

# Agenda

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## Audit and Governance Committee

Date: **Monday 9 March 2020**

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Time: **6.00 pm**

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Place: **St Aldate's Room - Oxford Town Hall**

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For any further information please contact the Committee Services Officer:

**Jennifer Thompson, Committee and Members Services Officer**

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If you intend to record the meeting, it would be helpful if you speak to the Committee Services Officer before the start of the meeting.

# Audit and Governance Committee

## Membership

<b>Chair*</b>	Councillor James Fry
<b>Vice-Chair*</b>	Councillor Chewe Munkonge
<b>Members (with substitutes)</b>	Councillor Tiago Corais  Councillor Andrew Gant Councillor Michael Gotch Councillor Ben Lloyd-Shogbesan Councillor Martyn Rush

The full membership is seven councillors and the quorum for this meeting is three members. Substitute members are permitted.

These are shown above where notification of apologies and substitutes were received before the agenda was published. Apologies and substitutions sent after publication will be reported at the meeting.

\*Substitutes for the Chair and Vice-chair do not take on these roles.

## Copies of this agenda

Reference copies are available to consult in the Town Hall Reception. Agendas are published 6 working days before the meeting and the draft minutes a few days after.

All agendas, reports and minutes are available online and can be:

- viewed on our website – [mycouncil.oxford.gov.uk](http://mycouncil.oxford.gov.uk)
- downloaded from our website
- viewed using the computers in the Customer Services, St Aldate's, or
- subscribed to electronically by registering online at [mycouncil.oxford.gov.uk](http://mycouncil.oxford.gov.uk)

# AGENDA

	<b>Pages</b>
<b>1 Apologies for absence and substitutions</b>	
<b>2 Declarations of Interest</b>	
<b>3 Internal Audit: Progress update Quarter 4 March 2020</b>	7 - 20
<b>Report of:</b> the internal auditor BDO.	
<b>Purpose of report:</b> to inform the Committee on progress against the 2019-20 audit plan.	
<b>Recommendation:</b> to discuss and note the report.	
<b>4 Internal Audit: Recommendation follow up Quarter 4 March 2020</b>	21 - 30
<b>Report of:</b> the internal auditor BDO	
<b>Purpose of report:</b> to inform the Committee on progress on those high and medium recommendations raised by Internal Audit which are due for implementation.	
<b>Recommendation:</b> to discuss and note the report.	
<b>5 Internal Audit: Audit Plan for 2020-21 and internal audit charter</b>	31 - 54
<b>Report of:</b> the internal auditor BDO	
<b>Purpose of report:</b> to set out for approval the indicative Internal Audit programme for 2020 - 21 and the indicative strategic plan for 2020 - 23.	
<b>Recommendation:</b> to discuss the report and approve the Internal Audit programme for 2020-21 and the indicative plan for 2020-23	
<b>6 External audit: EY Audit planning report for the audit of year ending 31 March 2020</b>	55 - 90
<b>Report of:</b> the external auditor EY	
<b>Purpose of report:</b> to set out the draft audit plan, including approach and scope, for the 2019/20 audit of the Council's accounts.	
<b>The Auditor will also provide a verbal update on the audit of the 2018-</b>	

## **19 Housing Benefits claim.**

### **Recommendation:**

- to discuss and agree the audit plan;
- to discuss and note the update.

## **7 External Audit: EY letter to PSAA bodies**

91 - 94

**Letter from** the external auditor EY dated 10 February 2020 - sustainability of UK local public audit.

**Recommendation:** to discuss and note the letter and the implications.

## **8 External Audit: EY sector briefing Quarter 4 December 2019**

95 - 114

**Briefing from** the external auditor EY - Local Government Audit Committee briefing Quarter 4, December 2019

**Recommendation:** to discuss and note the briefing.

## **9 Risk Management Quarterly Reporting to March 2020**

115 -  
122

**Report of:** the Head of Financial Services

**Purpose of report:** To update the Committee on both corporate and service risks as at 31 January 2020.

**Recommendation:** to review the risk management report and note its contents.

## **10 Minutes of the previous meeting**

123 -  
128

To approve as a true and accurate record the minutes of the meeting held on **9 January 2020**.

## **11 Dates and times of meetings**

The Committee is scheduled to meet at 6.00pm on the following dates:

30 July 2020	14 January 2021
21 October 2020	22 April 2021
	29 July 2021
	20 October 2021

## **Councillors declaring interests**

### **General duty**

You must declare any disclosable pecuniary interests when the meeting reaches the item on the agenda headed "Declarations of Interest" or as soon as it becomes apparent to you.

### **What is a disclosable pecuniary interest?**

Disclosable pecuniary interests relate to your\* employment; sponsorship (ie payment for expenses incurred by you in carrying out your duties as a councillor or towards your election expenses); contracts; land in the Council's area; licenses for land in the Council's area; corporate tenancies; and securities. These declarations must be recorded in each councillor's Register of Interests which is publicly available on the Council's website.

### **Declaring an interest**

Where any matter disclosed in your Register of Interests is being considered at a meeting, you must declare that you have an interest. You should also disclose the nature as well as the existence of the interest.

If you have a disclosable pecuniary interest, after having declared it at the meeting you must not participate in discussion or voting on the item and must withdraw from the meeting whilst the matter is discussed.

### **Members' Code of Conduct and public perception**

Even if you do not have a disclosable pecuniary interest in a matter, the Members' Code of Conduct says that a member "must serve only the public interest and must never improperly confer an advantage or disadvantage on any person including yourself" and that "you must not place yourself in situations where your honesty and integrity may be questioned". What this means is that the matter of interests must be viewed within the context of the Code as a whole and regard should continue to be paid to the perception of the public.

\*Disclosable pecuniary interests that must be declared are not only those of the member her or himself but also those member's spouse, civil partner or person they are living with as husband or wife or as if they were civil partners.

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# INTERNAL AUDIT PROGRESS REPORT

Oxford City Council

March 2020

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# SUMMARY OF 2019/20 WORK

## Internal Audit

This report is intended to inform the Audit Committee of progress made against the 2019/20 internal audit plan. It summarises the work we have done, together with our assessment of the systems reviewed and the recommendations we have raised. Our work complies with Public Sector Internal Audit Standards. As part of our audit approach, we have agreed terms of reference for each piece of work with the risk owner, identifying the headline and sub-risks, which have been covered as part of the assignment. This approach is designed to enable us to give assurance on the risk management and internal control processes in place to mitigate the risks identified.

## Internal Audit Methodology

Our methodology is based on four assurance levels in respect of our overall conclusion as to the design and operational effectiveness of controls within the system reviewed. The assurance levels are set out in Appendix 1 of this report, and are based on us giving either "substantial", "moderate", "limited" or "no". The four assurance levels are designed to ensure that the opinion given does not gravitate to a "satisfactory" or middle band grading. Under any system we are required to make a judgement when making our overall assessment.

## 2019/20 Internal Audit Plan

We are making good progress in the delivery of the 2019/20 audit plan, and we are pleased to present the following reports to this Audit Committee meeting:

- Business Continuity and Disaster Recovery
- Follow up Report
- Internal Audit Plan 2020-21 and Strategic Plan 2020-23

We are also completing the fieldwork on the following audits:

- Graffiti and Street Appearance
- Enforcement Restructure

We anticipate presenting these reports at the next Audit Committee.

## Changes to the Plan

The Council is in the midst of creating several capital influencing programmes as a response to the climate change emergency. The influencing programmes will be included in the scope of the Environment review however, these are not complete and we are unable to base our conclusions on these. Because of this, the Council has requested to move the Environment Audit review to the 2020-21 audit plan.

Subject to the Audit Committees approval, the 15 days will be c/f to the 2020-21 audit plan.

## Process to Agree 2020/21 Audit Plan

The Draft Audit Plan was discussed within the ODG meeting with all Heads of Service; the plan was subsequently presented to the S151 Officer on 21.02.2020. The Draft Internal Audit plan 2020 - 21 and Strategic plan 2020- 23 is presented in this committee for approval.

# REVIEW OF 2019/20 WORK

Audit Area	Audit Days	Executive Lead	Planning	Fieldwork	Reporting	Opinion			
						Design	Effectiveness		
Audit 1: Accounts Payable and Procurement	18	Nigel Kennedy	✓	✓	✓	Moderate	Moderate		
Audit 2: ICT General Control	12	Nigel Kennedy	✓	✓	✓	Substantial	Moderate		
Audit 3: Collection Fund	12	Nigel Kennedy	✓	✓	✓	Substantial	Substantial		
Audit 4: Treasury Management High Level	8	Nigel Kennedy	✓	✓	✓	Substantial	Substantial		
Audit 4: Health and Safety and Fire Safety	13	Helen Bishop	✓	✓	✓	Substantial	Moderate		
Audit 5: Contract Management	15	Nigel Kennedy	✓	✓	✓	Moderate	Moderate		
Audit 6: High Level Business Continuity, Disaster Recovery and Emergency Planning Review	12	Helen Bishop	✓	✓	✓	Substantial	Moderate		
Audit 7: Corporate Performance	13	Helen Bishop	✓	✓	✓	Moderate	Moderate		
Audit 8: Enforcement Restructure	12	Nigel Kennedy	✓						
Audit 9: Events Management	12	Ian Brooke	✓	✓	✓	Moderate	Moderate		
Audit 10: Graffiti and Street Appearance	10	Ian Brooke	✓	✓	✓				
Audit 11: Housing Rents System	12	Stephen Clarke	Changes approved by the Committee in January 2020. This review has been c/f to the 2020-21 Audit plan.						
Audit 12: Environment	15	Nigel Kennedy	See changes to plan section on page 3, to be moved to 2020-21 Audit Plan.						
Audit 13: Fusion follow-up	4	Ian Brooke	✓	✓	✓	N/A	N/A		
Audit 14: Election Accounts	12	Anita Bradley	✓	✓	✓	Substantial	Moderate		

# EXECUTIVE SUMMARY - High Level Business Continuity, Disaster Recovery and Emergency Planning Review

## EXECUTIVE SUMMARY

### LEVEL OF ASSURANCE: (SEE APPENDIX I FOR DEFINITIONS)

Design	Substantial	There is a sound system of internal control designed to achieve system objectives.
Effectiveness	Moderate	Evidence of non-compliance with some controls that may put some of the system objectives at risk.

