



**South Oxfordshire District
Council and Vale of White
Horse District Council**

Audit planning report

Year ended 31 March 2021



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

January 2022

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 your auditor. Its purpose is to provide the Joint Audit & Governance Committee with a basis to review our proposed audit approach and scope for the 2020/21 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 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 Council, 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 25 January 2022 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

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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.psa.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 South Oxfordshire District Council and Vale of White Horse District Council (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 2020/21 audit strategy



Agenda Item 7

Overview of our 2020/21 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
Risk of fraud in revenue and expenditure recognition, through inappropriate capitalisation of revenue expenditure	Fraud Risk	No change in risk or focus	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 assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure, notable REFCUS and PPE Additions.
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.
Valuation of Land and Buildings	Inherent Risk	No change in risk or focus	The value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in both Councils' 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, covering both those assets that are revalued within the year and the continuing material accuracy of those valued in prior periods.
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 its financial statements regarding its membership of the Local Government Pension Scheme administered by Oxfordshire 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) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Overview of our 2020/21 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.

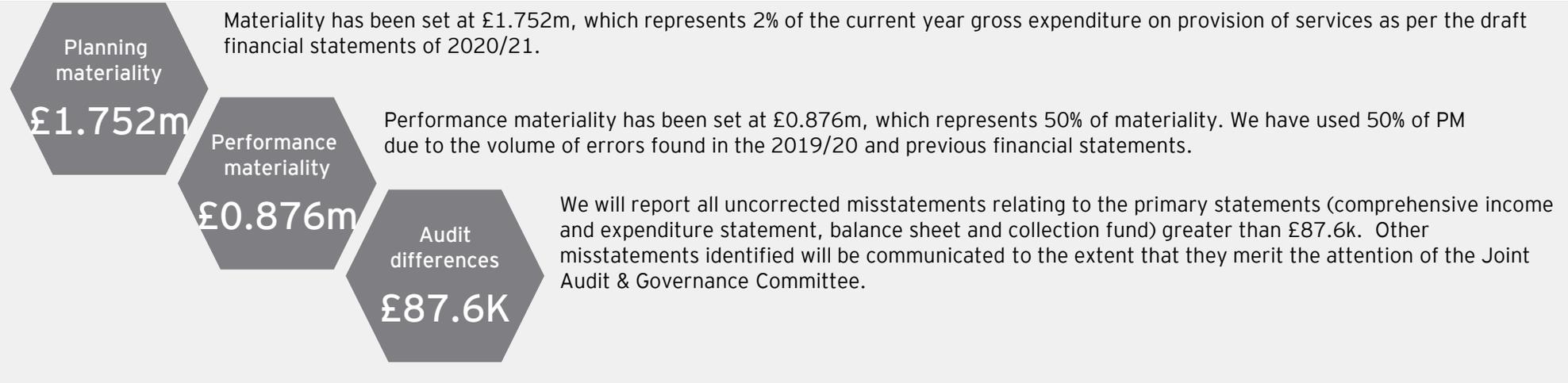
Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Accounting for Covid-19 related grants	Inherent Risk	New risk in 2020/21 Audit	The Councils have both received a significant level of government funding in the relation to Covid-19. There is a need for the Councils to ensure that they have recognised and accounted for these appropriately, taking into account any associated restrictions and conditions.
Accounting for Community Infrastructure Levy (CIL) income	Inherent Risk	New risk in 2020/21 Audit	We identified material errors in relation to CIL income in our 2019/20 audit. The errors were corrected by management, and we reported these as adjusted misstatements to the Joint Audit & Governance Committee in our 2019/20 audit results report in November 2021. Whilst management has corrected its accounting policy in relation to CIL income, due to the timing of when the error was identified, there remains a risk that the impact of the previous incorrect accounting policy is not quantified correctly and adjusted for in the 2020/21 financial statements.

