

South Oxfordshire and Vale of White Horse District Councils

Annual Audit Letter for the year
ended 31 March 2020

January 2022



Building a better
working world

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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.psa.co.uk). [OR As part the Auditor Engagement process, we have agreed with you the respective responsibilities of auditors and audited bodies. Copies of the Engagement Letter and Terms and Conditions of our appointment are available from the Chief Executive or via the bodies minutes on their website].

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 [OR The Terms and Conditions of our appointment contained within the Engagement Letter] 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 statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities / Terms and Conditions of Engagement. 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 Hywel 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.



Section 1

Executive Summary

Executive Summary

We are required to issue an annual audit letter to South Oxfordshire District Council and Vale of White Horse District Council (“the Councils”) following completion of our audit procedures for the year ended 31 March 2020. Covid-19 had an impact on a number of aspects of our 2019/20 audit. We set out these key impacts below.

Area of impact	Commentary
Impact on the delivery of the audit	
▶ Changes to reporting timescales	As a result of Covid-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, were published and came into force on 30 April 2020. This announced a change to the publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities. We were unable to complete the audits in those timescales, primarily due to the impact of the delayed audits from 2019/20, and the impact of Covid-19 on the Councils’ finance team and its capacity in a period where the Councils were also transitioning from their previously outsourced finance arrangements.
Impact on our risk assessment	
▶ Valuation of Property Plant and Equipment	The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Councils’ external valuer. We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of property, plant and equipment.
▶ Disclosures on Going Concern	Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered that the unpredictability of the current environment gave rise to a risk that the Councils would not appropriately disclose the key factors relating to going concern, underpinned by management’s assessment with particular reference to Covid-19 and the Councils’ actual year end financial position and performance.
▶ Events after the balance sheet date	We identified an increased risk that further events after the balance sheet date concerning the current Covid-19 pandemic will need to be disclosed. The amount of detail required in the disclosure needed to reflect the specific circumstances of the Councils.
Impact on the scope of our audit	
▶ Information Produced by the Entity (IPE)	We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entities due to the inability of the audit team to verify original documents or re-run reports on-site from the Councils’ systems. We undertook the following to address this risk: <ul style="list-style-type: none"> ▶ Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and ▶ Agree IPE to scanned documents or other system screenshots.
▶ Consultation requirements	Additional EY consultation requirements concerning the impact on auditor reports. The changes to audit risks and audit approach changed the level of work that we needed to perform.

Executive Summary (cont'd)

The tables below set out the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Councils':	
▶ Financial statements	Unqualified - the financial statements give a true and fair view of the financial position of the Councils as at 31 March 2020 and of their 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.
▶ Concluding on the Councils' arrangements for securing economy, efficiency and effectiveness	We concluded that you had 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 Statements were consistent with our understanding of the Councils
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Councils, 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.
Reporting to the National Audit Office (NAO) on our review of the Councils' Whole of Government Accounts return (WGA).	We had no matters to report.

The above conclusions and opinions apply to both South Oxfordshire District Council and Vale of White Horse District Council

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 Councils communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 01 December 2021
Issued a certificate that we have completed the audits 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 certificates were issued on 01 December 2021

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

Kevin Suter
Associate Partner
For and on behalf of Ernst & Young LLP

Section 2

Purpose and Responsibilities



Purpose

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 Councils.

We have already reported the detailed findings from our audit work in our 2019/20 Audit Results Report to the 01 December 2021 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 Councils.

Responsibilities

Responsibilities of the Appointed Auditor

Our 2019/20 audit work has been undertaken in accordance with the Audit Plan that we issued on 22 September 2020 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 2019/20 financial statements; and
 - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Councils have to secure economy, efficiency and effectiveness in their use of resources.
- ▶ Reporting by exception:
 - ▶ If the annual governance statements are misleading or not consistent with our understanding of the Councils;
 - ▶ Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the Councils 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 returns. The Councils are below the specified audit threshold of £500 million. Therefore we did not perform any audit procedures on the returns.

