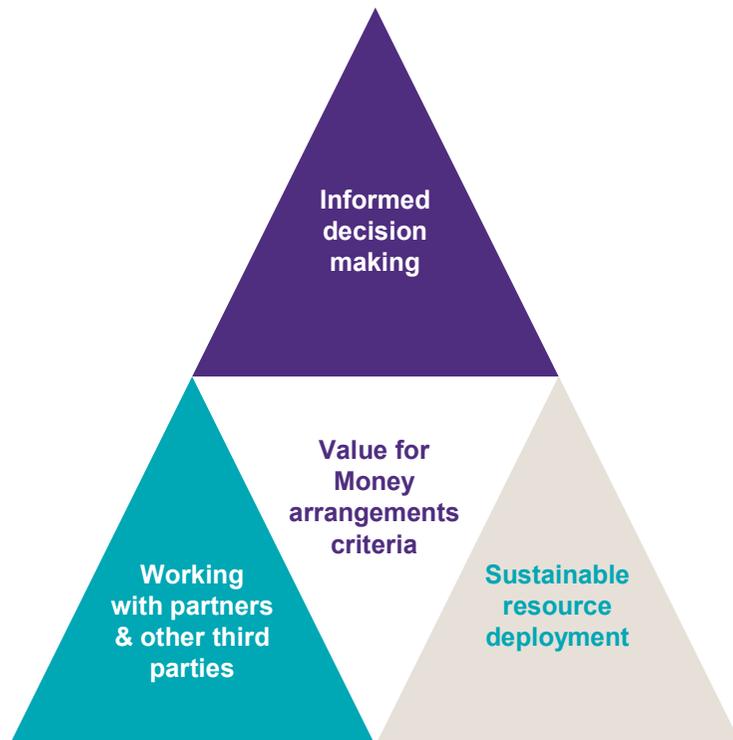
## Background to our VFM approach

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 November 2017. 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 2019 and identified a significant risk 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 March 2019.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

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.

## 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:

- Looking at the financial performance of the Council and its ability to deliver its budget and saving plans

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 page 15.

## 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.

## 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.**

The text of our report, which confirms this can be found at Appendix C.

## 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	Findings	Conclusion
1	<p><b>Financial Sustainability</b></p> <p>Your current Performance Reports show the Council is on track to meet the majority of its stated strategic objectives for 2018/19. There are 101 Key Performance Indicators for your Corporate Plan Objectives. Out of the 101 indicators, 100 were due for reporting as at the end of Quarter Three. Of the 100, 79% were Green, 13% were Amber and 8% were red. There are no indicators that the overall governance of the authority is a risk at this time.</p> <p>However, Local Government funding continues to be stretched with increasing cost pressures and demand from residents. To breakeven, the 2018/19 budget contained £232,500 of contingency items to be made in year and £202,000 of funding from the use of reserves. The forecast out-turn position for the year at Q3 is for £360,000 to be made in savings and efficiencies from the original budget which will reduce the need to use reserves.</p> <p>The Council has, historically, utilised reserves to balance the budget, with a significant depletion of reserves between 2014/15 and 2017/18. The 2019/20 budget does not seek to utilise them. It is the opinion of the Section 151 Officer that General Fund Reserves should not drop below 10% of net expenditure i.e. remain at c£600k. The authority has assumed a "stand still" funding position and on this basis has estimated it would have a budget shortfall of circa £250k/£300k in 2020/21, and a further £300k in 2021/22.</p> <p>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.</p>	<p>We have undertaken the following procedures to address this VfM risk:</p> <ul style="list-style-type: none"> <li>reviewed the Council's arrangements for identifying and agreeing savings plans to ensure that the Council is resilient to the increasing financial challenges of coming years.</li> <li>reviewed the outturn for 2018/19 and the updated MTFs and gain a better understanding of the financial settlement impact, how the council plans to respond to it and also how the Council plans to remain financially sustainable in the medium to long term.</li> </ul> <p><b>Our Findings:</b></p> <ul style="list-style-type: none"> <li>The authority reported an underspend of £0.486m on its net expenditure revised general fund budget for 2018/19. General Fund reserve stands at £0.6m as at 31 March 2019. This is still above the minimum General Fund reserve balance set by the authority of 5% of net expenditure.</li> <li>The authority reported an underspend of £0.783m on its Housing Revenue Account (HRA) against the 2018/19 revised budget, which was mainly due to lower than forecast revenue contributions to capital funding due to a smaller capital budget than budgeted. As a result the closing balance on the HRA is £0.783m higher than the revised budget.</li> <li>The authority has set a General Fund balanced budget of £6.1m for 2019/20. The Council will have General Fund reserves of £0.615m as at 31/03/2020 (forecast), which is above the minimum General Fund reserve balance set by the authority of 5% of net expenditure. The Authority has also set a balanced HRA budget.</li> <li>The authority has refreshed its Medium Term Financial Strategy 2019/20 to 2021/22 and revisited its assumptions in February 2019. Based on these assumptions the authority has a balanced budget for 2019/20, which builds upon various savings schemes introduced during 2018/19. The authority has assumed a "stand still" funding position and on this basis has estimated it would have a budget shortfall of circa £250k/£300k in 2020/21, and a further £300k in 2021/22.</li> <li>The Authority works with a number of third party partners to deliver services including utilising payroll services and IT services from Leicestershire County Council and Hinckley and Bosworth Borough Council.</li> </ul>	<p><b>Auditor view</b></p> <p>Like most of local government, the authority 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 future of financing of local government, particularly business rate reform, fair funding review and the strategy for funding social care.</p> <p>The authority needs make tough decisions ahead to deliver balanced budgets over the coming years, but also maintain strict budgetary control to minimise overspends and continue to monitor delivery of savings targets tightly.</p> <p><b>Conclusion</b></p> <p>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.</p>