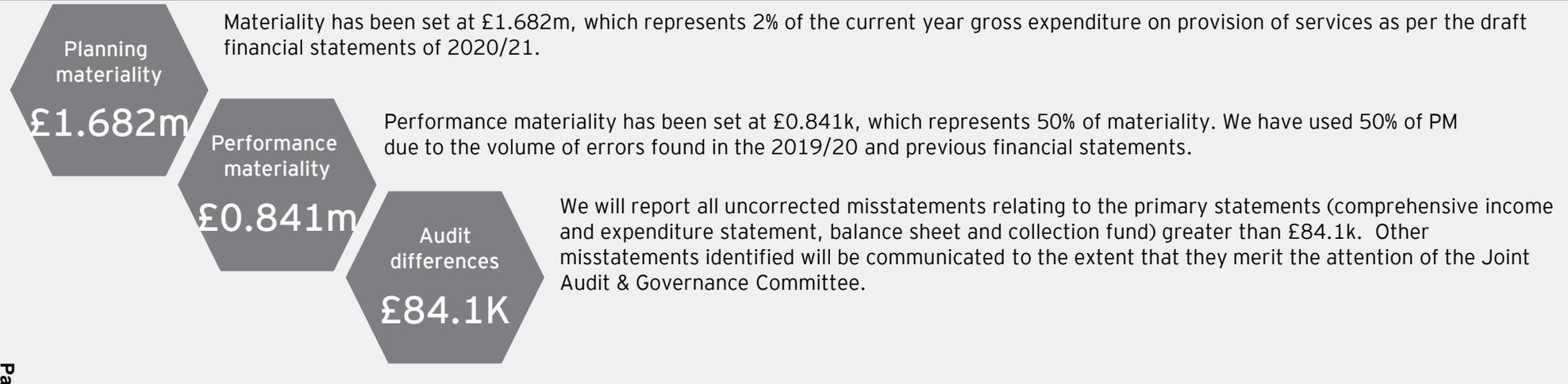
The risks identified above are identical for both South Oxfordshire District Council and Vale of White Horse District Council.

Overview of our 2020/21 audit strategy

Materiality - South Oxfordshire District Council



Materiality - Vale of White Horse District Council



Overview of our 2020/21 audit strategy

Audit scope

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

- Our audit opinions on whether the financial statements of South Oxfordshire District Council and Vale of White Horse District Council give a true and fair view of the financial position as at 31 March 2021 and of the income and expenditure for the year then ended; and
- Our conclusion on the Council's 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 Council.

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years as well as the expansion of factors impacting the value for money conclusion. Therefore to the extent any of these or any other risks are relevant in the context of Councils' audit, we will discuss these with management as to the impact on the scale fee.



02 Audit risks



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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.

<p>Risk of fraud in revenue and expenditure recognition, through inappropriate capitalisation of revenue expenditure*</p>	<p>What is the risk?</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>What will we do?</p> <p>We will:</p> <ul style="list-style-type: none"> ▶ Test the balance of PPE additions using lowered testing thresholds, to ensure they are appropriately supported by documentary evidence, and that the expenditure incurred and capitalised is clearly capital in nature; ▶ Test the balance of Revenue Expenditure Funded from Capital Under Statute (REFCUS) using lowered testing threshold to ensure that it transactions are correctly recorded and meet the criteria to be recorded as REFCUS;
<p>Financial statement impact</p> <p>We have assessed that the risk of fraud in revenue and expenditure recognition is most likely to occur through the inappropriate capitalisation of revenue expenditure. This would have the impact of reducing revenue expenditure and increasing additions to Property, Plant and Equipment or Revenue Expenditure Funder from Capital Under Statute (REFCUS).</p>	<p>We have assessed that the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure, as there is an incentive to reduce expenditure which is funded from Council Tax. 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>	<ul style="list-style-type: none"> ▶ Seek to identify and understand the basis for any significant journals transferring expenditure from non-capital codes to PPE additions or from revenue to capital codes on the general ledger at the end of the year; and

Our response to significant risks (continued)

Misstatements due to fraud or error *

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 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.

What will we do?

We will:

- ▶ Enquire of management about risks of fraud and the controls put in place to address those risks.
- ▶ Understand the oversight given by those charged with governance of management's processes over fraud.
- ▶ Consider the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Perform mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.
- ▶ Review accounting estimates for evidence of management bias.
- ▶ Evaluate the business rationale for significant unusual transactions.

