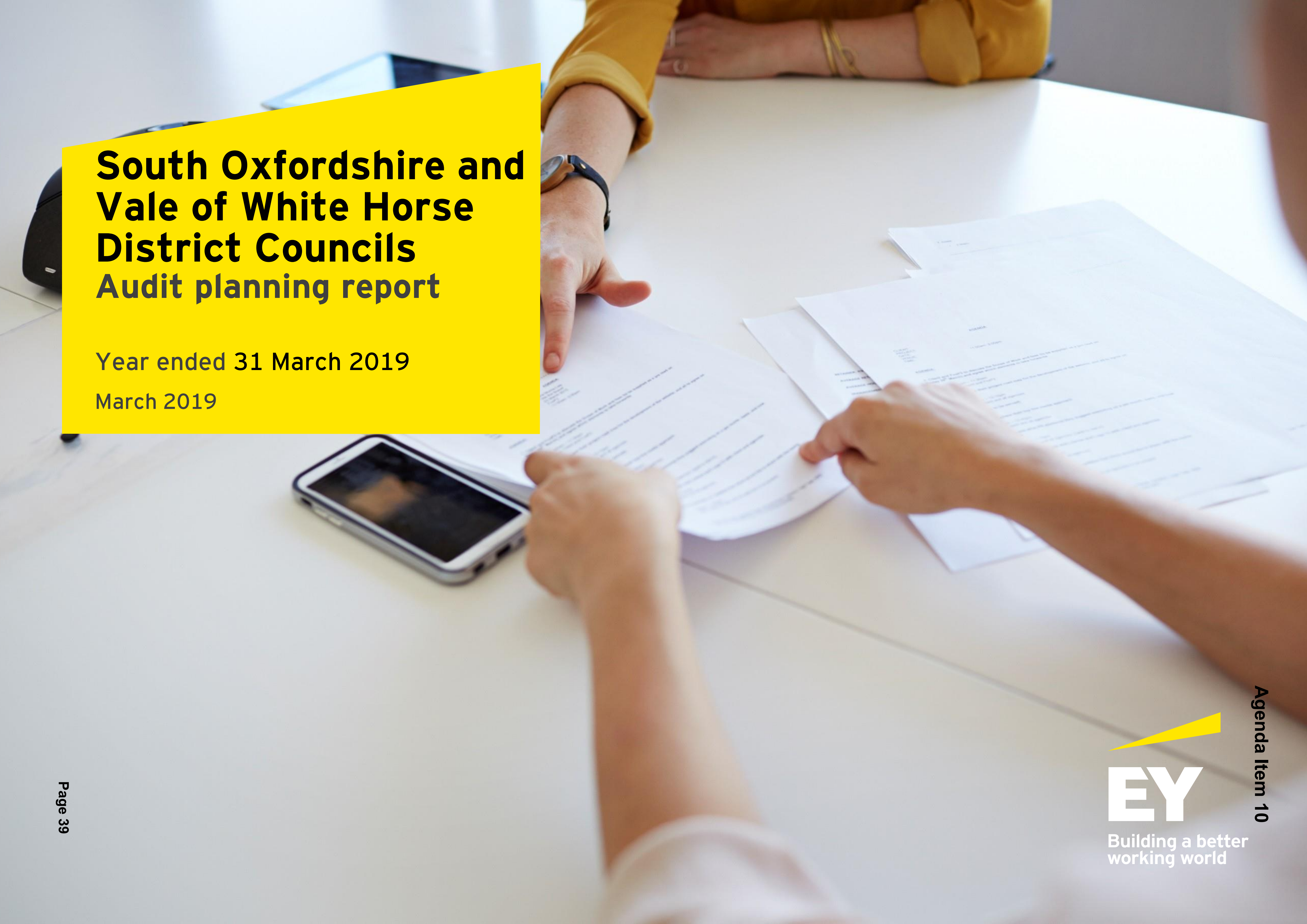

South Oxfordshire and Vale of White Horse District Councils

Audit planning report

Year ended 31 March 2019

March 2019

Building a better working world

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07 March 2019

Joint Audit & Governance Committee
South Oxfordshire and Vale of White Horse District Councils
135 Eastern Avenue
Milton Park
Milton, OX14 4SB

