South Oxfordshire District Council and Vale of White Horse District Council

Annual Audit Letter for the year ended 31 March 2019

October 2020

Agenda Item 6

EY

Building a better working world

Contents

PSAA

Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk).

This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated April 2018)' issued by PSAA set out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities and Terms of Appointment. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywell Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

01 Executive Summary

Executive Summary

We are required to issue an annual audit letter to South Oxfordshire and Vale of White Horse District Councils (the Council) following completion of our audit procedures for the year ended 31 March 2019.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's: ► Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Councils as at 31 March 2019 and of its expenditure and income for the year then ended.
► Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources

Area of Work	Conclusion
Reports by exception:	
► Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
► Public interest report	We had no matters to report in the public interest.
► Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
► Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We had no matters to report.

Executive Summary (cont'd)

As a result of the above we have also:

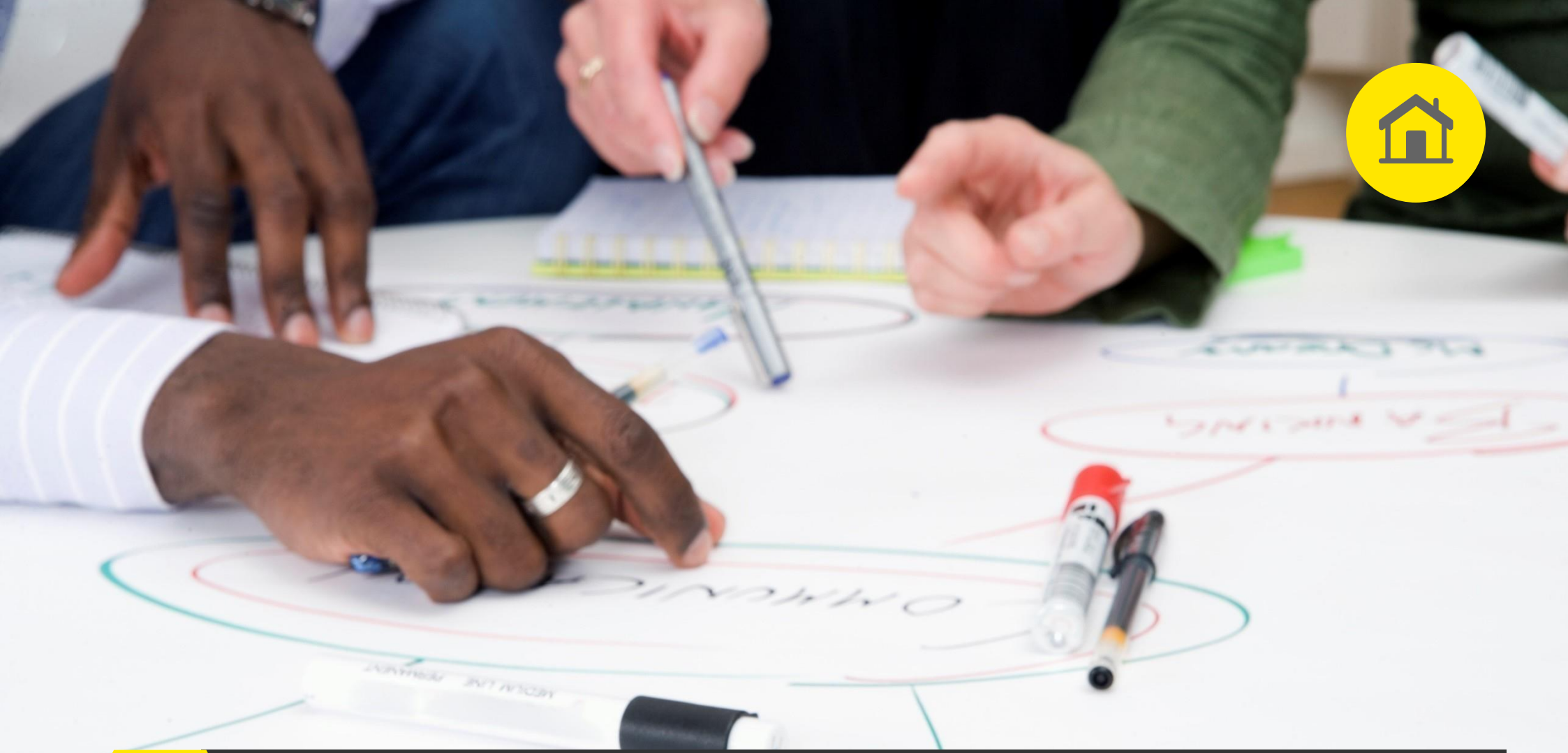
Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was originally issued to the Joint Audit and Governance Committee on 14 October 2019, with a further supplementary report taken to the 27 January 2020 committee. We discussed progress towards completing the audit in the Joint Audit Committees in July and September 2020.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 23 October 2020