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 Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its 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.

Section 3

Financial Statement Audit



Financial Statement Audit

Key Issues

The Councils' Statement of Accounts are an important tool for them to show how they have used public money and how they can demonstrate their financial management and financial health.

We audited the Councils' Statements 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. We issued unqualified audit reports on 1 December 2021.

Our detailed findings were reported to the 30 November 2021 Joint Audit and Governance Committee.

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

Significant Risk	Conclusion
<p>Misstatements due to fraud or error</p> <p>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.</p> <p>We identify and respond to this fraud risk on every audit engagement.</p>	<p>We undertook our procedures to address fraud risks, which included:</p> <ul style="list-style-type: none">▶ Inquiring of management about risks of fraud and controls 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 risk of fraud.▶ 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 <p>We did not identify any material weaknesses in controls or evidence of material management override.</p> <p>We did not identify any instances of inappropriate judgements being applied.</p> <p>We did not identify any other transactions during our audit which appeared unusual or outside both Councils' normal course of business</p>

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
<p>Risk of fraud in revenue and expenditure recognition</p> <p>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.</p> <p>We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund.</p> <p>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.</p>	<p>We:</p> <ul style="list-style-type: none"> ▶ 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. <p>Our testing did not identify any material misstatements from revenue and expenditure recognition.</p>

Other Key Findings	Conclusion
Projected Misstatement	<p>Vale of White Horse</p> <ul style="list-style-type: none"> • We identified an error in the testing of a representative sample of capital grants received in advance. We extrapolated this to the remaining population, with a resulting difference of £99.9k
Judgemental Misstatement	<p>Vale of White Horse</p> <ul style="list-style-type: none"> • We identified the accumulated absences provision totalling £120k has remained as such since 2014/15 with no movement. This accrual should be recalculated each year. • Vale of White Horse CIL income understated by £0.584m in prior periods, which management chose to restate via a prior year adjustment. As this amount was not material, we would not expect 2018/19 figures to be restated, but that this unrecorded 2018/19 income would be recognised in 2019/20 instead

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Other Key Findings	Conclusion
Adjusted Differences	<p data-bbox="824 411 1249 440">South Oxfordshire District Council</p> <ul data-bbox="824 459 2092 895" style="list-style-type: none"><li data-bbox="824 459 2092 523">• Upwards revaluations of finance leases as a lessor (long term debtors) incorrectly recorded as income to cost of services. £2.160m<li data-bbox="824 539 2092 603">• Year end accrual in relation to REFCUS with no supporting evidence, and concluded to be incorrectly raised. £0.548m<li data-bbox="824 619 2092 683">• CIL income incorrectly accounted for on a cash basis instead of an accrual basis. Impact in FY 2019/20 of £0.669m understatement of CIL income.<li data-bbox="824 699 2092 762">• CIL income understated by £7.374m in prior periods, and 2018/19 comparative figures have been restated<li data-bbox="824 778 2092 810">• NNDR income overstated by £0.181m due to incorrect completion of CIPFA Council Tax Model<li data-bbox="824 826 2092 895">• Misclassification of investment income property allocated to "Development and regeneration" instead of "income and expenditure in relation to investment properties". £1.433m.
Adjusted Differences	<p data-bbox="824 906 1267 935">Vale of White Horse District Council</p> <ul data-bbox="824 954 2092 1324" style="list-style-type: none"><li data-bbox="824 954 2092 986">• Incorrect recording of property, plant and equipment valuation. £0.300m<li data-bbox="824 1002 2092 1034">• Property classed as both investment property and Finance Lease (lessor). £0.800m<li data-bbox="824 1050 2092 1114">• Year end accrual in relation to REFCUS with no supporting evidence, and concluded it was incorrectly raised. £0.860m<li data-bbox="824 1129 2092 1193">• CIL income incorrectly accounted for on a cash basis instead of an accrual basis. Impact in FY 2019/20 of £0.961m understatement of CIL income.<li data-bbox="824 1209 2092 1273">• NNDR income overstated by £0.271 and Council Tax income understated by £0.822m due to incorrect completion of CIPFA Council Tax Model<li data-bbox="824 1289 2092 1324">• Misclassification of business rates income incorrectly classified as Revenue Support Grant £0.200m.