Dear Joint Audit & Governance Committee Members

Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Joint Audit & Governance Committee with a basis to review our proposed audit approach and scope for the 2018/19 audits in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Councils, and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Joint Audit & Governance Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 13 March 2019 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Kevin Suter

For and on behalf of Ernst & Young LLP

Enc.

Contents

Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/).The 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 and further guidance (updated April 2018)" issued by the PSAA sets 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 in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Joint Audit & Governance Committee and management of the Councils in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Joint Audit & Governance Committee and management of the Councils those matters we are required to state to them in this 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 Joint Audit & Governance Committee and management of the Councils for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Overview of our 2018/19 audit strategy

Overview of our 2018/19 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Joint Audit & Governance Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Inappropriate capitalisation of revenue expenditure	Fraud risk	New risk identified this year.	Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. 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. Our judgement is the significant risk at the Councils relates to the improper capitalisation of revenue expenditure.
Misstatements due to fraud or error	Fraud risk	No change in risk or focus	As identified in ISA 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 would otherwise appear to be operating effectively. In addition to our overall response, we consider where these risks may manifest themselves and identify separate fraud risks as necessary below.
Pension Liability Valuation	Inherent risk	No change in risk or focus.	The Local Authority Accounting Code of Practice and IAS19 require the Councils to make extensive disclosures within their financial statements regarding their membership of the Local Government Pension Scheme administered by Oxfordshire County Council. The Councils' pension fund asset is a material estimated balance and the Code requires that this asset 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.

Overview of our 2018/19 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Joint Audit & Governance Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus (continued)

Risk / area of focus	Risk identified	Change from PY	Details
Valuation of Land and Buildings	Inherent risk	No change in risk or focus.	The fair value of Property, Plant and Equipment (PPE) represents a significant balance in the Councils' accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.
New Accounting Standards	Inherent risk	New risk identified this year.	IFRS 9 (Financial Instruments) and IFRS 15 (Revenue from contracts) both apply from 1 April 2018. We will assess the impact of these new standards to determine whether they have been appropriately implemented by the Councils.

Overview of our 2018/19 audit strategy

Materiality – South Oxfordshire District Council

Planning materiality £1.689m	Materiality has been set at £1.689m, which represents 2% of the prior years gross expenditure on provision of services.
Performance materiality £1.267m	Performance materiality has been set at £1.267m, which represents 75% of materiality.
Audit differences £0.084m	We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement, and collection fund) greater than £84,000. Other misstatements identified will be communicated to the extent that they merit the attention of the Joint Audit & Governance Committee.

Materiality – Vale of White Horse District Council

Planning materiality £1.624m	Materiality has been set at £1.624m, which represents 2% of the prior years gross expenditure on provision of services.
Performance materiality £1.218m	Performance materiality has been set at £1.218m, which represents 75% of materiality.
Audit differences £0.081m	We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement, and collection fund) greater than £81,000. Other misstatements identified will be communicated to the extent that they merit the attention of the Joint Audit & Governance Committee. .

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Overview of our 2018/19 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of the Councils give a true and fair view of the financial position as at 31 March 2019 and of the income and expenditure for the year then ended; and

- Our conclusion on the Councils' arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Councils' Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Councils.

Audit team changes

Key changes to our team.

Kevin Suter, Associate Partner

- Kevin replaces Andrew Brittain
- Kevin is an Associate Partner within the UK&I Assurance practice, with over 20 years experience of UK Local Government audits.
- He is a member of CIPFA (Chartered Institute of Public Accountancy) and will be the key contact for the Joint Audit & Governance Committee and chief officers.