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Kevin Suter

Associate Partner

For and on behalf of Ernst & Young LLP



02 Purpose and Responsibilities

Purpose and Responsibilities

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2019/20 Audit Results Report to the 14 October 2019 and 27 January 2020 Joint Audit and Governance Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities of the Appointed Auditor

Our 2018/19 audit work has been undertaken in accordance with the Audit Plan that we issued on 25 March 2019 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- Expressing an opinion:
  - On the 2018/19 financial statements; and
  - On the consistency of other information published with the financial statements.
- Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- Reporting by exception:
  - If the annual governance statement is misleading or not consistent with our understanding of the Council;
  - Any significant matters that are in the public interest;
  - Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Councils are below the specified audit threshold of £500mn. Therefore, we did not perform any audit procedures on the return.

Responsibilities of the Councils

The Councils are responsible for preparing and publishing their statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the Councils report publicly each year on how far they comply with their own code of governance, including how they have monitored and evaluated the effectiveness of their governance arrangements in year, and any changes planned in the coming period.

The Councils are also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources.

03 Financial Statement Audit

Financial Statement Audit

Key Issues

The Councils' Statement of Accounts are an important tool for the Councils to show how they have used public money and how they can demonstrate their financial management and financial health. We audited the Councils' Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office and issued an unqualified audit report on 23 October 2020.

We reported our findings to the 14 October 2019 and 27 January 2020 Joint Audit and Governance Committee, representing those charged with governance.

Overview of the 2018/19 audit

We rescheduled our 2018/19 audit outside of the usual period between 1 June 2019 and 31 July 2019. This was due to a number of pressures on our resources meaning we could not undertaken an audit to the appropriate quality levels during that period. We scheduled the substantive visit for September 2019, aiming for the 14 October 2019 Joint Audit & Governance Committee.

Management were unable to meet the initial timetable to publish the draft accounts by 31 May 2019, due to their late production by the contractor, and concerns with specific elements to be addressed before they were willing to publish them on the Councils websites.

We provided an overview of the issues identified from our review of the draft accounts for management to address before our audit started on 1 September. The majority of these issues were not appropriately addressed in that intervening period.

We experienced significant issues during the audit process, particularly with continual changes to the trial balance and lack of version control with the iterations of the financial statements, meaning we were often presented with updated versions of the accounts with changes that were unexpected, or lacking changes that had been agreed. This occurred on multiple occasions.

We also experienced problems with the adequacy of the audit trail in a number of areas. For example simple listings of debtors and creditors as at the balance sheet date to support the accounts could not be provided, which we had raised to management as an area for improvement in previous years.

The accounts also contained a number of prior year adjustments. A number of these were unexplained and could not be substantiated, and others required additional audit work and amendments to properly follow the required disclosure requirements to set out why the changes to previously audited figures were necessary.

Our work was drawing to a conclusion in March 2020 when the UK was impacted by Covid-19. As the final versions of the accounts with all corrections had not been authorised for issue and approved, we were then required to undertake additional work over post balance sheet events and for the going concern assessment of the Councils due to the significant impact that the pandemic created to the UK economy. Quite understandably the focus of officers was not on completing the 2018/19 audit until autumn 2020, when the updated information was provided.

We note that in the subsequent financial year the Councils have withdrawn from elements of the Capita contract due to reasons including their concerns regarding performance producing the 2018/19 accounts. These services have been brought back in-house. This transition will form part of our 2019/20 audit.

Financial Statement Audit

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion

Misstatements due to fraud or error
The financial statements as a whole are not free of material misstatements whether caused by fraud or error.
 	
As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
 	
We identify and respond to this fraud risk on every audit engagement.
 	
We specifically focused on those judgements applied by management, for example:
• Compilation of accounting estimates for any indication of management bias;
• The basis of unusual transactions; and
• The rationale for any unusual journals matching identified criteria.
	We undertook our procedures to address fraud risks, which included:
	• Inquiring of management about risks of fraud and the controls put in place to address those risks.
	• Understanding the oversight given by those charged with governance of management's processes over fraud.
	• Considering the effectiveness of management's controls designed to address the risk of fraud.
	• Performing mandatory procedures regardless of specifically identified fraud risks, including:
	  • testing of journal entries and other adjustments in the preparation of the financial statements.
	  • Evaluating accounting estimates for any evidence of management bias
	  • Evaluating the business rationale for significant unusual transactions.
	
	We did not identify any evidence of material management override. However, as noted on page 9, our audit identified material errors caused by inadequate controls over financial statement versions.
	
	We have not identified any instances of inappropriate judgements being applied.
	