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 and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
<p>Valuation of Land and Buildings, and Investment Properties.</p> <p>The 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.</p>	<p>We will:</p> <ul style="list-style-type: none"> ▶ Consider the work performed by the Councils' 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 their valuation (e.g. floor plans to support valuations based on price per square metre) and challenge the key assumptions used by the valuers; ▶ 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. We will also consider if there are any specific changes to assets that have occurred and whether these have been communicated to the valuers; ▶ Review PPE assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated; ▶ Consider changes to useful economic lives as a result of the most recent valuation; and ▶ Test to confirm that accounting entries have been correctly processed in the financial statements. ▶ Use our audit specialists to evaluate the material accuracy of a sample of properties, as a direct result of impact of the Covid-19 pandemic.

Audit risks

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 and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
<p>Pension Liability Valuation</p> <p>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 Oxfordshire County Council.</p> <p>The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Councils' balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.</p> <p>Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>We will:</p> <ul style="list-style-type: none">▶ Liaise with the auditors of Oxfordshire County Council Pension Fund, to obtain assurances over the information supplied to the actuary in relation to South Oxfordshire District Council and Vale of White Horse District Council;▶ Assess the work of the Pension Fund actuary 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.

Impact of changes in auditing standards

ISA 540 (Accounting Estimates)

ISA 540 (Revised) - Auditing Accounting Estimates and Related Disclosures applies to audits of all accounting estimates in financial statements for periods beginning on or after December 15, 2019.

This revised ISA responds to changes in financial reporting standards and a more complex business environment which together have increased the importance of accounting estimates to the users of financial statements and introduced new challenges for preparers and auditors.

The revised ISA requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty. As part of this, auditors consider risk on a spectrum (from low to high inherent risk) rather than a simplified classification of whether there is a significant risk or not. At the same time, we expect the number of significant risks we report in respect of accounting estimates to increase as a result of the revised guidance in this area.

The changes to the standard may affect the nature and extent of information that we may request and will likely increase the level of audit work required, particularly in cases where an accounting estimate and related disclosures are higher on the spectrum of inherent risk. For example:

- We may place more emphasis on obtaining an understanding of the nature and extent of your estimation processes and key aspects of related policies and procedures. We will need to review whether controls over these processes have been adequately designed and implemented in a greater number of cases.
- We may provide increased challenge of aspects of how you derive your accounting estimates. For example, as well as undertaking procedures to determine whether there is evidence which supports the judgments made by management, we may also consider whether there is evidence which could contradict them.
- We may make more focussed requests for evidence or carry out more targeted procedures relating to components of accounting estimates. This might include the methods or models used, assumptions and data chosen or how disclosures (for instance on the level of uncertainty in an estimate) have been made, depending on our assessment of where the inherent risk lies.
- We may ask for new or changed management representations compared to prior years.

To respond to these additional requirements:

- You may wish to consider retaining experts to assist with related work. You may also consider documenting key judgements and decisions in anticipation of auditor requests, to facilitate more efficient and effective discussions with the audit team.

SAA have communicated to their opted-in bodies that there is an expected fee variation for the impact of this new standard.

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 and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?

What will we do?

Accounting for Covid-19 Related Grants

The Councils have received a significant level of government funding in relation to Covid-19. Whilst there is no change in the CIPFA Code or accounting standard (IFRS 15) in respect of accounting for grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment in the 2020/21 statements.

We will:

- ▶ Consider the Councils' judgement on grants received in relation to whether they are acting as:
 - An agent, where it is determined that they are acting as an intermediary; or
 - Principal, where the Councils have determined that they are acting on their own behalf.
- ▶ For grants received where the Councils acted as principal, we will further consider whether any associated restrictions and conditions have been met and that grants have been claimed and recognised in accordance with the scheme rules.
- ▶ Check the Councils have adequately disclosed grant income received in the year, under both principal and agent arrangements.

Accounting for Community Infrastructure Levy (CIL) Income

We identified material errors in relation to CIL income in our 2019/20 audits. The errors were corrected by management, and we reported these as adjusted misstatements to the Joint Audit & Governance Committee in our 2019/20 audit results report in November 2021. Whilst management has corrected its accounting policy in relation to CIL income, due to the timing of when the error was identified, there remains a risk that the impact of the previous incorrect accounting policy is not quantified correctly and adjusted for in the 2020/21 financial statements.