### SUMMARY OF RECOMMENDATIONS: (SEE APPENDIX I)

High	0
Medium	2
Low	0

### TOTAL NUMBER OF RECOMMENDATIONS: 2

### BACKGROUND:

The Council performs a number of essential and statutory functions. Effective Business Continuity and Disaster Recovery arrangements enable the Council to restore service delivery without undue delay in the event that an unplanned event prevents normal systems and processes occurring. Good planning will enable prioritization of work to restore affected services, and identify the key contacts, resources and processes to return to stability of operations.

Recent incidents affecting Local Authorities have highlighted the reality of the risks and the necessity for Councils to be prepared - South Oxfordshire District Council was the victim of an arson attack in 2015, and more recently Lincolnshire County Council Services were affected by a ransomware computer virus. The inability to maintain key services in exceptional circumstances (business continuity) has been identified as a key corporate risk (no. 38). The arrangements enable shared resources and expertise, and cross Council incident support through an increased pool of trained staff.

In 2016 the responsibility for Business Continuity moved to Financial Services. In that same year we undertook an audit in this area which led to a Limited Audit Opinion. After this Zurich were appointed to improve the control environment.

**GOOD PRACTICE:**

- We confirmed senior management have completed a risk assessment and a business impact assessment in order to determine and define their recovery time objectives.
- Existing plans are in line with the Council's corporate structure and cover the necessary key contacts for employee guidance on who to raise incidents with in each department
- We confirmed that the Corporate Business Continuity Plan has adequate coverage to ensure that the Council's service areas that rely on systems and servers not highlighted in a specific plan are addressed.
- The Council has conducted a criticality assessment in the corporate business continuity plan, system and server incidents are categorised into three timeframes; 1 day, 1 week & 1 month, with 1 month being the longest time required for non-critical systems to being operationally effective.
- We confirmed that the key contacts and responsible officers in the event of an incident have been referred to as set out in the corporate business continuity plan.
- The Council have an IT Disaster Recovery Plan in place and we confirmed that procedures were documented in the event of an incident occurring, ensuring that senior management are aware of their responsibilities through workshop events that were held. Key contacts from the 3rd party suppliers (SCC) have been set out and referred to in the plan.
- The continuity plans in place include a review of the Horspath road offices with plans to expand to another office further to ensure all service areas that are required to perform critical functions for the Council can operate effectively. The service areas that do not require a connection to the LAN to perform their tasks are assigned to work remotely.
- There was sufficient evidence to showcase how members of staff would get to Horspath road with each BCP including a map towards the end with directions for employees to follow in the event where the site would be needed.
- Workshops for senior management took place explaining why a business continuity plan should be in place. This made sure every department was aware of their individual responsibilities towards the business continuity plan. After this, senior management in all departments drafted their section of the Business Continuity Plan and this was then reviewed by Zurich the third party risk management provider.

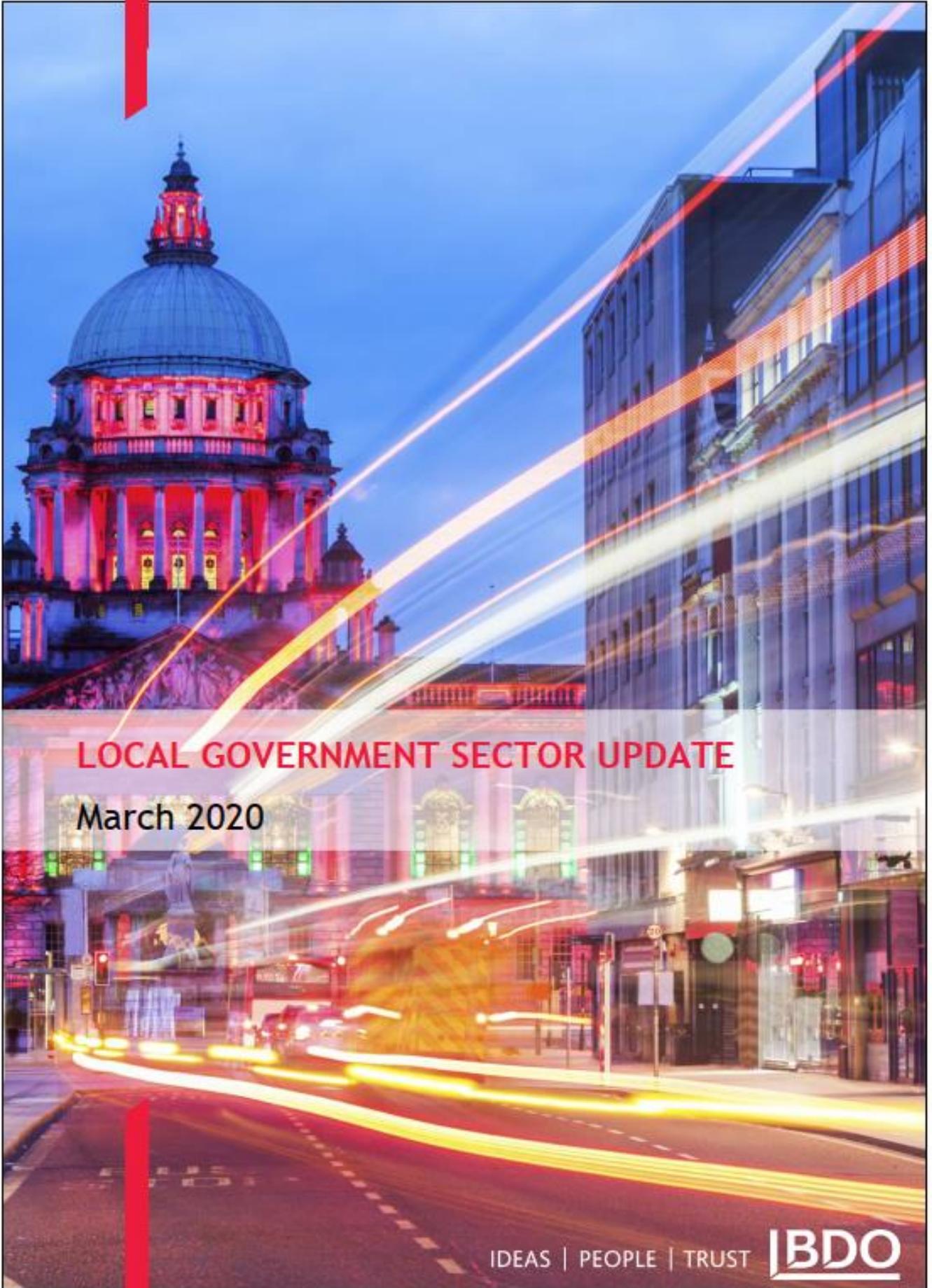
**KEY FINDINGS:**

Finding	Summary of Recommendations	Owner	Due date
In the business continuity plans review spreadsheet the Council currently have in place, there was no reference made towards the testing of the service areas' business continuity plans and no confirmations within the spreadsheet that confirms that testing of the plans is undertaken on an annual basis amongst all service areas that have a plan. (Medium - finding 1)	<p>The Council should implement annual testing for the plans to ensure that potential threats to critical systems and servers in specific service areas are identified to aid the Council in preparations, ensuring potential damages are mitigated for critical systems and servers as well as key data used in the day to day functioning of the Council's service areas.</p> <p><b>Management Response:</b>  <i>Agreed: The Council operates and will continue to operate biennial testing of the Corporate Business Continuity plan. Additional reviews will be</i></p>	Bill Lewis	December 2019

	<i>undertaken from time to time to supplement the oversight of the Risk Management Group.</i>		
Based on our review of the continuity plans provided along with the tracker used by the Council to highlight all continuity plans across service areas, we confirmed that the Council currently does not track third party plans produced by Zurich as to whether they have been reviewed and updated on an annual basis. (Medium - finding 2)	<p>The Council should ensure plans are provided to a board providing oversight to ensure approval has been granted before any Business continuity plans are issued back out to Service area management to be actioned in the event of a disaster occurring.</p> <p>Management Response:  <i>Agreed: The Risk Management Group has the responsibility for overseeing business continuity plans and will review all updated corporate and service area plans. The Risk Management Group will then feedback any issues identified.</i></p>	Bill Lewis	December 2019

**CONCLUSION:**

Overall, we conclude that the control framework in place for the management of Business Continuity and Disaster Recovery Planning within the Council is adequately designed and operationally effective, but management need to address the areas of risk identified from this review to ensure a robust approach is maintained.