	We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business

Financial Statement Audit

Significant Risk	Conclusion
Risk of incorrect capitalisation of revenue expenditure. Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund. In arriving at this conclusion we have considered the high value of the Councils' 2018/19 capital programme relative to its planned revenue spending. This could then result in funding of that expenditure, that should properly be defined as revenue, through inappropriate sources such as capital receipts, capital grants, or borrowing. We have assessed that the risk of misreporting revenue outturn in the financial statements is most likely to be achieved through the following judgements: • Revenue expenditure being inappropriately recognised as capital expenditure at the point it is posted to the general ledger. • Expenditure being inappropriately transferred by journal from revenue to capital codes on the general ledger at the end of the year. If this were to happen it would have the impact of understating revenue expenditure and overstating PPE additions and REFCUS in the financial statements.	We: • Tested PPE additions to ensure that the expenditure incurred and capitalised was clearly capital in nature. • Tested expenditure classified as REFCUS to ensure it met the classification requirements. • Sought to identify and understand the basis for any significant journals transferring expenditure from revenue to capital codes on the general ledger. • We utilised our data analytics capabilities to assist with our work, including journal entry testing. Our testing did not identify any material misstatements from revenue and expenditure recognition. Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Authorities' financial positions.

Financial Statement Audit (cont'd)

Other Key Findings	Conclusion
Pension Liability Valuation The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by the Council. The Councils' pension fund deficits are a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	We: • Liaised with the auditors of Oxfordshire Pension Fund to obtain assurances over the information supplied to the actuary in relation to the Councils; • Assessed the work of the pension fund actuary (Barnett Waddingham) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and • Reviewed and tested the accounting entries and disclosures made within the Councils' financial statements in relation to IAS19; After the balance sheet date, the Government were denied leave to appeal to the Supreme Court against a judgement that changes made in public sector pension schemes in 2015 were age discriminatory. Generally known as the McCloud judgement, in our view this created an obligation requiring consideration and disclosure within the accounts. The councils both adjusted for the effect of the McCloud judgement, and we were content that these adjustments were correct and reflected the information provided by the actuary. We also identified that the actuary has not included within the liability the impact for Guaranteed Minimum Pensions (GMP); this was previously split between the Government and the LGPS, but the position was reviewed in 2016 as part of the Government's changes to the State Pension Arrangements and the ending of contracting out. An interim system whereby LGPS picked up the cost of all increases in GMP was introduced between 2016 and 2018 and this has now been extended to 2021 whilst the Government determines the permanent solution. Given previous uncertainty and a lack of clear guidance from the accounting and audit bodies, these potential costs have not been included IAS19 calculations. Therefore the estimated impact has been raised as an unadjusted misstatement (see Section 4). We found no issues with any of the accounting balances as reported by the actuary, but did note that the councils have made non-material changes to the IAS balances provided by the actuary (and as audited). The Councils have stated that these adjustments are to correct timing differences to balances within the actuarial valuations, however, we would not generally expect to see changes to the actuarial valuations.

Financial Statement Audit (cont'd)

Other Key Findings	Conclusion
Valuation of Land and Buildings The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.	We: • Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; • Sample tested key asset information used by the valuers in performing its valuation (e.g. floor plans to support valuations based on price per square metre) and challenged the key assumptions used; • Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for Investment Property; • Reviewed assets not subject to valuation in 2018/19 to confirm that the remaining asset base was not materially misstated; and • Ensured accounting entries had been correctly processed in the financial statements. The PPE balances in the initial financial statements were incomplete because there was a small number of assets not valued at year end. The omission of six assets was discovered when the draft financial statements were subjected to the Council's internal quality control processes. Given the low value of the assets (31k) the Council (South Oxon) did not prioritise valuing them and they will be revalued in 2019/20. As well as being incomplete, the required disclosures presenting the valuation cycle of assets was incorrect. It presented the valuations across six years, not the maximum five. It was also incorrectly presented based on movements between years rather than the value of assets per year when last valued, including showing negative asset balances in one year.

Financial Statement Audit (cont'd)

Other Key Findings	Conclusion
IFRS 15 Revenue from contracts with customers This new accounting standard is applicable for local authority accounts from the 2018/19 financial year. The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations. The 2018/19 CIPFA Code of practice on local authority accounting provides guidance on the application of IFRS 15 and includes a useful flow diagram and commentary on the main sources of LG revenue and how they should be recognised. The impact on local authority accounting is likely to be limited as large revenue streams like council tax, non domestic rates and government grants will be outside the scope of IFRS 15. However where that standard is relevant, the recognition of revenue may change and new disclosure requirements introduced. The Councils are yet to undertake and document their assessment of the impact of IFRS15.	We: • Assessed the Councils' implementation arrangements and impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19. • Considered application to the authority's revenue streams, and where the standard is relevant tested to ensure revenue is recognised when (or as) it satisfies a performance obligation; and • Checked additional disclosure requirements. Once we had reviewed the impact assessment we agreed with the Councils in that the impact of this standard can be considered immaterial.