We will:

- ▶ Test CIL income using lowered testing thresholds and ensure income is appropriately supported by documentary evidence,
- ▶ Test cut-off to ensure CIL income is being accounted for in the correct financial year, and in accordance with the accounting treatments specified in the CIPFA Code.



03

Value for Money Risks



Value for money

Council's responsibilities for value for money

The Councils are required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

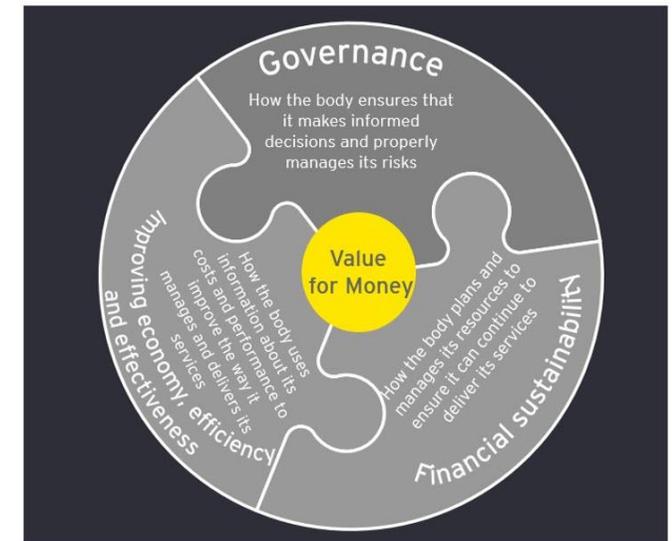
As part of the material published with its financial statements, the Councils are required to bring together commentary on its governance framework and how this has operated during the period in an annual governance statement. In preparing its annual governance statement, the Councils tailor the content to reflect their own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Auditor responsibilities under the new Code

Under the 2020 Code we are still required to consider whether the Councils have put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. However, there is no longer one overall evaluation criterion on which we need to conclude. Instead the 2020 Code requires us to design our work to provide sufficient assurance to enable us to report to the Councils a commentary against specified reporting criteria (see below) on the arrangements the Councils have in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- ▶ Financial sustainability
How the Councils plan and manage their resources to ensure they can continue to deliver their services;
- ▶ Governance
How each Council ensures that it makes informed decisions and properly manages its risks; and
- ▶ Improving economy, efficiency and effectiveness:
How the Councils use information about their costs and performance to improve the way each manages and delivers its services.





Value for money risks

Planning and identifying VFM risks

The NAO's guidance notes require us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Councils' arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations. This is a change to 2015 Code guidance notes, where the NAO required auditors, as part of planning, to consider the risk of reaching an incorrect conclusion in relation to the overall criterion.

In considering the Councils' arrangements, we are required to consider:

- ▶ The Councils' Annual Governance Statement;
- ▶ Evidence that the Councils' arrangements were in place during the reporting period;
- ▶ Evidence obtained from our work on the accounts;
- ▶ The work of inspectorates and other bodies; and
- ▶ Any other evidence source that we regard as necessary to facilitate the performance of our statutory duties.

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement. However, the NAO states that a weakness may be said to be significant if it:

- ▶ Exposes - or could reasonably be expected to expose - the Council to significant financial loss or risk;
- ▶ Leads to - or could reasonably be expected to lead to - significant impact on the quality or effectiveness of service or on the Council's reputation;
- ▶ Leads to - or could reasonably be expected to lead to - unlawful actions; or
- ▶ Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

We should also be informed by a consideration of:

- ▶ The magnitude of the issue in relation to the size of the Council;
- ▶ Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves (where applicable), or impact on budgets or cashflow forecasts;
- ▶ The impact of the weakness on the Councils' reported performance;
- ▶ Whether the issue has been identified by the Councils' own internal arrangements and what corrective action has been taken or planned;
- ▶ Whether any legal judgements have been made including judicial review;
- ▶ Whether there has been any intervention by a regulator or Secretary of State;
- ▶ Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- ▶ The impact on delivery of services to local taxpayers; and
- ▶ The length of time a Council has had to respond to the issue.



Value for money risks

Responding to identified risks

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the Joint Audit & Governance Committee.