## LOCAL GOVERNMENT SECTOR UPDATE

March 2020

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## SECTOR UPDATE

Our quarterly Local Government briefing summarises recent publications and emerging issues relevant to Local Authorities that may be of interest to your organisation. It is intended to provide a snapshot of current issues for senior managers, directors and members.

## FINANCE

### **'Alarm bells' ring over 14-fold boom in council commercial property investment**

A report from the National Audit Office urged the government to look again at the framework in place to protect taxpayer money from risks involved in investing in property such as offices and shopping centres.

The watchdog found that town halls in England spent £6.6bn on commercial property between 2016-17 and 2018-19 - 14.4 times higher than the preceding three years.

Relying on this type of investment leaves councils open to risk caused by an economic recession.

Meg Hillier, chair of the Public Accounts Committee, said: "Given local authorities have faced such big cuts, it is understandable that many might take part in risky investments to get more money in. "However, a fourteen-fold increase in spend on commercial property raises serious alarm bells."

<https://www.publicfinance.co.uk/news/2020/02/alarm-bells-ring-over-14-fold-boom-council-commercial-property-investment>

### **LGA: £80m from PWLB rate hike should be given back to councils**

In its 2020 Budget submission the Local Government Association estimated that the government could receive as much as £80m due to the rate hike and it should be used to support the sector.

"The income received by the government from the rate rise must be reused in the form of additional funding for local government," the LGA said.

As an alternative, the LGA called for a scheme similar to the Local Infrastructure Rate, introduced in the 2017 Autumn Budget, which allowed councils in England to borrow up to £1bn with a discounted interest rate of 60 basis points for infrastructure projects.

"Now that standard PWLB rates are higher it is vital that the opportunity is taken to implement a similar scheme in the 2020 Spring Budget for crucial projects, including housing, to enable councils to deliver schemes vital to the National Infrastructure Strategy which would otherwise be under threat," the group said.

The LGA noted that councils have increasingly been relying on their own resources to fund capital projects with central government grant falling by £600m between 2014-15 and 2018-19.

<https://www.publicfinance.co.uk/news/2020/02/lga-ps80m-pwlb-rate-hike-should-be-given-back-councils>

### **Nearly all local authorities expected to raise council tax and fees**

Among the 152 councils that responded to research, released by the Local Government Information Unit, 93% plan to increase council tax by more than 1.5%. The 2019-20 threshold to which local authorities could raise council tax to avoid a referendum was 3%.

Of the respondents, 97% said they plan to increase fees and charges in 2020-21, with 14% feeling they will have to raise them by the "maximum possible amount", the think-tank found.

Jonathan Carr-West, chief executive of the LGiU, said in the report: "The state of local government finances is dire. It is simply unacceptable that the government has let things get to this point."

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<https://www.publicfinance.co.uk/news/2020/02/nearly-all-local-authorities-expected-raise-council-tax-and-fees>

### **Government ‘failing’ to act on audit changes two years after Carillion**

Two years on from the collapse of outsourcing giant Carillion, Unite, the UK’s biggest union, has accused the government of failing to act on weaknesses in the UK audit system. Unite said that the government has done “exactly nothing” to overhaul the system after the firm’s demise left thousands without jobs and left major projects hanging in the balance. The union highlighted a Carillion-led project at the Royal Liverpool hospital, which was 85% complete when the firm collapsed in January 2018. The hospital was originally due to be completed in 2017 but will not be finished until 2022. Several reviews into Carillion’s collapse are currently underway including by the National Audit Office, the Financial Reporting Council and the Official Receiver. But none have been published yet.

<https://www.publicfinance.co.uk/news/2020/01/government-failing-act-audit-changes-two-years-after-carillion>

### **Public sector procurement grew by 17% last year**

UK public sector spend on procurement increased by 17% to £93bn in the last year, according to a data provider on government contracts. Tussell’s 2019 in UK public procurement report found that 2,076 public sector buyers awarded 45,216 contracts to 16,218 suppliers. The total value of contracts grew from £79bn in 2018 to £93bn in 2019 “despite political uncertainty”, Tussell said.

Of the £93bn total, £40bn came from central government contracts followed by £23bn from local government. Housing associations spent £9.3bn on procurement and the NHS spent £7.4bn. “other” public bodies, according to Tussell, spent a further £13bn.

The single largest buyer was the Ministry of Defence, which spent nearly £15bn on procurement, followed by Peabody housing association which spent £8.08bn. Tussell said that it expects the outsourcing market to grow again in 2020.

<https://www.publicfinance.co.uk/news/2020/01/public-sector-procurement-grew-17-last-year>

## **IT**

### **Breaking from the herd to meet threat of cyber-attack**

Last year we launched a white paper which reflected on digital and technology trends. The shift to truly digitally enabled services will become ubiquitous but these in turn bring new threats. Freedom of information requests have revealed that over the first half of 2019 UK councils suffered 263 million cyber-attacks. That’s an average of 800 an hour. The current model of cyber defence is a kind of ‘herd protection’. We learn from those that are breached and as quickly as possible we create a defence and share it.

Local government has done pretty well in cyber defence, but the model only works well if you are not the first to be attacked. So, as the internet of things takes off in care and other areas of our communities, it’s clear that the current reactive model to cyber defence will be severely tested. There are already some powerful lessons to be learned from other countries. It is now possible to put cyber defence on the front foot; you don’t need to have seen the type of attack before to trap it and kill it.

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<https://www.lgcplus.com/services/health-and-care/how-councils-can-collaborate-to-harness-the-power-of-social-care-data-05-02-2020/>

## Environment

### **One in 19 deaths linked to air pollution in cities, research finds**

A Centre for Cities report, out today, found that people living in southern cities are more likely to die from toxic air, and air pollution deaths are 25 times higher than the national rate of deaths from traffic accidents.

London and Slough have the highest percentage of deaths linked to the deadly toxin PM2.5, at 6.4%. Aberdeen has the lowest number of deaths linked to the toxin at just 3%, followed by Dundee at 3.1%. Centre for Cities found that 62% of roads monitored in UK cities exceed World Health Organisation guidelines for PM2.5, though these levels are still legal in England, Wales and Northern Ireland.

In 19 cities, all monitored roads are breaching the WHO guideline, potentially exposing 14 million people to the pollutant every day, the research unit said.

Researchers said that transport is a big source of pollution but burning fuels is another major cause. Half of deadly PM2.5 taxins generated in cities come from sources such as wood burning stoves and coal fires, the report said

<https://www.publicfinance.co.uk/news/2020/01/one-19-deaths-linked-air-pollution-cities-research-finds>

### **Government adviser cautions against ‘deluded’ net zero carbon goal**

A government climate change adviser has warned councils that setting ‘net zero’ carbon emissions targets could create “very serious unintended consequences”.

Dieter Helm, professor of energy policy at Oxford University, said the only form of net zero that should count is “net zero carbon consumption”, which also takes into account the carbon cost of our consumer products imported in from abroad.

Prof Helm told the Local Government Association’s climate emergency conference on Wednesday that he was “really concerned with deluding people with the idea that if we get to net zero on carbon territorial reduction by 2030, we will no longer be causing climate change”.

<https://www.lgcplus.com/services/environment/government-adviser-cautions-against-deluded-net-zero-carbon-goal-24-01-2020/>

## HOUSING

### **Government pledges £16.6m for domestic violence victims**

The government has pledged £16.6m to fund 75 projects providing refuge to victims of domestic violence and their children.

Housing and communities secretary Robert Jenrick today said the funding for councils would help up to 43,000 victims and end a “postcode lottery” of support for those fleeing abusive relationships.

The announcement follows a pledge by the government in last year’s Queen’s speech to impose a legal requirement on every council to provide accommodation-based support by amending the Domestic Abuse Bill, which will be reintroduced to the House of Commons shortly.

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<https://www.lgcplus.com/services/housing/government-pledges-16-6m-for-domestic-violence-victims-17-02-2020/>

**Councils must start cladding enforcement by end of the month**

Councils will be expected to start enforcement against building owners who have not started remediation work to remove unsafe Aluminium Composite Material (ACM) cladding from their buildings by the end of this month, the government has announced.

Officials from the Ministry of Housing, Communities & Local Government will work with local authorities to “support enforcement options” if a clear plan for remediation is not provided by building owners by the end of January.

The government will also begin naming and shaming the building owners who have been “too slow to act”.

The announcement was made as part of a raft of new measures being proposed to improve fire safety in high rise buildings in the wake of the Grenfell Tower fire, including the creation of a new building and safety regulator and the appointment of a chief inspector of buildings to speed up remediation work . The government is also to consult on lowering the height threshold for buildings requiring sprinklers from the current 30 metres and for the use of combustible materials on buildings from the current 18 metres.

<https://www.lgcplus.com/services/housing/councils-must-start-cladding-enforcement-action-by-end-of-the-month-21-01-2020/>

# APPENDIX 1

## OPINION SIGNIFICANCE DEFINITION

Level of Assurance	Design Opinion	Findings from review	Effectiveness Opinion	Findings from review
<b>Substantial</b> 	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
<b>Moderate</b> 	In the main, there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non compliance with some controls, that may put some of the system objectives at risk.
<b>Limited</b> 	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
<b>No</b> 	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non compliance and/or compliance with inadequate controls.

**FOR MORE INFORMATION:**

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# INTERNAL AUDIT FOLLOW UP OF RECOMMENDATIONS REPORT

OXFORD CITY COUNCIL

March 2020

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# Summary

## **FOLLOW UP GOING FORWARD - BDO RECOMMENDATIONS**

Following the issue of reports, all due high and medium recommendations will be followed up within this report.