02 Audit risks

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Misstatements due to fraud or error *

What is the risk?	What will we do?

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 will undertake our standard procedures to address fraud risk, which include:
	➢ 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 estmates for any evidence of management bias
	    ➢ Evaluating the business rationale for significant unusual transactions

Our response to significant risks

We have set out the significant risks identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Inappropriate capitalisation of revenue expenditure*

Financial statement impact

We have assessed that the risk of misreporting revenue outturn in the financial statements is most likely to be achieved through:

► 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/or REFCUS in the financial statements.

What is the risk?

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.

What will we do?

We will:

► Test PPE additions to ensure that the expenditure incurred and capitalised is clearly capital in nature.
► Test expenditure classified as REFCUS to ensure it meets the classification requirements.
► Seek to identify and understand the basis for any significant journals transferring expenditure from revenue to capital codes on the general ledger.

We will utilise our data analytics capabilities to assist with our work, including journal entry testing.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

What is the risk/area of focus?	What will we do?
<u>Pension Liability Valuation</u> 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 will: ▸ Liaise with the auditors of Oxfordshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Councils. ▸ Assess 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 ▸ Review and test the accounting entries and disclosures made within the Councils' financial statements in relation to IAS19. We will consider outturn information available at the time we undertake our work after production of the Council's draft financial statements, for example the year-end actual valuation of pension fund assets. We will use this to inform our assessment of the accuracy of estimated information included in the financial statements and whether any adjustments are required.
<u>Valuation of Land and Buildings</u> 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 will: ▸ Consider 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 test 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 challenge the key assumptions used; ▸ Consider 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; ▸ Review assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated; and ▸ Test accounting entries have been correctly processed in the financial statements.

Other areas of audit focus (continued)

What is the risk/area of focus?	What will we do?
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. The Councils are yet to undertake and document their assessment of the impact of IFRS9.	We will: ▸ assess the Councils' implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19; ▸ consider the classification and valuation of financial instrument assets; ▸ review the implementation of the new expected credit loss model impairment calculations for assets; and ▸ check additional disclosure requirements for compliance with the CIPFA Code.
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 will: ▸ Assess the Councils' implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19. ▸ Consider application to the authority's revenue streams, and where the standard is relevant test to ensure revenue is recognised when (or as) it satisfies a performance obligation; and ▸ Check additional disclosure requirements.

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03 Value for Money Risks

Value for Money

Background

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

For 2018/19 this is based on the overall evaluation criterion:

“In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people”

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.

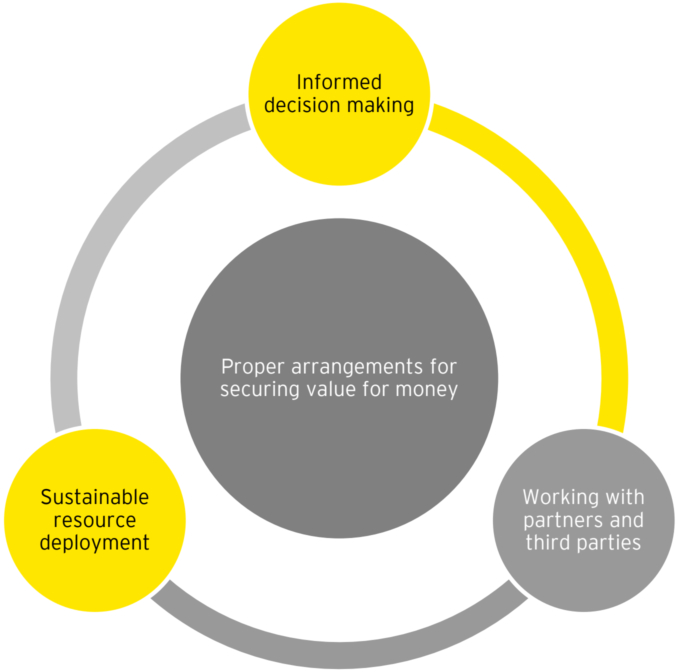
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work. We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the identification of the significant risks noted on the following page which we view as relevant to our value for money conclusion.