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Financial Statement Audit (cont'd)

Other Key Findings	Conclusion
IFRS 9 Financial instruments This new accounting standard is applicable for local authority accounts from the 2018/19 financial year and will change: • How financial assets are classified and measured; • How the impairment of financial assets are calculated; and • The disclosure requirements for financial instruments. There are transitional arrangements within the standard; and the 2018/19 CIPFA Code of Practice on Local Authority Accounting provides guidance on the application of IFRS 9. Central government has indicated, following consultation, that statutory overrides for certain classes of financial assets will be put in place, however until these are confirmed there remains some uncertainty on the full accounting treatment.	We: • assessed the Councils' implementation arrangements, which included an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19; • considered the classification and valuation of financial instruments and their adherence to the Code of Practice; and • reviewed the implementation of the new expected credit loss model impairment calculations for assets Both Councils accounts demonstrated a lack of knowledge of the requirements of the new accounting standard. Preparations, which could have been undertaken significantly earlier in the year, were not adequate to meet the 31 May deadline with material accuracy even though the Councils lack any complex financial instruments In the original accounts the disclosures for Financial Instruments had not been updated from the prior year to reflect the new requirements and classifications under IFRS9. Neither did they contain a transition disclosure between the two accounting standards. We requested an update of the disclosures before the audit commenced. In the revised statements, we concluded that South Oxfordshire District Council's investment vehicles of £19.154 million did not meet the definition of an equity investment to enable classification as Fair Value through Other Comprehensive Income' (FVOCI). This is the same at Vale of White Horse, where similar investments totalled £2.7 million. In both cases the instruments were classified at Fair Value through Other Comprehensive Income (FVOCI), however, this classification was not in line with the new standard because the instruments were found to be 'puttable' (and not equity). IFRS 9 requires that puttable instruments are valued through Fair Value through Profit and Loss' (FVPL). This error is predominantly a reclassification within the Financial Instruments note but there is a small impact on the Comprehensive Income and Expenditure Statement (CIES) which is reversed out through reserve movements. A number of issues were also identified in the revised accounts with lack of update to the necessary terminology of IFRS9. Errors were also identified with respect to the prior year comparators which required additional audit work.

Financial Statement Audit (cont'd)

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We planned our procedures using a materiality of £1.69 million and £1.62 million for South Oxfordshire District Council and Vale of White Horse District Council respectively. We reassessed this using the year-end figures submitted for audit and these amounts changed slightly to £1.91 million and £1.82 million respectively. The threshold for reporting unadjusted audit differences has also changed from £84,458 to £95,578 (South Oxfordshire) and £81,178 to £90,967 (Vale of White Horse). The basis of our assessment of materiality has remained consistent with prior years at 2% of gross revenue expenditure, which is the industry 'norm' for a district council with a similar risk profile to South Oxfordshire and Vale of White Horse District Councils.
Reporting threshold	We agreed with the Joint Audit and Governance Committee that we would report to the Committee all audit differences in excess of £0.313m.

We also identified areas where misstatement at a lower level than materiality might influence the reader and developed a specific audit strategy for them. They are:

- Remuneration disclosures including any severance payments, exit packages and termination benefits;
- Related party transactions; and
- Members' allowances.

These areas were audited using a nil materiality value and we report all errors and findings to you.

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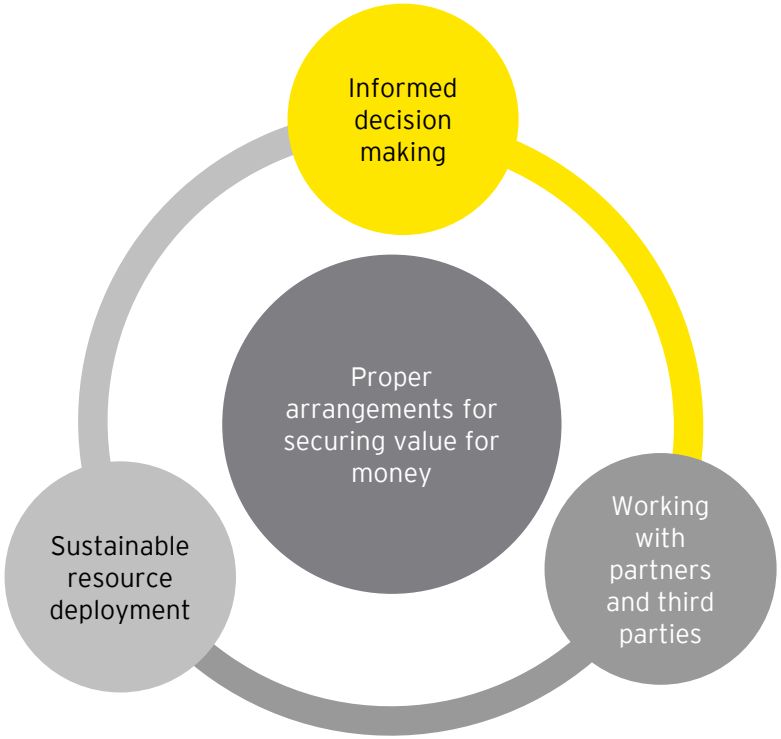
04 Value for Money

Value for Money

We are required to consider whether the Councils have put in place 'proper arrangements' to secure economy, efficiency and effectiveness in their use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.