### **RECOMMENDATIONS**

- 12 recommendations are due for follow-up with recommendations due prior to the end of **February 2020**
- Previous recommendations may simply have a revised date that is post this Committee and therefore, will be picked up at the next Committee

Of the 12 recommendations:

- Four Medium Recommendations were completed, including all Health & Safety recommendations
- Six Medium Recommendations are incomplete and have been issued a 2<sup>nd</sup> revised due date
- One Accounts Receivable recommendation has been issued with a 4<sup>th</sup> revised due date. One Fusion recommendation has been issued with a 3<sup>rd</sup> revised due date. Significant progress has been made against these recommendations and we have been assured that it will be fully completed by the next Audit Committee

### **Follow up Process**

As part of the follow-up process we issued all recommendations due for implementation on or before February 2020 on 14<sup>th</sup> January 2020. Recommendations due were sent to all responsible officers and the corresponding heads of service. We gave responsible officers 4 weeks to respond. We subsequently chased officers throughout February 2020.

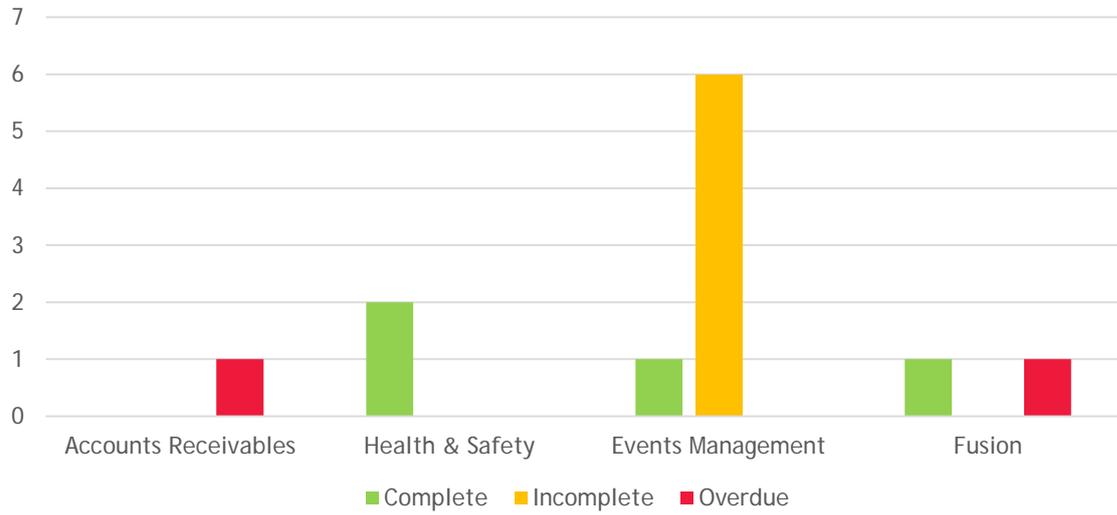
We are required to escalate non-responses and/or recommendations with several revised due dates to the Operational Delivery Group (ODG). We did not escalate responses to the ODG at this stage as we received all responses in a timely manner. However, recent discussions within the ODG meeting noted that the follow up tracker will be sent to the ODG for review. This is to keep all heads of services informed of the recommendations due and complete.

For all incomplete recommendations, we will:

1. Continue to emphasise to staff to be realistic about the implementation dates when completing their management responses at the completion stage of each internal audit review
2. Issue the recommendations tracker to all the relevant Heads of services on a monthly basis from the December audit committee onwards
3. Issue reminder emails 6 weeks prior to the follow up review to ensure timely completion of each recommendation

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### Status of 12 Recommendations Complete, Incomplete and Removed



## Recommendations: Complete

Audit	Recommendation made	Priority Level	Manager Responsible	Due Date	Current Progress
2019-20. Health & Safety	The Council should review their fire risk assessments within a three year cycle. However, where the property type carries a higher risk, the risk assessment should be completed annually.	M	Claire Bateman & Johnathan Stone	<del>30/11/2019</del> 31/01/2020	<p><b>Council's Comments:</b> OCC have appointed Turner &amp; Townsend (T&amp;T) to conduct all of the fire risk assessment requirements. Higher risk properties (towers, sheltered blocks and buildings of limited escape etc.) are included on an annual cycle.</p> <p><b>IA Comments:</b> The appointment of T&amp;T are now reviewing the necessary fire risk assessments on an annual basis which meets requirements of the recommendation.</p>
2019-20. Health & Safety	The assessment should be reviewed often enough for it to be up-to-date with any changes to the risks to the premises	M	Claire Bateman & Johnathan Stone	<del>30/11/2019</del> 31/01/2020	<p><b>Council's Comments:</b> Where a project exists which will involve a change to the occupancy, use or risk of the building, a fresh fire risk assessment will be requested through T&amp;T as part of the project. This is included within the 'project plan'. OCC is also in the process of establishing a periodic internal review process (utilising in house competency) for all risk assessments to fit in between the assessment and reassessment period.</p> <p><b>IA Comments:</b> Response identifies that T&amp;T will be updating fire risk assessments whenever there is a change in occupancy. The Council's Internal review will further bolster the fire risk assessment process.</p>

Audit	Recommendation made	Priority Level	Manager Responsible	Due Date	Current Progress
2019/20 Events Management	For the main events organised by the council during the year (e.g. St. Giles Fair, Xmas Lights, May Morning), appropriate deputies should be assigned for all key staff members within the events team, who would be able to temporarily cover their responsibilities in the event of an unexpected circumstance, therefore ensuring that the minimum staff requirements in the above policy are met.	M	Paula Redway	28/02/2020	<p><b>Council's Comments:</b> This has already been implemented as evidenced in the staffing arrangements put in place for Christmas Light Festival.</p> <p><b>IA Comments:</b> The process of implementing deputies for the key staff has been introduced at a recent event.</p>
2018/19 Fusion	Fusion should identify all means by which customers can complain in addition to Market Force and analyse these sources and report them to the Council to ensure completeness in the data reported	M	Lucy Cherry	<del>31/03/2019</del> <del>31/10/2019</del> 28/02/2020	<p><b>Council's Comments:</b> As of December 2019 Fusion moved away from to TNP (ran by the Engagement People), this is the start of transformation of the new platform. The new system allows users to provide feedback more quickly and in a less time-consuming process (less "Clicks"). As of this time customers can make comments via: Meet the Manager meeting, formal customer meeting, Partnership Board Meetings, emails, TNP, and social media.</p> <p><b>IA Comments:</b> It is clear that there are several communication streams available to customers and these have been improved recently to make feedback simpler.</p>

## Recommendations: Incomplete

Audit	Recommendation made	Priority Level	Manager Responsible	Due Date	Current Progress
2019/20. Events Management	The events team and SAG agree on a minimum number of staff required to safely run council-organised events based on the size and risk levels identified in risk assessments. This should be signed-off and documented, so that it may be adhered to for future events. The policy should also state if individuals of a certain grade or holding a particular level of experience and/or formal qualifications are required	M	Paula Redway	<del>28/02/2020</del> 1/04/2020	<p><b>Council's Comments:</b> SAG and the Events Team already agree on the event plan which includes staffing structure and arrangements for all council run events based on the size and risk of the event. This changes from year to year taking into account changes in legislation and industry best practice (e.g. counter-terrorism measures, drone management etc.). Other factors taken into consideration are the day of the week of the event - e.g. there is a higher risk for managing May Morning at the weekend or a bank holiday than during the week.</p> <p><b>IA Comments:</b> We will review minutes to the next SAG meeting before next Audit Committee to assess whether the May Morning had addressed the recommendation.</p>
2019/20. Events Management	A formal training policy should be agreed upon that details any standard training required by all events management members, as well as role specific requirements that correspond to the newly classified roles	M	Paula Redway	<del>28/02/2020</del> 1/04/2020	<p><b>Council's Comments:</b> Research is currently being undertaken to look at the training policies and plans for event management undertaken by other local authorities.</p> <p><b>IA Comments:</b> We will follow up progress on reviewing training policies, plans assessment of other local authority processes in the next follow up exercise</p>
2019/20. Events Management	Management should create a more detailed internal strategy for events going forward in Oxford; the events team has shared the Brighton Hove events strategy with us which we	M	Alison Drummond	<del>28/02/2020</del> 1/04/2020	<p><b>Council's Comments:</b> Research is currently being undertaken to look at the training policies and plans for event management undertaken by other local authorities.</p>

Audit	Recommendation made	Priority Level	Manager Responsible	Due Date	Current Progress
	understand could be used as a basis for this. This should be drafted by the events team based on current practice and knowledge, then shared with other relevant members of the council to obtain agreement and sign-off				<p>Events Officer has been off of work on sick leave for several weeks which has impacted this.</p> <p><b>IA Comments:</b> We will follow up progress on reviewing training policies, plans assessment of other local authority processes in the next follow up exercise</p>
2019/20. Events Management	The agreed upon objectives policy should also be shared externally with applicants in order to guide applications, this could be an individual document or form part of a larger updated guidance policy	M	Alison Drummond	28/02/2020 1/04/2020	<p><b>Council's Comments:</b> This will be done when ODG have signed off on the agreed strategy.</p> <p><b>IA Comments:</b> We will review the strategy at the next Audit Committee.</p>
2019/20. Events Management	The events team should develop their current team structure to ensure it is up-to-date and includes details of the specific roles and responsibilities covered by both the team as a whole and individual members; this should be agreed and shared with more senior management	M	Paula Redway	28/02/2020 1/04/2020	<p><b>Council's Comments:</b> We are considering options for outsourcing the direct management of two of the four larger events in the city. When decisions have been made about the management arrangements for those events, the team structure will be developed according to need.</p> <p><b>IA Comments:</b> We will follow this up again prior to the next Audit Committee.</p>
2019/20. Events Management	The events management and emergency planning teams should create a combined policy to document which responsibilities and expertise sit with each team. This should be accessible so it can easily be shared with members of the SAG and external event organisers, in order to facilitate the appropriate direction of communications	M	Paula Redway	28/02/2020 1/04/2020	<p><b>Council's Comments:</b> Members of the event team and the emergency planning team are attending training sessions in February and March 2020 which will then inform this work.</p> <p><b>IA Comments:</b> We will follow this up again prior to the next Audit Committee.</p>

## Recommendations: Overdue

These recommendations have been marked as overdue as they continue to be incomplete despite having previously revised their implementation dates. Therefore, they have now missed at least two implementation dates.