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	South Oxfordshire District Council We determined planning materiality to be £1.661m, which is 2% of gross revenue expenditure reported in the accounts.
	Vale of White Horse District Council We determined planning materiality to be £1.599m, which is 2% of gross revenue expenditure reported in the accounts.
	We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of both Council
Reporting threshold	South Oxfordshire District Council We agreed with the Joint Audit and Governance Committee that we would report to the Committee all audit differences in excess of £0.830m.
	Vale of White Horse District Council We agreed with the Joint Audit and Governance Committee that we would report to the Committee all audit differences in excess of £0.800m.

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- ▶ Remuneration disclosures including any severance payments, exit packages and termination benefits.
- ▶ Related party transactions.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

Section 4

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.

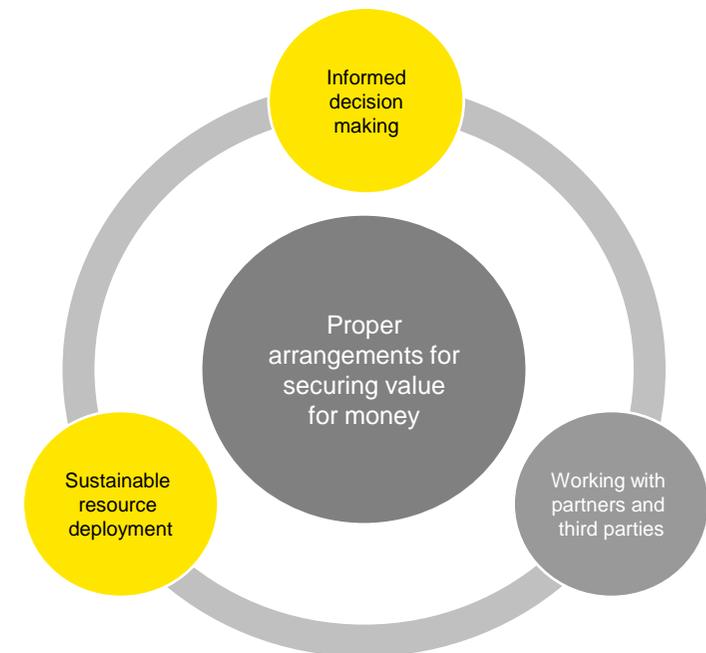
On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider local authorities' response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion.

We identified one significant risk in relation to these arrangements, relating to the impact on the Councils from leaving the 5 Councils contract.

We performed the procedures outlined in our audit plan looking at the transfer and transition arrangements. We did not identify any significant weaknesses in the Councils' arrangements to ensure that they took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We therefore issues an unqualified value for money conclusion.

We made an observation that the Councils' finance team was lean, and that capacity should be kept under review. The unforeseen onset of the pandemic at the time of transition was a contextual circumstance that could not have been planned for. The Councils have already responded to this, and are recruiting to the team alongside further transitioning of services from their former outsourced supplier.





Section 5

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 both below the specified audit threshold of £500m. Therefore we were not required to perform any detailed audit procedures on the consolidation pack.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Councils' annual governance statements, identify any inconsistencies with the other information of which we are aware from our work, and consider whether they are 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 Council 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 ones that require the Councils to consider 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 2019/20 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 Committee on 30 November 2021. 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

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

During our audit, we identified an adjusted misstatements in relation to CIL income which stemmed from income being recognised on a cash basis rather than an accrual basis, as is required by the CIPFA Code. We judge that the Council's internal control environment was not designed to identify such a misstatement, and that this represents a significant deficiency.

We have not identified any other significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

Section 6

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 Councils is summarised in the table below.