Reporting on VFM

In addition to the commentary on arrangements, where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the 2020 Code has the same requirement as the 2015 Code in that we should refer to this by exception in the audit report on the financial statements.

However, a new requirement under the 2020 Code is for us to include the commentary on arrangements in a new Auditor's Annual Report. The 2020 Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Council's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

The new Code promotes more timely reporting by auditors. So where we have sufficient evidence to determine that there is a significant weakness on VFM related arrangements we can report that weakness, and an associated recommendation for improvement, at that time and not wait until we issue our Audit Results Report on the audit of the statement of accounts.

Status of our 2020/21 VFM Planning

Delays in the completion of the 2019/20 audit have impacted on our planning time. Our risk assessment is therefore not yet complete. However, based on the planning procedures we have completed to date, we expect to include in our plan one significant risk in relation to the significant budget gaps in both councils' latest Medium Term Financial Plan and the continued drawdown of reserves. We expect this risk to fall into the criteria "*Financial sustainability: How the Councils plan and manage their resources to ensure they can continue to deliver their services*".

We will update the Committee once our risk assessment is complete to confirm whether any further risks have been identified, and the work which will be undertaken to address them.



04

Audit materiality



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Materiality - South Oxfordshire District Council

Materiality

For planning purposes, materiality for 2020/21 has been set at £1.752m. This represents 2% of the Council's current year gross expenditure on provision of services as per the draft financial statements of 2020/21. It will be reassessed throughout the audit process. We have set materiality using gross revenue expenditure as our expectation is that users of the Council's accounts are focussed on how it uses its resources to provide services to local people. We have used 2% based on our assessment of the Council's financial position, levels of public interest, lack of planned reorganisations and sources of borrowing. We have provided supplemental information about audit materiality in Appendix C.



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. We have set performance materiality at £0.876m which represents 50% of planning materiality. This takes into account the level of issues raised during our 2019/20 audit.

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.

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 Committee, or are important from a qualitative perspective

Specific materiality - We have also set a materiality of £1k for remuneration disclosures, related party transactions, members' allowances and exit packages, which reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to these areas.

Page 54 We request that the Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Materiality - Vale of White Horse District Council

Materiality

For planning purposes, materiality for 2020/21 has been set at £1.682m. This represents 2% of the Council's current year gross expenditure on provision of services as per the draft financial statements of 2020/21. It will be reassessed throughout the audit process. We have set materiality using gross revenue expenditure as our expectation is that users of the Council's accounts are focussed on how it uses its resources to provide services to local people. We have used 2% based on our assessment of the Council's financial position, levels of public interest, lack of planned reorganisations and sources of borrowing. We have provided supplemental information about audit materiality in Appendix C.



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. We have set performance materiality at £0.841m which represents 50% of planning materiality. This takes into account the level of issues raised during our 2019/20 audit.

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.

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 Committee, or are important from a qualitative perspective

Specific materiality - We have also set a materiality of £1k for remuneration disclosures, related party transactions, members' allowances and exit packages, which reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to these areas.

Page 55 We request that the Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels.



05

Scope of our audit



Agenda Item 7

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 Councils' 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

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 2020/21 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.



06

Audit team



Audit team

Audit team structure:

Kevin Sutter
Associate Partner
ksuter@uk.ey.com

Tom Archer
Manager
tarcher1@uk.ey.com

Edlyn Yambot
Lead Senior
Edlyn.yambot@uk.ey.com

Working together with the Council

We are working together with officers to identify continuing improvements in communication and processes for the 2020/21 audit.

We will continue to keep our audit approach under review to streamline it where possible.