Audit	Recommendation made	Priority Level	Manager Responsible	Due Date	Current Progress
2018/19. Accounts Receivables	The Council should provide adequate levels of training/guidance on levels of due diligence required based on the value of services provided for the customer or the type of organisation they are	M	Neil Markham	<del>30/04/2019</del> <del>30/09/2019</del> <del>31/12/2019</del> <del>31/01/2020</del> 31/03/2020	<p><b>Council's Comments:</b></p> <p>The publication of the sundry debtors guide was delayed to allow us to expand and further define the section on customer due diligence. The guide has now been completed.</p> <p>There are now four due diligence options live in Agresso which users are able to specify. Screen shot shows live options.</p> <p>A training session for users has been organised and will be held on 25th March 2020. An online video is also planned.</p> <p>We anticipate this recommendation will be fully complete by the end of March 2020 as planned - 31/03/2020.</p> <p><b>IA Comments:</b></p> <p>The recommendation has been substantially completed and based on the comments the training will be delivered by the next Audit Committee.</p>
2018 / 19 Fusion	Fusion should invest in the social media platforms to either direct customer to the main complaint system or use these platforms more effectively as a complaint forum by advertising this as such	M	Lucy Cherry	<del>30/06/2019</del> <del>31/10/2019</del> <del>29/02/2020</del> 31/05/2020	<p><b>Council's Comments:</b></p> <p>As of December 2019 Fusion moved away from to TNP (ran by the Engagement People). This is the start of transformation of the new platform. There is not currently a set plan in place to install a system that can load social media data to TNP, but there is an aspiration to do so in the long term.</p> <p><b>IA Comments:</b></p> <p>We will follow up on the progress of this prior to the next Audit Committee.</p>

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**INTERNAL AUDIT ANNUAL PLAN 2020 - 21 &  
STRATEGIC PLAN 2020 - 23 (DRAFT)**

OXFORD CITY COUNCIL

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# AUDIT RISK ASSESSMENT

## Background

Our risk based approach to Internal Audit uses the Council's own risk management process and risk register as a starting point for audit planning as this represents the client's own assessment of the risks to it achieving its strategic objectives.

The extent to which we can rely on management's own perception of risk largely depends on the maturity and effectiveness of the Council's own risk management arrangements. In estimating the amount of audit resource required to address the most significant risks, we have also sought to confirm that senior management's own assessment of risk accurately reflects Oxford City Council's current risk profile.

## Planned approach to internal audit plan 2020 - 21

The indicative Internal Audit programme for 2020 - 21 is shown from page 6, with an indicative strategic plan for 2020 - 23 shown from page 12. We have met with the Heads of Services and the Audit Chair in order to bring together a full plan which will be presented at the March 2020 Audit Committee. We will keep the programme under continuous review during the year and will introduce to the plan any significant areas of risk identified by management during that period.

The plan is set within the context of a multi-year approach to internal audit planning, such that all areas of key risks would be looked at over a three year audit cycle. In setting the number of days in the plan we have assumed that the control environment within the Council will improve as we work with you to address the issues you have.

## Individual audits

When we scope each review, we will reconsider our estimate for the number of days needed to achieve the objectives established for the work and to complete it to a satisfactory standard in light of the control environment identified within the Council. Where revisions are required, we will obtain approval from the appropriate Executive Director prior to commencing fieldwork.

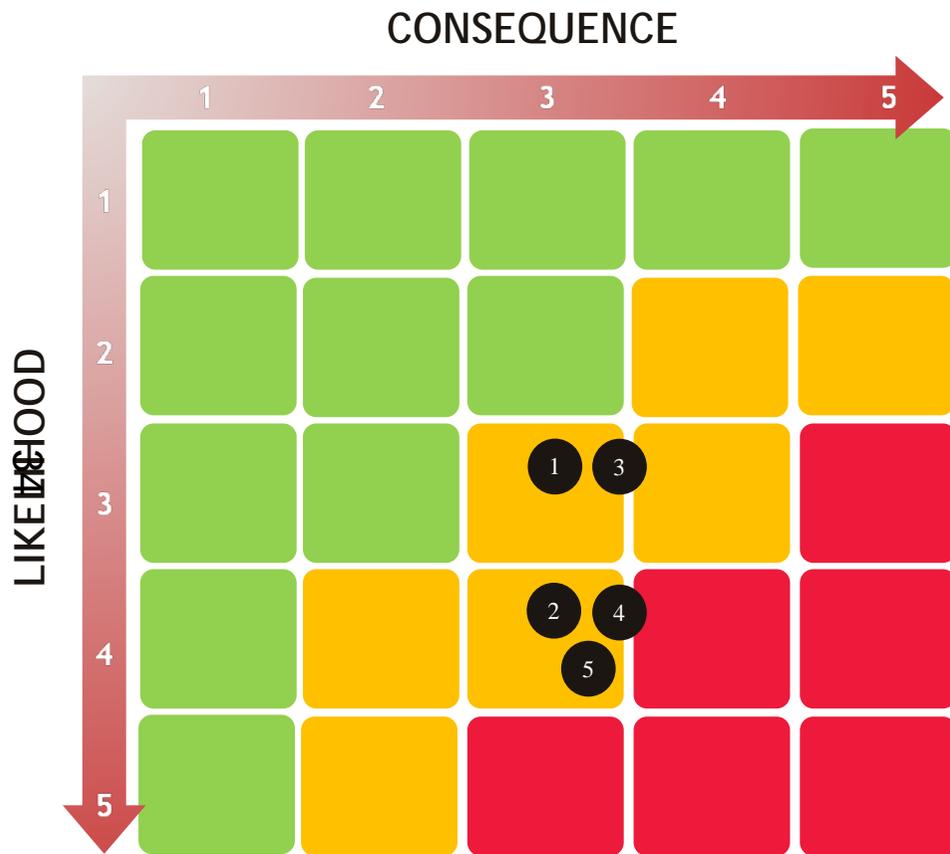
In determining the timing of our individual audits we will seek to agree a date which is convenient to the Council and which ensures availability of key management and staff.

## Variations to the Plan

We review the three year strategic plan each year to ensure we remain aware of your ongoing risks and opportunities. Over the coming pages we have mapped your key risks along with the audit work we are undertaking, demonstrating we are focussing on your most important issues.

As such our strategic audit programme follows the risks identified during our planning processes and confirmed via discussions with the Heads of Service and the Head of Financial Services

# MAPPING YOUR STRATEGIC RISKS



	Ref	Strategic Risks from your CRR
1	1	Enable an Inclusive Economy
2	2	Deliver More affordable housing
3	3	Support Thriving Communities
4	4	Pursue a Zero Carbon Oxford
5	5	All of the above (1234)

# MAPPING YOUR CRR TO THE STRATEGIC PLAN

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Ref	Strategic Risks from your CRR	2020/21	2021/22	2022/23
1	Enable An Inclusive Economy	Car Parking Channel Shift Companies Oversight	Local Enterprise Partnership and Growth Deals Health and Safety and Fire Safety	Highways Audit
2	Deliver More Affordable Housing	Housing Rents	Major Works - Grenfell Report	Housing Investment and outsourcing model
3	Support Thriving Communities	Community Strategy	Community Capital Projects	Oxford Safer Community Partnerships
4	Pursue A Zero Carbon Oxford	Environment	Flood Risk Management	Fleet Management and Air Pollution
5	All of the above (1234)	Accounts Receivable Payroll and Overtime Data Analytics Income Collection and Cashiers Treasury Management Planning Services Corporate Performance	Data Analytics Purchase Cards General Ledger GDPR and high level Freedom of Information Cyber Security Accounts Payables and Procurement General Ledger	NNDR and Business rates pooling Project Management Sickness and Absence Management Contract Management Expenses Scheme of Delegation Fixed Assets Register