We identified three significant risks around these arrangements (one specific to South Oxon only). The tables below present our findings in response to these risks, where reported to the Joint Audit and Governance Committee on 25 March 2019.

We have performed the appropriate procedures and we did not identify any significant weaknesses in the Council's arrangements.

We therefore issued an unqualified value for money conclusion

Value for Money (cont'd)

Significant Risk	Conclusion
In October 2017, the Councils entered into two contracts for the provision of corporate services, in partnership with Mendip District Council, Hart District Council and Havant Borough Council (known as the "Five Councils"). The services split into two lots; data-based services (Lot 1) and property based services (Lot 2). These contracts were designed to generate savings of over £50 million for the Five Councils across their lifetime of nine years but the Councils have had to renegotiate Lot 1 and pull out of Lot 2 due to the issues with the way the contracts were constructed and the implications for the practical implementation of them. In October 2018, the Five Councils drafted the new Inter-Authority Agreement (IAA) which outlines the revised governance and cost sharing arrangements between them. In addition to the above, there have been a number of issues noted during implementation of the services across the Five Councils. This has led to remedial action being taken across the five councils,	South Oxfordshire and Vale of White Horse District Councils, along with their partners, have subscribed to the revised IAA, which was signed in January 2019. The revised IAA aims to support wider collaboration between the Councils according to the agreed Mutual Aims, including delivering improved value for money. The Vinci element of the original contract is terminated, and the IAA facilitates changes to the contract governance and cost sharing mechanisms. The financial mechanism now better promotes each Council paying for its own services, increasing transparency, and removing cross subsidy. The IAA also clarifies how changes can be made to the contract, clarifying the mechanisms and responsibilities for incurred costs if and where changes are sought by any of the members. There are provisions for exclusions for conflicts of interest in decision making, and a dispute resolution mechanism. All five Councils are fully represented in the revised document, allowing for a balanced approach to decision making. A revised governance mechanism has been created to manage the arrangements arising out of the IAA. Governance bodies are now formed of a Joint Committee, a Strategic Board, an Operational Management Board, and a Service Improvement Group. Each has a defined role and membership, and the relations between each including decision making delegations, is established. Looking at the operational arrangements, Key Performance Indicators (KPIs) are established for each service. Work also took place to review the KPIs within the contract parameters, for introduction in April 2019. However, the effectiveness of these KPIs for the period reviewed are undermined by the fact that a small number of the services are tracking below the Target Operating Model ("TOM"). As acknowledged by the Councils, and previously reported, this means it is significantly doubtful whether the contract has delivered the aspirational savings. The effectiveness of financial penalties is unclear. Each of the five Councils involved now has different levels of service expectation when compared to the original terms. This process will take time to implement, but in this regard we have found that the arrangements in place are satisfactory and offer a solid basis upon which to implement the revised agreement and its delivery. In our judgement, the joint procurement of services is not always financially beneficial for the Councils due to the associated costs and complexities of liaising with five Councils over one contract; in fact, our work has found that it is becoming increasingly likely that the contract will struggle to break-even over its lifetime, and could even incur some degree of cost. However, that the Councils are willing to review and refresh arrangements, such as the IAA, demonstrates that the current leadership has ongoing actions are being taken in an attempt to redress this. Therefore, on balance we have concluded that the Councils are taking the appropriate actions to improve the contract, and therefore have arrangements in place to do so during 2018/19, starting from the baseline at the beginning of the year. Looking forward, we raise two points for which we would expect to see ongoing focus: firstly, any changes to the contract should be made in line with the terms of the contract and the councils' internal decision making processes, and are based on reliable performance or financial information; and, secondly, with strengthened arrangements in place under the revised IAA, it will be imperative that the Councils continue to monitor and manage performance.