* Key Audit Partner

Use of specialists

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 provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	Management's valuation experts: - Lambert Smith Hampton as valuers for General Fund properties and investment properties. Auditor Specialists: - EY Real Estate
Pensions disclosure	PwC as consulting actuary appointed by the NAO, and EY internal pensions specialists Hymans Robertson- Actuary to Oxfordshire Pension Fund

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





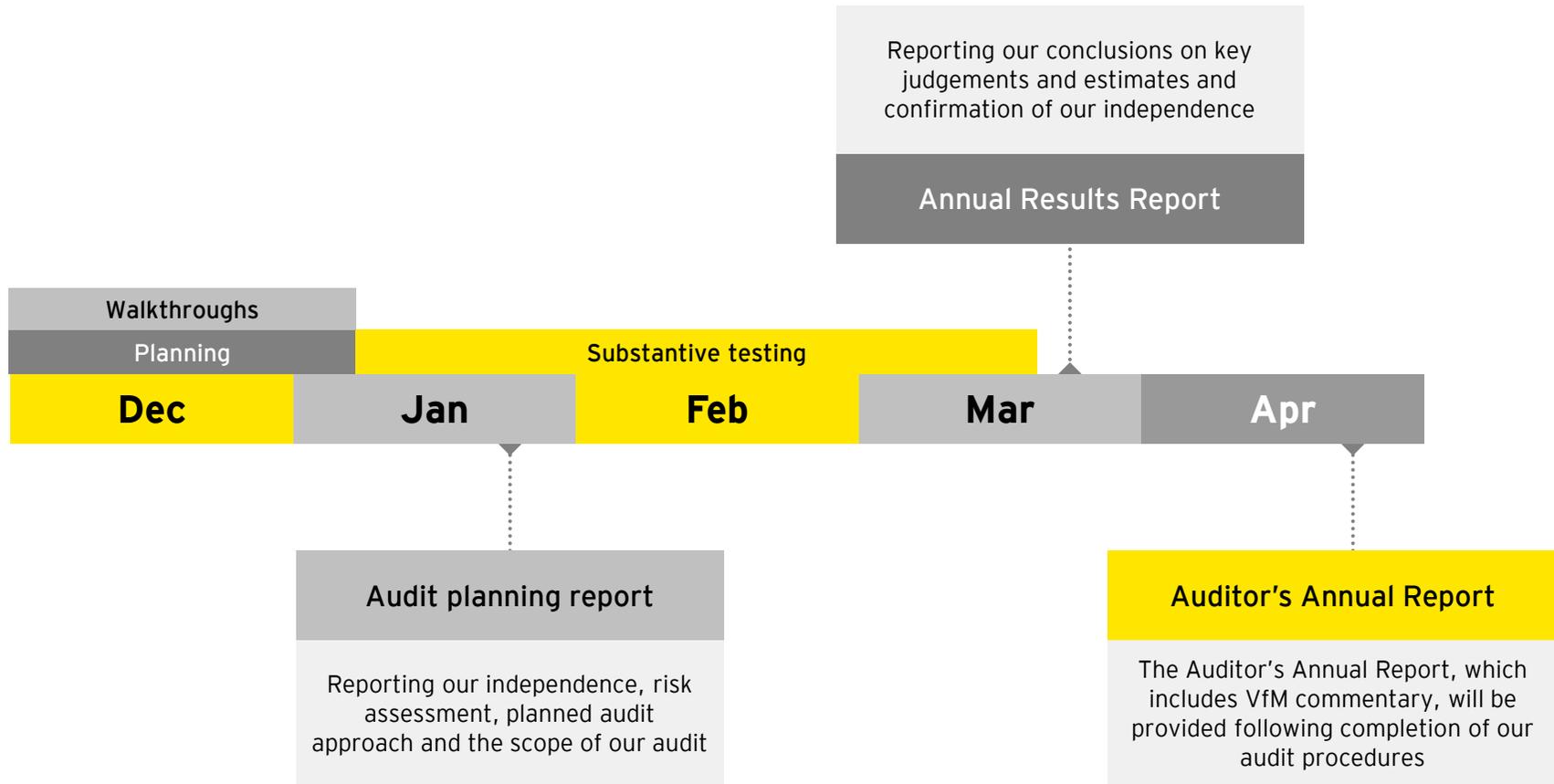
Audit timeline

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 2021.

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





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
<ul style="list-style-type: none"> ▶ 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] 	<ul style="list-style-type: none"> ▶ 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 Councils. 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 any 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 proposed to undertake the role of reporting accountant for the DWP's Housing Benefit Assurance Process (HBAP). We have determined appropriate safeguards.

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.

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

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Councils. Management threats may also arise during the provision of 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.