Value for Money Risks

What is the significant value for money risk?	What arrangements does the risk affect?	What will we do?
Implementation of the revised arrangements for the 5 Councils' contract		

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,
 	
Given the likely changes to the contracts there is a risk that both the services and financial performance of the Council would be negatively impacted if renegotiation results in contracts that are difficult to implement or do not deliver the intended benefits.
	Deploy resources in a sustainable manner
	
	Partnership working
		We will:
		• understand the revised Five Councils' Partnership Inter-Authority Agreement and the financial impact on the Councils;
		• review the arrangements in place to monitor the implementation of the contract, in terms of whether
		    • expected savings are being realised; and
		    • good operational performance exists.
		• a review of the governance process and contracted terms in place over the revised corporate services contract.

Value for Money Risks

What is the significant value for money risk?	What arrangements does the risk affect?	What will we do?
Programme Governance Review		
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.	Take informed decisions	Our approach will focus on: • Evaluating the arrangements put in place by the Councils to investigate the identified issues; and • Reviewing the implementation of any actions resulting from the review
Financial Resilience (SODC only)		
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.	Deploy resources in a sustainable manner	Our approach will focus 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.

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04 Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2017/18 has been set at 2% of the Councils' prior year gross expenditure on provision of services. It will be reassessed throughout the audit process.

The rationale for this is that for a public sector entity, the expectations of users (including regulators) of the entity are focused on the measurement of expenditure and cost of services. Therefore gross expenditure is the appropriate basis for determining materiality for public sector bodies.

We have provided supplemental information about audit materiality in Appendix C.

South Oxfordshire District Council

Gross expenditure on provision of services	Planning materiality	Performance materiality	Audit differences
£84.4m	£1.689m	£1.267m	£84k

Vale of White Horse District Council

Gross expenditure on provision of services	Planning materiality	Performance materiality	Audit differences
£81.2m	£1.624m	£1.218m	£81k

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures, which represents 75% of planning materiality.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, and collection fund that have an effect on income or that relate to other comprehensive income (OCI).

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Joint Audit and Governance Committee, or are important from a qualitative perspective.

We request that the Joint Audit and Governance Committeeconfirm its understanding of, and agreement to, these materiality and reporting levels.

05 Scope of our audit

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Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. **Financial statement audit**

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards
- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code
- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO [delete if not applicable]

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2018/19 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:
We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.

Internal audit:
We will meet with the Internal Audit Manager, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.

Our Audit Process and Strategy (continued)

Earlier deadline for production of the financial statements

The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the accounts by 31 July.

These changes provide risks for both the preparers and the auditors of the financial statements:

- The Councils now have less time to prepare the financial statements and supporting working papers. 31 July was not achieved in 2017/18, and risks to the Council for this year include changes to your finance team from those that completed the 2017/18 accounts.
- As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within same compressed timetable. Slippage at one client could potentially put delivery of others at risk.

To mitigate this risk we will require:

- good quality draft financial statements and supporting working papers by the agreed deadline;
- appropriate Council staff to be available throughout the agreed audit period; and
- complete and prompt responses to audit questions.

If you are unable to meet key dates within our agreed timetable, we will notify you of the impact on the timing of your audit, which may be that we postpone your audit until later in the summer and redeploy the team to other work to meet deadlines elsewhere.

Where additional work is required to complete your audit, due to additional risks being identified, additional work being required as a result of scope changes, or poor audit evidence, we will notify you of the impact on the fee and the timing of the audit. Such circumstances may result in a delay to your audit while we complete other work elsewhere.