Value for Money (cont'd)

Significant Risk	Conclusion
The chairman of the Joint Audit & Governance Committee commissioned a review of decisions of the Councils between 2010 and 2016 after the identification of a number of control weaknesses. There is a risk that current decisions are not based on a sound basis of properly recorded information, taken under the proper governance processes under the Councils' constitutions.	The Councils have implemented robust arrangements which have enabled delivery of an effective and fact-based programme governance review. The arrangements put in place indicate the Councils gave sufficient consideration to factors such as: • the structure of the programme governance review team, • independence, skills and qualifications of team Members, • project management and reporting requirements, and • selecting a relevant framework and methodology which was applied in accordance to the Councils' Constitution. Overall the Councils have begun to make progress in addressing the actions identified in the report issued to the JAGC 25th March 2019 meeting, which has been further evidenced in supporting documentation received in June 2019. The majority of the actions require substantial change, both procedural and behavioural, therefore it is likely that actions will not be fully and effectively implemented until several weeks and possibly even months have passed. As a result, a number of actions remain outstanding, though the Councils expect that progress will continue to be made in relation to these actions. Given this, we are unable to conclude on the extent to which the Councils have learnt from the review findings but the documentation received and the JAGC meeting agenda/minutes indicate the Councils are keen to ensure they do not suffer from the same internal deficiencies again. The following points may help to strengthen further the overall learning from the review: • The Councils may wish to extend the individual programme reviews beyond the eight already investigated to ensure that a sufficient and representative sample of the 162 projects is carried out in order to identify the full range of improvement areas. • The Councils should also ensure their Delivering Good Governance: the Local Code of Governance' assessment framework is up-to-date, and henceforth the Constitution is updated, with relevant CIPFA publications and guidance. Our work supports the key finding that good Governance requires all Member decision making to be undertaken formally, and to be supported by a full officer report which contains clear recommendation(s), including robust financial assessment.

Value for Money (cont'd)

Significant Risk [South Oxfordshire only]	Conclusion
The South Oxfordshire DC Medium Term Financial Plan to 2023/24, and the accompanying s151 officer report, demonstrate that the Council will require significant contributions from its resources to balance the revenue budget. From 2021/22, they are currently estimated as being in the region of £5m per annum. Our approach focused on: • Reviewing the key assumptions underpinning the Medium Term financial Plan; and • Reviewing and assessing the adequacy of the actions the Council is taking to maintain it's financial resilience in the medium term, and manage the risks of deteriorating balances.	Our work (and that of the CIPFA Financial Assessment) indicates that the Council's finances show considerable signs of stress over the medium term, and that relying upon the current strategy of using single items (such as NHB) and contributions from reserves is not sustainable. As such, the Council should (as advised by CIPFA) begin to look at maximising its income from Council Tax, Business Rates, etc. However, this strategy alone will not be enough to mitigate the longer term budget needs and the Council should look to maximise other sources of income i.e. through the adoption and implementation of a commercialisation strategy, and an asset management plan. Alongside these, the Council needs to ensure that services use up-to-date market data to plan their budgets, and then apply a level of monitoring and challenge that demands that these budgets are delivered as planned. However, in terms of reporting, our VFM conclusion is given as at the 31st March 2019 and in terms of financial resilience, the Council has enough resources (from whatever source) to meet its budgets over the medium term. As such, an unqualified VFM conclusion is indicated. While we conclude there is resilience at this point in time, we make the point this will not be an ongoing conclusion should reserves diminish and no action is take to address the financial stress.

05 Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

We are required to perform the procedures specified by the National Audit Office on the accuracy of the consolidation pack prepared by the Councils for Whole of Government Accounts purposes.

The Councils are below the specified audit threshold of £500mn. Therefore, we were not required to perform any audit procedures on the consolidation pack.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Councils' annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Councils or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Councils to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2018/19 financial statements from members of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Other Reporting Issues (cont'd)

Independence

We communicated our assessment of independence in our Audit Results Report to the Joint Audit and Governance Committeeon 13 March 2020. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

We have adopted a fully substantive approach, so have not tested the operation of controls. However, as noted on page 6 of this report, the implementation of the new accounting standard IFRS 9 was not compliant with the reporting requirements and led to material adjustments at both councils. This indicates that controls over financial reporting could be strengthened to ensure that the full effect of new standards are fully considered and correctly accounted for.

Controls over Property, Plant and Equipment valuations also need improving, as 6 assets were identified as omitted from the valuation cycle.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council's financial reporting process.

Poor quality financial statements:

- The financial statements were published on the Council's website after your deadline of 31 May 2019. They were provided late to senior management meaning they had insufficient time to undertake a proper review by 31 May 2019.
- The published accounts still contained a number of basic errors and were significantly below the standard we expected.
- We provided an overview of the accounts highlighting issues to be addressed and amended before our audit commenced in September 2019. Few of these matters had been properly addressed by that time.

Prior year adjustments

The Council's accounts contained a number of prior year adjustments that could not be explained why they had been made.