Relationships, services and related threats and safeguards

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 2020

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 30 June 2021:

[EY UK 2021 Transparency Report | EY UK](#)



09

Appendices



Appendix A - Fees (South Oxfordshire District Council)

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

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.

Description	Planned Fee 2019/20 £	Scale Fee 2019/20 £	Final Fee 2019/20 £
Total Audit Fee - Code work	£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	N/A	£29,575
Revised Proposed Scale Fee	£66,678	N/A	£66,678
Scale Fee Variation - new VFM arrangements (Note 2a)	£10,000 - £19,000	-	N/A
Scale Fee Variation - revised ISA 540 (Note 2a)	£4,400	-	N/A
Scale Fee Variation due to one-off issues impacting 2019/20 and 2020/21 audits (see Note 2b)	TBD	N/A	TBD
Total Proposed Audit Fee	TBD	£37,103	TBD
None Audit Fee - Housing Benefit Certification Work	£10,500	N/A	£10,933

Note 1

We have discussed with the 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 laid out the impact of regulatory changes which have caused that. 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 and 2020/21 the scale fee has been re-assessed to take these into account. The 2019/20 additional fee is subject to approval by the PSAA.

Note 2

We are in the process of quantifying the additional work we have undertaken in 2019/20. Once completed, we will discuss this with management and then be seeking seeking PSAA approval.

In 2020/21, we expect the new VFM arrangements and revised ISA 540 (estimates) to result in a scale fee variation. PSAA have published guidance on these matters and advise for minimum additional fees, for a district council, of £6,000 - £11,000 in respect of the new VFM arrangements, and a minimum of £2,500 in respect of the revised ISA 540.

Appendix A - Fees (Vale of White Horse District Council)

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

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.

Description	Planned Fee 2019/20 £	Scale Fee 2019/20 £	Final Fee 2019/20 £
Total Audit Fee - Code work	£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	N/A	£30,289
Revised Proposed Scale Fee	£67,118	N/A	£66,678
Scale Fee Variation - new VFM arrangements (Note 2a)	£10,000 - £19,000	-	N/A
Scale Fee Variation - revised ISA 540 (Note 2a)	£4,400	-	N/A
Scale Fee Variation due to one-off issues impacting 2019/20 and 2020/21 audits (see Note 2b)	TBD	N/A	TBD
Total Proposed Audit Fee	TBD	£36,289	TBD
None Audit Fee - Housing Benefit Certification Work	£10,500	N/A	£9,905

Note 1

We have discussed with the 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 laid out the impact of regulatory changes which have caused that. 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 and 2020/21 the scale fee has been re-assessed to take these into account. The 2019/20 additional fee is subject to approval by the PSAA.

Note 2

We are in the process of quantifying the additional work we have undertaken in 2019/20. Once completed, we will discuss this with management and then be seeking seeking PSAA approval.

In 2020/21, we expect the new VFM arrangements and revised ISA 540 (estimates) to result in a scale fee variation. PSAA have published guidance on these matters and advise for minimum additional fees, for a district council, of £6,000 - £11,000 in respect of the new VFM arrangements, and a minimum of £2,500 in respect of the revised ISA 540.

Appendix B

Required communications with the Joint Audit & Governance Committee

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

			 Our Reporting to you
Required communications	 What is reported?	 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	<ul style="list-style-type: none"> ▶ 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	

Appendix B

Required communications with the Audit Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ 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	<ul style="list-style-type: none"> ▶ 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
Fraud	<ul style="list-style-type: none"> ▶ 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	<ul style="list-style-type: none"> ▶ 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

Appendix B

Required communications with the Audit Committee (continued)

			 Our Reporting to you
Required communications	 What is reported?	  When and where	
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ 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 	<p>Audit Planning Report</p> <p>Audit Results Report</p>	
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	<p>Audit results report</p>	
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ 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 Committee may be aware of 	<p>Audit results report</p>	
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	<p>Audit results report</p>	

Appendix B

Required communications with the Audit Committee (continued)

 Our Reporting to you		
Required communications	 What is reported?	  When and where
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	<ul style="list-style-type: none"> ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit results report
Fee Reporting	<ul style="list-style-type: none"> ▶ 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

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 Council's 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.
- ▶ Reading other information published with the financial statements, 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 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.