# 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

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we 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 December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

## 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
<b>Audit related</b>			
Housing Benefit (Subsidy) Assurance Process	8,750	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 £8,750 in comparison to the total fee for the audit of £32,944 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.
Certification of Housing capital receipts grant	3,000	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 £3,000 in comparison to the total fee for the audit of £32,944 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.
<b>Non-audit related</b>			
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 Policy, Finance and Development Committee. None of the services provided are subject to contingent fees.

# Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

## Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
1 Adjustment of the IAS 19 accounting entries to take into account the McCloud judgement.	£3,893	£1,035	£3,893
<b>Overall impact</b>	<b>£3,893</b>	<b>£1,035</b>	<b>£3,893</b>

## Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Note 10 Property, Plant and Equipment	The Capital Commitment section of the note does not include the commitment in respect of Horsewell Lane Pavillion	That the capital commitment note is updated to include expenditure on the Horsewell Lane Pavillion	✓
Note 48 Contingent Assets	The Contingent Asset in relation to 41-43 Canal Street does not meet the definition of a Contingent Asset under IAS37	That the contingent asset disclosure in respect of 41-43 Canal Street is removed from the statement of accounts.	✓
Note 9 Taxation and Non Specific Grant Income and Expenditure	General government grants income £500k had been incorrect been included in Non Domestic Rates Income within the note.	That the £500k is reclassified within note 9 to be included in the General Government Grants line	✓

# Fees

We confirm below our final fees charged for the audit . There were no fees for the provision of non audit services.

<b>Audit Fees</b>	<b>Proposed fee</b>	<b>Final fee</b>	<b>2017/18 Fee</b>
<b>Council Audit – as reported in our fee letter</b>	£32,944	£32,944	£42,784
<b>Total audit fees (excluding VAT)</b>	<b>£32,944</b>	<b>£32,944</b>	<b>£42,784</b>
<b>Fee Variations:</b>			
Assessing the impact of the McCloud ruling - The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we considered the impact on the financial statements along with any audit reporting requirements.	<b>£1,500</b>		
Pensions – IAS 19 - The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year.	<b>£1,000</b>		
PPE Valuation – work of experts - The Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE Valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	<b>£1,000</b>		
<b>Revised total audit fee (excluding VAT)</b>	<b>£36,444</b>	<b>£TBC</b>	<b>£42,784</b>

All of the fee variations above have been driven by additional work required as the result of either sector challenges or in response to FRC feedback not as the result of weaknesses in the Council's arrangements in the preparation of its financial statements. The revised fee for the year is subject to approval by Public Sector Appointments Ltd (PSAA) but it should be noted that £36,444 would still be a 15% fee reduction on the prior year.

<b>Non Audit Fees</b>	<b>Grant Certification</b>	<b>Fees £</b>
	Certification of Housing benefit grant claim.	8,750
	<b>Fees for other services</b>	
	<b>Audit related services:</b>	
	Certification of Housing capital receipts grant	3,000

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

# Audit opinion

We anticipate we will provide the Council with an unmodified audit report

## Independent auditor's report to the members of Oadby & Wigston Borough Council

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Oadby & Wigston Borough Council (the 'Authority') for the year ended 31 March 2019 which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the EFA, Notes to the Core Statements, Policies and Judgements, Notes to the Housing Revenue Account Statement and Notes to the Collection Fund Statement. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance and Transformation's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance and Transformation has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Other information

[The Director of Finance and Transformation](#) is responsible for the other information. The other information comprises the information included in the Financial Report, the Narrative Report, the Annual Governance Statement, other than the financial statements and, our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

# Audit opinion

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

## Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Financial Report, the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

## Responsibilities of the Authority, the Director of Finance and Transformation and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on pages 19 to 20, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance and Transformation. The Director of Finance and Transformation is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance and Transformation determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

# Audit opinion

In preparing the financial statements, the Director of Finance and Transformation is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Policy, Finance and Development Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

### Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

## Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

## Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

## Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of the Oadby & Wigston Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

# Audit opinion

## Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Grant Patterson, Key Audit Partner  
for and on behalf of Grant Thornton UK LLP, Local Auditor  
  
Birmingham

**Xx July 2019**



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