Other adjustments were confirmed as necessary, but the disclosure requirements of IAS8 were not properly met to set out the original balance, amended balance, and the reasons why the change were required,

We also found a number of amendments to 2017/18 balances that did not meet the definition a prior year adjustments under International Accounting Standard (IAS) 8. However, we are satisfied that the adjustments followed the Councils' internal control processes. As external auditors, we need to have complete assurance that the data in the TB is complete and that, once samples have been selected, this data is not subject to un-audited amendment either through the general ledger or unreviewed corrections to disclosure notes.

Other Reporting Issues (cont'd)

Other matters (continued)

Post submission changes to the trial balances (TB) and financial statement version control

Changes to the trial balances continued to be made after the submission of the accounts for audit on 10th June 2019. This led to problems throughout the audit process with agreeing the financial statement iterations (and amended TBs) back to the original data provided for audit.. As external auditors, we need to have complete assurance that the data in the TB is complete and that, once samples have been selected, this data is not subject to un-audited amendment either through the general ledger or unreviewed corrections to disclosure notes.

Once the accounts are submitted, the only changes to the TB should be as a result of agreed and audited adjustments.

There were also significant problem with version control. Different versions of the financial statements were still being used into February 2020. We experienced multiple instances of a new set of accounts being provided that either:

- Included new unagreed changes; or
- Omitted changes previously agreed and confirmed in a previous version of the accounts.

This was particularly problematic with the Comprehensive Income and Expenditure Statement (CIES) which was materially incorrect due to errors in the income and expenditure service heading apportionments

Quality of the audit trail and working papers

In previous years we have raised the issues of needing to improve the quality of working papers supporting the accounts. This is particularly with reference to providing transaction listings that properly support the entries within the accounts.

Despite recommending improvements in the prior year, we again experienced similar significant difficulties. This is particularly with reference to debtor and creditor transaction listings. The Council's were unable to provide a simple list of the outstanding balances at 31 March in order to test these areas. They could only provide a complex trail including opening balances and movements.

06 Data Analytics

Use of Data Analytics in the Audit

Data analytics – Revenue recognition and fraud and error identification

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2018/19, our use of these analysers in the Councils' audit included testing journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit. We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis

We obtained downloads of all financial ledger transactions posted in the year. We performed completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we had captured all data. Our analysers then reviewed and sorted transactions, allowing us to more effectively identify and test journals that we considered to be higher risk, as identified in our audit planning report.

Payroll Analysis

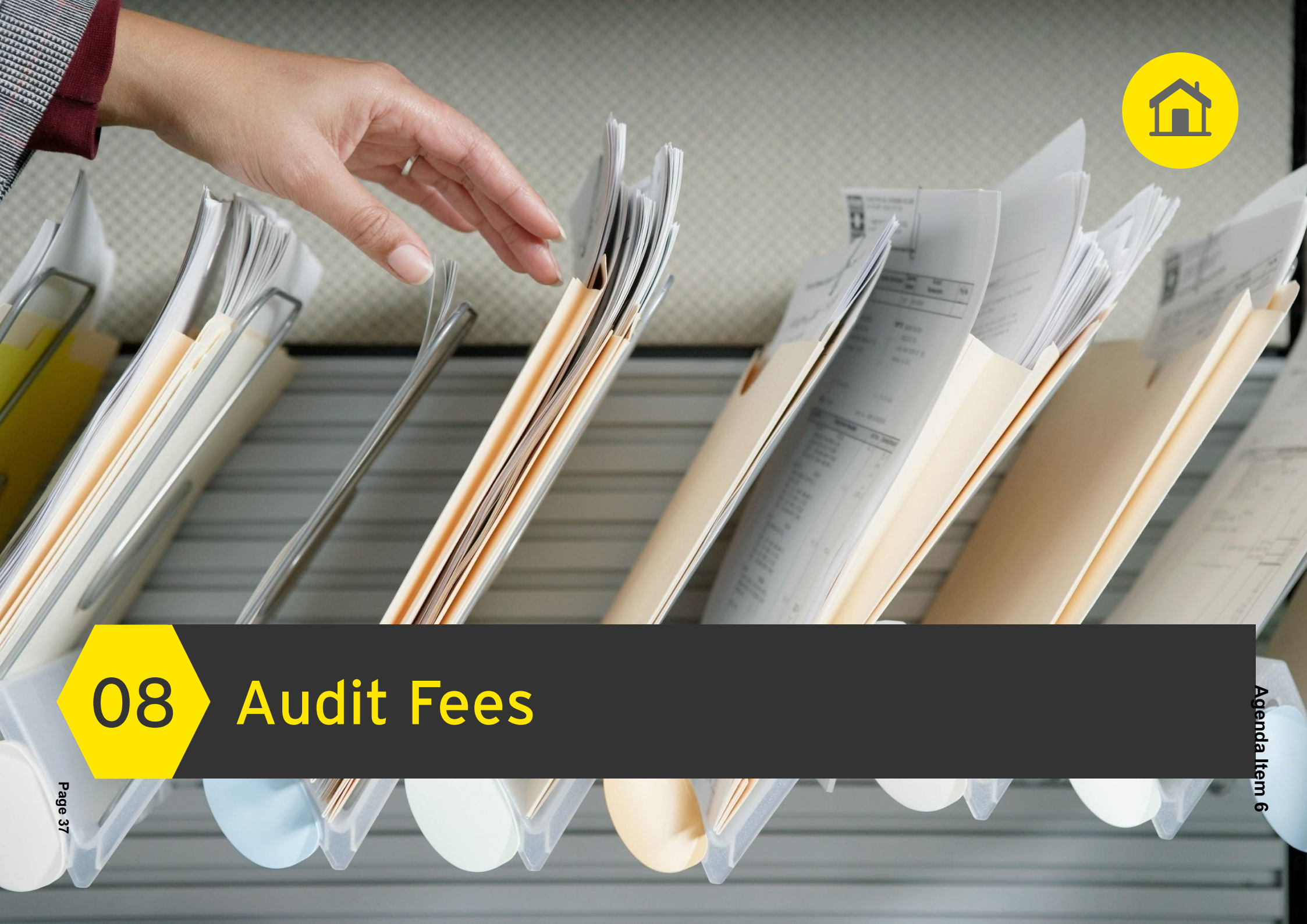
We also used our analysers in payroll testing. We obtained all payroll transactions posted in the year from the payroll system and performed completeness analysis over the data, including reconciling the total amount to the General Ledger trial balance. We then analysed the data against a number of specifically designed procedures. These included analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.