# INTERNAL AUDIT OPERATIONAL PLAN 2020-21

Area	Days	Timing	Description of the Review	Reason for Inclusion
<b>1. Enable an Inclusive Economy</b>				
Car Parking	15	Q1	To review the operational controls and processes with regards to setting tariffs, issuing tickets and income collection. Assessment of whether the Council have taken effective steps to maximise economic activity through its parking strategy and have met legislative requirements over the use of income toward the support of transport related activity.	This review will provide the Audit Committee with assurance on whether the control and processes within car parking are being adhered to. In addition, we will provide assurance on the use of funds to support transport related activities undertaken by the Council.
Channel Shift	15	Q2	<ul style="list-style-type: none"> <li>Review how the Council uses data to understand its customers and assess where customers can be directed on-line or to more efficient methods</li> <li>compare the Council's approach to those successfully implemented at other Councils</li> <li>assess the extent to which savings plans are being monitored and achieved</li> <li>Review the Council's plans to use technology to drive change in customer access and how the Council ensures this is working effectively</li> </ul>	This review will provide the Audit Committee with assurance on whether its Channel Shift strategy is being implemented effectively .
Companies Oversight	15	Q1	<p>The Council have set up various companies to effectively manage the ODS and the housing company. This was previously reviewed in 2018 -19 where the initial set up of the companies and achievement of objectives were reviewed.</p> <p>We will now review the overall governance arrangements in place within the joint ventures and whether there is sufficient oversight/scrutiny and performance monitoring by Non-Executive Directors.</p>	This review will provide the Audit Committee with assurance that there are adequate governance arrangements within joint ventures and performance is monitored appropriately.
<b>Total</b>	<b>45</b>			

Area	Days	Timing	Description of the Review	Reason for Inclusion
<b>2. Deliver More Affordable Housing</b>				
*Housing Rents	13	Q3	<p>The days have been carried forward from the 2019 - 20 Audit plan. This has been allocated to the 2020-21 plan as the QL Areon system (new housing system) was not implemented.</p> <p>This review will assess the controls and processes to manage housing rents including the effective use of the new QL Areon system implemented in April 2020. An assessment of the administration and management of policies will also be made i.e. administration of 'market rent' assessments.</p>	This review will provide the Audit Committee with assurance that the new QL Areon system have sufficient controls and processes in place to manage housing rents effectively.
<b>Total</b>	<b>13</b>			

Area	Days	Timing	Description of the Review	Reason for Inclusion
<b>3. Support Thriving Communities</b>				
Community Strategy	15	Q3	To assess how the Council is working with the communities, encouraging diversity and equality.	To provide assurance to the Audit committee that the Council is promoting diversity and Equality.
<b>Total</b>	<b>15</b>			

Area	Days	Timing	Description of the Review	Reason for Inclusion
<b>4. Pursue A Zero Carbon Oxford</b>				
*Environment	15	Q3	This review was moved from 2019 -20 to 2020-21 and therefore the audit days were carried over. We will review the design and effectiveness of controls in relation to environmental concerns, and understand the extent to which the operational footprint and strategies of the Council are reflecting its Climate Emergency declaration. We will also review the effectiveness of engagement/influencing programmes designed by the Council for driving environmental change.	To provide assurance to the Audit Committee that the Council is taking measures to respond to the climate emergency and develop programmes to reduce the carbon foot print.
<b>Total</b>	<b>15</b>			

Area	Days	Timing	Description of the Review	Reason for Inclusion
<b>5. All Risks Above (1234)</b>				
Accounts Receivable	15	Q3	Assess the arrangements to input, amend, record and report accounts receivable data including ensure new structures in place are robust and have met the objectives set out. Ensure Debt collection arrangements are sound and followed up appropriately.	Cyclical review of key systems and controls to provide assurance on the core financial controls in place.
Payroll and Overtime	15	Q2	This review will cover payroll and overtime arrangements within the Council	Cyclical review of key systems and controls to provide assurance on the core financial controls in place.
Data Analytics	15	Q3	To conduct data analytics on main financial system information including the ledger and payroll. This will include conducting data analytics tests and then following up on red flags identified.	Cyclical review of key systems and controls to provide assurance on the core financial controls in place.

Area	Days	Timing	Description of the Review	Reason for Inclusion
<b>5. All Risks Above (1234)</b>				
<b>Income Collection and Cashiers</b>	15	Q2	The Council will be going live in July 2020 with the replacement of the Paris system. We will review the arrangements for recording income onto the new system and cash handling arrangements.	This review will provide the Audit Committee with assurance that the new system (replacing Paris) is operating effectively.
<b>Treasury Management</b>	12	Q2	We have previously reviewed the Treasury management processes in 2019 - 20. The Council are due to undertake borrowings of up to £900k (housing company loans) and therefore we will assess whether the controls and processes are operating effectively and an adequate process is being followed.	This review will provide the Audit Committee with assurance on whether the Council has adequate controls and processes to manage and monitor borrowing of significant value.
<b>Planning Services</b>	15	Q3	Review the strategy for the service to assess whether it is fit-for-purpose, the capacity/knowledge and resilience of the team, and whether operational controls to achieve the objectives for the area are robust. In addition, identify issues on building control and planning and commercial services and whether the paper light and Idocs aspect introduced in December 2019 is working effectively	This review will provide the Audit Committee with assurance on ensuring planning services and commercial services are operating effectively and there is capacity/resilience in the team to manage planning applications.
<b>Corporate Performance</b>	15	Q4	In 2019-20 we reviewed the governance of corporate performance indicators and whether these are reported and monitored effectively. We will understand how corporate indicators are developed, scrutinised and subsequently approved; we will also assess whether the corporate indicators are aligned with the Council's Corporate objectives and the right parties are involved in the process.	This review will provide the Audit Committee with assurance on whether there are robust controls and processes in place to both develop, scrutinise and approve corporate indicators.
<b>Total</b>	<b>102</b>			

Area	Days	Timing	Description
Planning, Reporting and Follow up			
Planning/ liaison/ management	8	Q1-4	Creation of audit plan, meeting with each Executive Director
Recommendation follow up	8	Q1-4	Assessment and reporting of recommendations
Audit Committee	4	Q1-4	Attendance at all Audit Committees
Contingency	4	-	-
<b>TOTAL</b>	<b>24</b>		

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<b>SUB TOTAL</b>	<b>214</b>		
Less days c/f from 2019 -20 plan	(28)		Environment c/f 15 days and Housing Rents c/f 13 days.
<b>GRAND TOTAL</b>	<b>186</b>		

# INTERNAL AUDIT STRATEGIC PLAN

## 2020 - 23

Area	2020- 21	2021 - 22	2022- 23	Description of the Review
<b>1. Enable an Inclusive Economy</b>				
Car Parking	15			To review the operational controls and processes with regards to setting tariffs, issuing tickets and income collection. Assessment of whether the Council have taken effective steps to maximise economic activity through its parking strategy and have met legislative requirements over the use of income toward the support of transport related activity.
Channel Shift	15			<ul style="list-style-type: none"> <li>Review how the Council uses data to understand its customers and assess where customers can be directed on-line or to more efficient methods</li> <li>compare the Council's approach to those successfully implemented at other Councils</li> <li>assess the extent to which savings plans are being monitored and achieved</li> <li>Review the Council's plans to use technology to drive change in customer access and how the Council ensures this is working effectively</li> </ul>
Companies Oversight	15			<p>The Council have set up various companies to effectively manage the ODS and the housing company. This was previously reviewed in 2018 -19 where the initial set up of the companies and achievement of objectives were reviewed.</p> <ul style="list-style-type: none"> <li>We will now review the overall governance arrangements in place within the joint ventures and whether there is sufficient oversight/scrutiny and performance monitoring by Non-Executive Directors.</li> </ul>
Local Enterprise Partnerships and Growth Deals		15		To keep under review the decision making and governance arrangements of the Local Enterprise Partnership in terms of setting a clear vision and operating under a clear governance framework, securing and accounting for funding, managing performance of regeneration schemes and achieving milestones and outcomes.
Health and Safety and Fire Safety		15		The Council would like to continue to monitor and assess the controls and processes in relation to health and safety and fire and safety ensuring they meet all legal requirements. This review will also include the assessment of health and fire safety controls at ODS too.

Area	2020- 21	2021 - 22	2022- 23	Description of the Review
Highways Audit			20	<p>We will review the governance framework, including the frequency and standard agenda of the performance management meetings and the associated Management Information. Review roles, responsibilities, and compliance with external regulations and internal policies and procedures.</p> <p>We will also review the Performance Indicators (PI') and the content of the performance meetings. Assurance that these meet with the standard agenda and includes an issues log. Review a sample of defects for compliance with internal processes and external highway regulations to ensure timeliness and quality expectation have been met.</p> <p>Invoicing - Ensure that purchase orders are in place and the quarterly invoices are issued by ODS and the City Council and ensure cost monitoring and performance management processes are in place.</p>
<b>Total</b>	45	30	20	

## 2. Deliver More Affordable Housing

*Housing Rents	13			<p>The days have been carried forward from the 2019 - 20 Audit plan. This has been allocated to the 2020-21 plan as the QL Areon system (new housing system) was not implemented.</p> <p>This review will assess the controls and processes to manage housing rents including the effective use of the new QL Areon system implemented in April 2020. An assessment of the administration and management of policies will also be made i.e. administration of 'market rent' assessments.</p>
Major Works - Grenfell Report		15		A review of the implementation of the Council's response to the Grenfell report, to cover both Council owned and other residential properties in Oxford.
Housing Investment and outsourcing model			15	The Council have heavily invested in the Housing market therefore, we will review the outsourcing model for the Council and ensure an effective model is used to outsource major contract works and it provides value for money.
<b>Total</b>	13	15	15	