Standard	Issue	Impact
IFRS 16 Leases	IFRS 16 Leases was issued by the IASB in 2016. Its main impact is to remove (for lessees) the traditional distinction between finance leases and operating leases. Finance leases have effectively been accounted for as acquisitions (with the asset on the balance sheet, together with a liability to pay for the asset acquired). In contrast, operating leases have been treated as “pay as you go” arrangements, with rentals expensed in the year they are paid. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.	<p>The new standard was not included in the 2019/20 CIPFA Code of Practice and has been delayed until 2022/23.</p> <p>Until the revised 2022/23 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Councils will need to undertake a detailed exercise to identify all of their leases and capture the relevant information for them. The Councils must therefore ensure that all lease arrangements are fully documented.</p>

Audit Fees – South Oxfordshire District Council

Our proposed fee for 2019/20 is explained below and is subject to approval by Public Sector Audit Appointments Ltd.

Description	Final Fee 2019/20 £	Planned Fee 2019/20 £	Scale Fee 2019/20 £	Final Fee 2018/19 £
Total Audit Fee - Code work	£37,103	£37,103	£37,103	£37,103
Changes in work required to address professional and regulatory requirements and scope associated with risk (see Note 1)	£29,575	£29,575	N/A	N/A
Revised Proposed Scale Fee	£66,678	£66,678	N/A	N/A
Scale Fee Variation due to one-off issues impacting 2018/19 and 2019/20 audits (see Note 2)	TBC	-	-	£28,371
Total Proposed Audit Fee	TBC	£66,678	£37,103	£65,474
Non-Audit Fee - Housing Benefit Certification Work	£10,933	N/A	N/A	£9,433

Note 1

We have discussed with management and the Joint Audit and Governance Committee that we do not believe the existing scale fees provide a clear link with a public sector organisation's risk and complexity, and we have laid out the impact of regulatory changes which have caused this situation. We have quantified the implications of these factors on our assessment of the baseline fee to deliver a sustainable high-quality external audit. For 2019/20 the scale fee has been re-assessed to take these into account.

This additional fee has been discussed with management and is subject to review by the PSAA.

Note 2

We are in the process of quantifying the additional work we have undertaken, in particular with regard to the delays in completion of the 2019/20 audit; the audit issues that were identified and our work in resolving them; and our work in relation to the prior period adjustment made to the comparative figures. Once completed, we will discuss this with management and then be seeking seeking PSAA approval.

Audit Fees – Vale of White Horse District Council

Our proposed fee for 2019/20 is explained below and is subject to approval by Public Sector Audit Appointments Ltd.

Description	Final Fee 2019/20 £	Planned Fee 2019/20 £	Scale Fee 2019/20 £	Final Fee 2018/19 £
Total Audit Fee - Code work	£36,289	£36,289	£36,289	£36,289
Changes in work required to address professional and regulatory requirements and scope associated with risk (see Note 1)	£30,829	£30,829	N/A	N/A
Revised Proposed Scale Fee	£67,118	£ 67,118	N/A	N/A
Scale Fee Variation due to one-off issues impacting 2018/19 and 2019/20 audits (see Note 2)	TBC	-	-	£22,533
Total Proposed Audit Fee	TBC	£66,678	£37,103	£58,822
Non-Audit Fee - Housing Benefit Certification Work	£9,905	N/A	N/A	£10,903

Note 1

We have discussed with management and the Joint Audit and Governance Committee that we do not believe the existing scale fees provide a clear link with a public sector organisation's risk and complexity, and we have laid out the impact of regulatory changes which have caused this situation. We have quantified the implications of these factors on our assessment of the baseline fee to deliver a sustainable high-quality external audit. For 2019/20 the scale fee has been re-assessed to take these into account.

This additional fee has been discussed with management and is subject to review by the PSAA.

Note 2

We are in the process of quantifying the additional work we have undertaken, in particular with regard to the delays in completion of the 2019/20 audit; the audit issues that were identified and our work in resolving them; and our work in relation to the prior period adjustment made to the comparative figures. Once completed, we will discuss this with management and then be seeking seeking PSAA approval.

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