07 Focused on your future

Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
IFRS 16 Leases	It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2021/22 financial year. Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet. There are transitional arrangements within the standard and although the 2021/22 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.	In light of the Covid-19 pandemic, and as at the date of this report, it has been agreed by CIPFA/LASAAC to defer the implementation of IFRS 16 Leases for one year (so an effective date of 1 April 2021) in-line with the FRAB's proposals for Central Government. As such, there will now be no impact for 2020/21. However, what is clear is that the Councils will still need to undertake a detailed exercise to identify all of their leases and capture the relevant information for them at some point prior to 1 April 2021 (that is, during 2020/21). The Councils must therefore ensure that all lease arrangements are fully documented.
IASB Conceptual Framework	The revised IASB Conceptual Framework for Financial Reporting (Conceptual Framework) will be applicable for local authority accounts from the 2019/20 financial year. This introduces; – new definitions of assets, liabilities, income and expenses – updates for the inclusion of the recognition process and criteria and new provisions on derecognition – enhanced guidance on accounting measurement bases - enhanced objectives for financial reporting and the qualitative aspects of financial information. The conceptual frameworks is not in itself an accounting standard and as such it cannot be used to override or disapply the requirements of any applicable accounting standards. However, an understanding of concepts and principles can be helpful to preparers of local authority financial statements when considering the treatment of transactions or events where standards do not provide specific guidance, or where a choice of accounting policies is available.	It is not anticipated that this change to the Code will have a material impact on Local Authority financial statements. However, Authorities will need to undertake a review to determine whether current classifications and accounting remains valid under the revised definitions.



08 Audit Fees

Audit Fees

Our fee for 208/19 is in line with the scale fee set by the PSAA but also includes scale fee variations as detailed below.

South Oxfordshire District Council	Final Fee 2018/19	Planned Fee 2018/19	Scale Fee 2018/19	Final Fee 2017/18
	£	£	£	£
Total Audit Fee – Code work	**65,514**	**37,103**	**37,103**	**75,746**
Non-audit work – Housing Benefits (form MPF720A)	9,433	9,433*	n/a	10,972

Vale of White Horse District Council	Final Fee 2018/19	Planned Fee 2018/19	Scale Fee 2018/19	Final Fee 2017/18
	£	£	£	£
Total Audit Fee – Code work	**58,842**	**36,289**	**36,289**	**69,763**
Non-audit work – Housing Benefits (form MPF720A)	10,933*	9,433	n/a	11,616

Non-audit work: This work was under the remit of PSAA in 2017/18 but locally negotiated from 2018/19. The final fees includes the cost of assessing errors above the baseline work in order to achieve the level of assurance required by the DWP/NAO.

Audit Additional Fees.
The scale fee variations for 2018/19 covers a number of issues encountered during the audit, and reflected in this report. They include:

- VFM risk procedures, not included within the scale fee
- Significant work to obtain clean debtor and creditor balance listings
- Reconciling the moving trial balances
- Resolution of IFRS9 errors
- Resolution of incorrect and appropriate Prior Year Adjustments.
- Reviews of multiple versions of the accounts, often with errors.

A full breakdown has been provided to the s151 officer. Additional fees will require approval of the PSAA.

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ED None

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