Area	2020- 21	2021 - 22	2022- 23	Description of the Review
<b>3. Support Thriving Communities</b>				
Community Strategy	15			To assess how the Council is working with the communities, encouraging diversity and equality.
Community Capital Projects		15		Review the community projects managed by the Council and whether they provide value for money and benefits to the community
Oxford Safer Communities partnership			15	A review of how the Oxford Safer Communities Partnership engages with Local Safeguarding Boards and Multi agency Safeguarding Hub. Assess how the Council invest in services and manage relationships with external parties to protect vulnerable children and adults.
<b>Total</b>	<b>15</b>	<b>15</b>	<b>15</b>	
<b>4. Pursue A Zero Carbon Oxford</b>				
Environment	15			This review was moved from 2019 -20 to 2020-21 and therefore the audit days were carried over. We will review the design and effectiveness of controls in relation to environmental concerns, and understand the extent to which the operational footprint and strategies of the Council are reflecting its Climate Emergency declaration. We will also review the effectiveness of engagement/influencing programmes designed by the Council for driving environmental change.
Flood Risk Management		15		This review will assess the processes and controls in place for flood risk management. It will ensure the Council works with external parties to manage the risks of flood appropriately
Fleet Management and Air pollution			15	This review will assess the Council's Fleet Management processes in place and ensure there is an adequate fleet management strategy in place to manage fleet adequately by Oxford Direct Services.  In addition, approximately 90% of vehicles run by the Council run on diesel. We will assess how far the Council and its wholly owned company have moved in electrification of the fleet in its efforts to tackle climate change and tackle air pollution.
<b>Total</b>	<b>15</b>	<b>15</b>	<b>15</b>	

Area	2020- 21	2021 - 22	2022- 23	Description of the Review
<b>5. All Of the Above (1234)</b>				
Accounts Receivable	15			Assess the arrangements to input, amend, record and report accounts receivable data including ensure new structures in place are robust and have met the objectives set out. Ensure Debt collection arrangements are sound and followed up appropriately.
Payroll and Overtime	15			This review will cover payroll and overtime arrangements within the Council
Data Analytics	15	15		To conduct data analytics on main financial system information including the ledger and payroll. This will include conducting data analytics tests and then following up on red flags identified.
Income Collection and Cashiers	15			The Council will be going live in July 2020 with the replacement of the Paris system. We will review the arrangements for recording income onto the new system and cash handling arrangements.
Treasury Management	12			We have previously reviewed the Treasury management processes in 2019 - 20. The Council are due to undertake borrowings of up to £900k (housing company loans) and therefore we will assess whether the controls and processes are operating effectively and an adequate process is being followed.
Planning Services	15			Review the strategy for the service to assess whether it is fit-for-purpose, the capacity/knowledge and resilience of the team, and whether operational controls to achieve the objectives for the area are robust. In addition, identify issues on building control and planning and commercial services and whether the paper light and I docs aspect introduced in December 2019 is working effectively
Corporate Performance	15			In 2019-20 we reviewed the governance of corporate performance indicators and whether these are reported and monitored effectively. We will understand how corporate indicators are developed, scrutinised and subsequently approved; we will also assess whether the corporate indicators are aligned with the Council's Corporate objectives and the right parties are involved in the process.
Purchase Cards		15		Review the controls and processes in place for purchase cards. Ensure purchases are approved by appropriate persons and suitable transactions are undertaken
NNDR and Business rates pooling			15	Review the controls and processes in place for NNDR and business rates
GDPR and high level Freedom of Information		15		We previously reviewed the preparedness of the council for new GDPR regulations ahead of May 2018. We will now review the GDPR plan and ensure the plan is embedded within the Council and regulations are adhered to. We will also revisit Freedom of Information and ensure there are controls in place to manage and address Freedom of Information requests appropriately.
Project			15	We recently reviewed project management in 2018 -19. We will review the methodology and practice in the Council to

Area	2020- 21	2021 - 22	2022- 23	Description of the Review
Management				manage projects and projects at RPO sites. We will review particular projects in detail and assess whether the Council's approach was adhered to. Furthermore, a wider assessment of where projects have failed to meet objectives, to consider the root-cause of this with the aim of improving future project management arrangements
Cyber Security		15		Due to the rapid evolution of cyber security threats, the Council and its partners may not be able to prevent an attack on infrastructure in an effective or timely manner, resulting in a breach of security. Therefore, we will review the IT infrastructure in place within the Council.
Sickness and absence management			15	To review the sickness absence management process and ensure the Council have adequate controls and triggers in place to monitor and manage sickness absence effectively. We will also assess measures undertaken by the Council to enable staff to return to work quickly.
Accounts Payables and Procurement		15		Assess the arrangements to input, amend, record and report accounts payable data including whether the software/procurement methods in place is effective and whether opportunities for efficiencies have been identified.
General Ledger		15		To review general ledger controls from access controls, suspense accounts, journals, chart of accounts and upgrades.
Contract Management			15	There were a number of high priority findings in this report and therefore, we will revisit this area on 2022-23 and assess the most important contracts at the Council and how these are managed in terms of: whether the contract in place is robust and effective, variations to contracts are approved and embedded promptly, performance management is clear, understood and reported with appropriate action taken and if the culture between parties is effective.
Expenses			15	Review a sample of expense claims and ensure these are in line with the Council's Policy
Scheme of Delegation			10	Review the Council's Scheme Of Delegation. Ensure the scheme of delegation is up to date, has been approved by senior management, limits are appropriate, embedded into workflows and systems. The scheme of delegation is communicated to all staff appropriately. Ensure the Council updates and informs all relevant staff accordingly.
Fixed Assets Register			15	Review the Fixed assets register, ensure PPE is recorded on the fixed assets register, valued appropriately, depreciated in line with their useful economic life and sale proceeds are accurately recorded.
<b>Total</b>	<b>102</b>	<b>90</b>	<b>100</b>	

Planning, Reporting and Follow up				
Planning/ liaison/ management	8	8	8	Creation of audit plan, meeting with each Executive Director
Recommendati on follow up	8	8	8	Assessment and reporting of recommendations raised
Audit Committee	4	4	4	Attendance at all Audit Committees
Contingency	4	1	1	
<b>Total</b>	<b>24</b>	<b>21</b>	<b>21</b>	
Less c/f 28 days	(28)	Environment 15 days and Housing Rents 13 days		

<b>Grand Total</b>	<b>186</b>	<b>186</b>	<b>186</b>	
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# APPENDIX I

## Internal Audit Charter - Role and Scope of Internal Audit

### Purpose of this charter

This charter is a requirement of Public Sector Internal Audit Standards (PSIAS).

The charter formally defines internal audit's mission, purpose, authority and responsibility. It establishes internal audit's position within [Client Name] and defines the scope of internal audit activities.

Final approval resides with the Board, in practice the charter shall be reviewed and approved annually by management and by the Audit Committee on behalf of Oxford City Council [the Council]

### Internal audit's mission

Internal audit's mission is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

### Standards of internal audit practice

To fulfil its mission, internal audit will perform its work in accordance with PSIAS, which encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF): Definition of Internal Auditing, Code of Ethics, and International Standards for the Professional Practice of Internal Auditing.

### Internal audit definition and role

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Internal audit acts primarily to provide the Audit Committee with information necessary for it to fulfil its own responsibilities and duties. Implicit in internal audit's role is that it supports management to fulfil its own risk, control and compliance responsibilities. The range of work performed by internal audit is set out in PSIAS and not repeated here.

### Internal audit's scope

The scope of internal audit activities includes all activities conducted by the Council. The Internal Audit Plan sets out those activities that have been identified as the subject of specific internal audit engagements.

The provision of assurance services is the primary role for internal audit in the UK public sector. This role requires the chief audit executive to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control.

Assurance engagements involve the objective assessment of evidence to provide an independent opinion or conclusions regarding an entity, operation, function, process, system or other subject matter. The nature and scope of the assurance engagement are determined by internal audit.

Consulting engagements are advisory in nature and are generally performed at the specific request of management, with the aim of improving governance, risk management and control and contributing to the overall opinion. The nature and scope of consulting engagement are subject to agreement with management. When performing consulting services, internal audit should maintain objectivity and not assume management responsibility.

### **Effective internal audit**

Our internal audit function is effective when:

- It achieves the purpose and responsibility included in the internal audit charter
- It conforms with the Standards
- Its individual members conform with the Code of Ethics and the Standards
- It considers trends and emerging issues that could impact the organisation.

The internal audit activity adds value to the Council (and its stakeholders) when it considers strategies, objectives and risks, strives to offer ways to enhance governance, risk management and control processes and objectively provides relevant assurance.

We will agree with you an audit plan for a total number of days activity. Once agreed, we will turn this into a cash budget which we will work to, in order to ensure that you have certainty around the fees you will pay us.

### **Independence and internal audit's position within Oxford City Council**

The Internal Audit function within Oxford City Council is currently provided by BDO LLP, a limited liability partnership providing, accounting, audit and assurance, tax and financial advisory services. The Head of Internal Audit function is provided by Greg Rubins, a partner in BDO.

To provide for internal audit's independence, its personnel and external partners report to the Head of Financial Services, who reports functionally to the Audit Committee and provides day to day oversight of the contract with BDO. The Head of Internal Audit has free and full access to the Chair of the Audit Committee.

The appointment or removal of the Head of Internal Audit will be performed in accordance with established procedures and in consultation with the Chair of the Audit Committee.

The internal audit service will have an impartial, unbiased attitude and will avoid conflicts of interest. The internal audit service is not ordinarily authorised to perform any operational duties for the Council.

In the event that internal audit undertakes non-audit activities, safeguards will be agreed to ensure that independence or objectivity of the internal audit activity are not impaired. This might include a separate partner review of the work or a different team undertaking the work. Such arrangements will be in consultation with the Audit Committee prior to commencement.