To support the Council we will:

- Work with the Council to engage early to facilitate early substantive testing where appropriate.
- Provide an early review on the Council's streamlining of the Statement of Accounts where non-material disclosure notes are removed.
- Facilitate faster close workshops to provide an interactive forum for Local Authority accountants and auditors to share good practice and ideas to enable us all to achieve a successful faster closure of accounts for the 2018/19 financial year.
- Work with the Council to embed the use of EY Client Portal, this will:
  - Streamline our audit requests through a reduction of emails and improved means of communication;
  - Provide on –demand visibility into the status of audit requests and the overall audit status;
  - Reduce risk of duplicate requests; and
  - Provide better security of sensitive data.
- Agree the team and timing of each element of our work with you.
- Agree the supporting working papers that we require to complete our audit.

06 Audit team

Audit team

Audit team structure:

Kevin Suter
Associate Partner

Malcolm Haines
Manager

Nimisha Mistry
Senior

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* Key Audit Partner

Use of specialists

- Our approach to the involvement of specialists, and the use of their work.

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists are planned to provide input for the current year audit are:

Area	Specialists
Pensions disclosure	EY Actuaries

- We may also make use of specialists in our work to assess the material accuracy of property, plant and equipment, and investment property valuations. Our risk assessment in this area is ongoing.

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

07 Audit timeline

Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2018/19.

From time to time matters may arise that require immediate communication with the Joint Audit and Governance Committee and we will discuss them with the Joint Audit and Governance Committee Chairs as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Reporting our independence, risk assessment, planned audit approach and the scope of our audit

Audit Plan

Reporting by exception on our interim work and any control observations

Joint Audit and Governance Committee Update

Reporting our conclusions on key judgements and estimates and confirmation of our independence

Audit Results Report

The Annual Audit Letter will be provided following completion of our audit procedures

Annual Audit Letter

Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug

Planning

Walkthroughs +Interim Audit

Substantive testing

Planning

Risk assessment and setting of scopes

Walkthroughs +Interim Audit

Walkthrough of key systems and processes and early substantive testing

Year End Audit

Work begins on our year end audit. This is when we will complete any substantive testing not completed at interim

08 Independence

Introduction

The FRC Ethical Standard and ISA (UK) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	**Final stage**
▸ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us; ▸ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▸ The overall assessment of threats and safeguards; ▸ Information about the general policies and process within EY to maintain objectivity and independence. ▸ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard [note: additional wording should be included in the communication reflecting the client specific situation]	▸ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▸ Details of non-audit services provided and the fees charged in relation thereto; ▸ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▸ Written confirmation that all covered persons are independent; ▸ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▸ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ▸ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements , the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non –audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Kevin Suter, your audit engagement partner, and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office’s Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, we have not undertaken any non-audit work. We plan to undertake the Housing Benefit Assurance Process, and the fee is less than the 70% limit.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements. From 2018-19, the Council is responsible for appointing their own reporting accountant to undertake the certification of the housing benefit subsidy claim in accordance with the Housing Benefit Assurance Process (HBAP) requirements that are being established by the DWP. DWP’s HBAP guidance has now been published and the Council has appointed EY as its reporting accountant from 2018-19 for a period of one year, subject to the agreement of an engagement letter.

The specific testing of individual benefit claims and associated subsidy calculations undertaken in respect of this Agreed Upon Procedure (AUP) engagement is distinct and separate to any work we have or will undertake on the financial systems of the Authority. The results of the AUP testing is not reflected in the amounts included/disclosed in the financial statements.

In respect of the checking of benefit system parameters, this work is common across our external audit procedures and this AUP engagement. However, our external audit is concluded prior to this AUP engagement. Therefore the external audit conclusion is therefore not reliant upon the conclusion of our AUP engagement.

No advice will be given in relation to accounting treatment. The report we provide will be prepared or given solely for the purposes of the agreed upon procedures engagement described above and will not be used or relied upon for any other purposes.

Relationships, services and related threats and safeguards

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Other communications

EY Transparency Report 2018

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2018 and can be found here:

http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2018

09 Appendices

Appendix A

Fees

Public Sector Audit Appointments Ltd (PSAA) has published the fee scale for the audit of the 2018/19 accounts of opted-in principal local government and police bodies.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

South Oxfordshire District Council			
	Planned fee 2018/19	Scale fee 2018/19	Final Fee 2017/18
	£	£	£
Total Fee – Code work	37,103	37,103	73,408
Total audit	37,103	37,103	73,408
Non-audit services (Housing Benefits)	9,433	n/a	10,972
Total non-audit services	9,433	n/a	10.972
Total fees	46.356	37,103	84,380

All fees exclude VAT

Vale of White Horse District Council			
	Planned fee 2018/19	Scale fee 2018/19	Final Fee 2017/18
	£	£	£
Total Fee – Code work	36,289	36,289	68,000
Total audit	36,289	36,289	68,000
Non-audit services (Housing Benefits)	9,433	n/a	11,616
Total non-audit services	9,433	n/a	11,616
Total fees	45,722	36,289	79,616

Assumptions:

The agreed fee presented is based on the following assumptions:

- ► Officers meeting the agreed timetable of deliverables;
- ► Our accounts opinion and value for money conclusion being unqualified;
- ► Appropriate quality of documentation is provided by the Council; and
- ► The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Notes:

(1) The final Code fees for 2017/18 remain subject to confirmation by PSAA.

(2) We anticipate scale fee variations will be likely for 2018/19:

(a) Our strategy anticipates additional procedures highlighted in section two of this report to address the new accounting requirements of IFRS 9 and IFRS 15. As at the date of our planning report the Councils are yet to evidence their assessment of the impact of these standards, and so we cannot currently quantify the expected scale fee variation.

(b) The number of VFM risks is increased in comparison to prior years, requiring additional work.

We will agree any fee variation with management, and any additional fee is subject to agreement by the PSAA

Appendix B

Required communications with those charged with governance

We have detailed the communications that we must provide to the Joint Audit & Governance Committee.

Required communications	What is reported?	Our Reporting to you: When and where
Terms of engagement	Confirmation by the Joint Audit & Governance Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report
Significant findings from the audit	▸ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▸ Significant difficulties, if any, encountered during the audit ▸ Significant matters, if any, arising from the audit that were discussed with management ▸ Written representations that we are seeking ▸ Expected modifications to the audit report ▸ Other matters if any, significant to the oversight of the financial reporting process	Audit results report
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▸ The adequacy of related disclosures in the financial statements	Audit results report
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Corrected misstatements that are significant ▸ Material misstatements corrected by management	Audit results report

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Required communications with those charged with governance

Required communications	What is reported?	Our Reporting to you: When and where
Fraud	▶ Enquiries of the Joint Audit & Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud	Audit results report
Related parties	▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity	Audit results report
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence	Audit Planning Report and Audit Results Report
External confirmations	▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures	Audit results report

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Appendix B

Required communications with those charged with governance

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Consideration of laws and regulations	▸ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▸ Enquiry of the Joint Audit & Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Joint Audit & Governance Committee may be aware of	Audit results report
Internal controls	▸ Significant deficiencies in internal controls identified during the audit	Audit results report
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report
Auditors report	▸ Any circumstances identified that affect the form and content of our auditor's report	Audit results report
Fee Reporting	▸ Breakdown of fee information when the audit plan is agreed ▸ Breakdown of fee information at the completion of the audit ▸ Any non-audit work	Audit planning report Audit results report

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Additional audit information

Other required procedures during the course of the audit	
In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.	
Our responsibilities required by auditing standards	► Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. ► Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Councils' internal control. ► Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. ► Concluding on the appropriateness of management's use of the going concern basis of accounting. ► Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. ► Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Councils to express an opinion on the financial statements. Reading other information contained in the financial statements, the Joint Audit & Governance Committee reporting appropriately addresses matters communicated by us to the Joint Audit & Governance Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and ► Maintaining auditor independence.

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.