In the event that internal audit provides assurance services where it had previously performed consulting services, an assessment will be undertaken to confirm that the nature of the consulting activity did not impair objectivity and safeguards will be put in place to manage individual objectivity when assigning resources to the engagement. Such safeguards will be communicated to the Audit Committee.

Internal audit must be free from interference in determining the scope of internal auditing, performing work and communicating results. Should any interference take place, internal audit will disclose this to the Audit Committee to discuss the implications.

### **Internal audit's role in fraud, bribery and corruption**

Management, not internal auditors are responsible for the prevention and detection of fraud, bribery and corruption. Auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption as well as seeking to identify indications that fraud and corruption may have been occurring. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud and corruption will be detected. In the event that internal audit suspect a fraud, this will be referred to appropriate management in the first instance and then the audit committee.

### **Access to records and confidentiality**

There are no limitations to internal audit's right of access to the Council's officers, records, information, premises, or meetings which it considers necessary to fulfil its responsibilities.

When the auditors receive confidential information about your affairs it shall at all times be kept confidential, except as required by law or as provided for in regulatory, ethical or other professional pronouncements applicable. All information will be maintained in line with appropriate regulations, for example the Data Protection Act 1998.

### **Coordination and reliance with other assurance providers**

In co-ordinating activities internal audit may rely on the work of other assurance and consulting service providers.

A consistent approach is adopted for the basis of reliance and internal audit will consider the competency, objectivity, and due professional care of the assurance and consulting service providers. Due regard will be given to understanding of the scope, objectives and results of the work performed by other providers of assurance and consulting services.

Where reliance is placed upon the work of others, internal audit is still accountable and responsible for ensuring adequate support for conclusions and opinions reached by the internal audit activity.

### **Internal audit's commitments to Oxford City Council**

Internal audit commits to the following:

- working with management to improve risk management, controls and governance within the organisation
- performing work in accordance with PSIAS
- complying with the ethical requirements of PSIAS
- dealing in a professional manner with the Council staff, recognising their other commitments and pressures
- raising issues as they are identified, so there are no surprises and providing practical recommendations
- liaising with external audit and other regulators to maximise the assurance provided to Oxford City Council

- Reporting honestly on performance against targets to the Audit Committee.

### Internal audit performance measures and indicators

The tables on the right contain some of the performance measures and indicators that are considered to have the most value in assessing the efficiency and effectiveness of internal audit.

The Audit Committee should approve the measures which will be reported to each meeting and / or annually as appropriate. In addition to those listed here we also report on additional measures as agreed with management and included in our Progress Report.

### Quality assurance and improvement programme

As required by PSIAS an external assessment of the service will be performed at least every five years. BDO also has an internal quality assurance review process in place, which takes place annually. This is performed by a separate team independent to the internal audit team.

The results of internal and external assessments will be communicated to the Audit Committee as part of the internal audit annual report, along with corrective action plans.

### Table One: Performance measures for internal audit

Measure / Indicator
<p><i>Audit Coverage</i></p> <p>Annual Audit Plan delivered in line with timetable</p> <p>Actual days are in accordance with Annual Audit Plan</p>
<p><i>Relationships and customer satisfaction</i></p> <p>Customer satisfaction reports - overall score at average at least 3.5 / 5 for surveys issued at the end of each audit.</p> <p>Annual survey to Audit Committee to achieve score of at least 70%</p> <p>External audit can rely on the work undertaken by internal audit (where planned)</p>
<p><i>Staffing and Training</i></p> <p>At least 60% input from qualified staff</p>
<p><i>Audit Reporting</i></p> <p>Issuance of draft report within 3 weeks of fieldwork `closing` meeting</p> <p>Finalise internal audit report 1 week after management responses to report are received.</p> <p>90% recommendations to be accepted by management</p>

Information is presented in the format requested by the customer.

#### **Audit Quality**

High quality documents produced by the auditor that are clear and concise and contain all the information requested.

Positive result from any external review

#### **Management and staff commitments to Internal Audit**

The management and staff of Oxford City Council commit to the following:

- providing unrestricted access to all of [Client Name]'s records, property, and personnel relevant to the performance of engagements
- responding to internal audit requests and reports within the agreed timeframe and in a professional manner
- implementing agreed recommendations within the agreed timeframe
- being open to internal audit about risks and issues within the organisation
- not requesting any service from internal audit that would impair its independence or objectivity
- providing honest and constructive feedback on the performance of internal audit

#### **Management and staff performance measures and indicators**

The following three indicators are considered good practice performance measures but we go beyond this and report on a suite of measures as included in each Audit Committee progress report.

#### **Table Two: Performance measures for management and staff**

##### **Measure / Indicator**

##### ***Response to Reports***

Audit sponsor to respond to terms of reference within one week of receipt and to draft reports within two weeks of receipt

##### ***Implementation of recommendations***

Audit sponsor to implement all audit recommendations within the agreed timeframe

##### ***Co-operation with internal audit***

Internal audit to confirm to each meeting of the Audit Committee whether appropriate co-operation has been provided by management and staff

## BDO contacts

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**GREG RUBINS**  
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# Oxford City Council Audit planning report

Year ended 31 March 2020

14 February 2020

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14 February 2020



Oxford City Council  
Town Hall  
St Aldates  
Oxford  
OX1 1BX

Dear Audit and Governance Committee Members

Draft audit planning report

We are pleased to attach our Draft Audit Plan which sets out how we intend to carry out our responsibilities as your auditor. Its purpose is to provide the Audit and Governance Committee with a basis to review our proposed audit approach and scope for the 2019/20 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This draft 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. We are still finalising our audit planning work and will provide an update to this report on any changes that arise on the completion of this work.

This report is intended solely for the information and use of the Audit and 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 09 March 2020 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Maria Grindley  
For and on behalf of Ernst & Young LLP

# Contents



Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.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 Audit and Governance Committee and management of Oxford City Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit and Governance Committee, and management of Oxford City Council 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 Audit and Governance Committee and management of Oxford City Council 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 2019/20 audit strategy



## Overview of our 2019/20 audit strategy

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

Risk / area of focus	Risk identified	Change from PY	Details
Incorrect capitalisation of revenue expenditure	Fraud Risk	No change in risk or focus.	The Council has a significant capital programme of £105m. One way for Councils to manipulate their year end position is inappropriate capitalization of revenue expenditure. Whilst we have not identified a heightened risk of management override within the Council the risk still remains, particularly when combined with the size of the capital programme.
Group structure	Inherent Risk	No change in risk or focus.	The Council's group structure has changed in recent years terms of the number and size of the companies within the group. This adds complexity for both the auditors and preparers of the accounts. As part of our Group scoping we have also identified 1 subsidiary, Oxford Direct Services, as being in full Group scope. This will involve full consideration of ODS as well as extensive liaison with the external auditors of ODS, Mazars, as well as EY review of Mazars documentation and testing schedules.
Pension liability valuation	Inherent Risk	No change in risk or focus.	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 which it administers. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.
Valuation of land and buildings	Inherent Risk	No change in risk or focus.	The fair value of Property, Plant and Equipment (PPE), including land and buildings, 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.

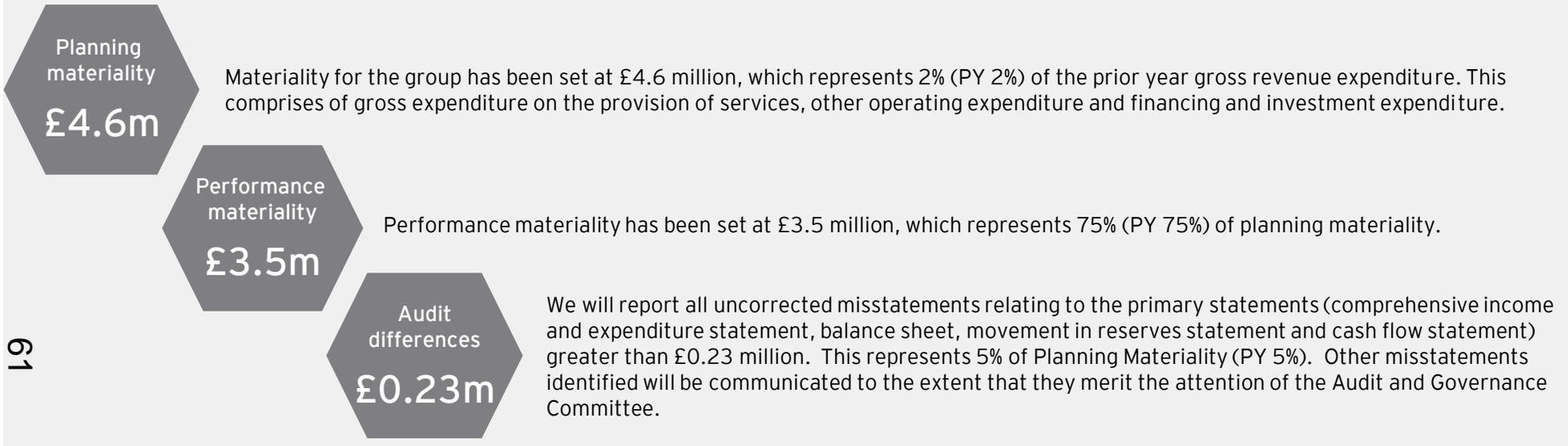
## Overview of our 2019/20 audit strategy

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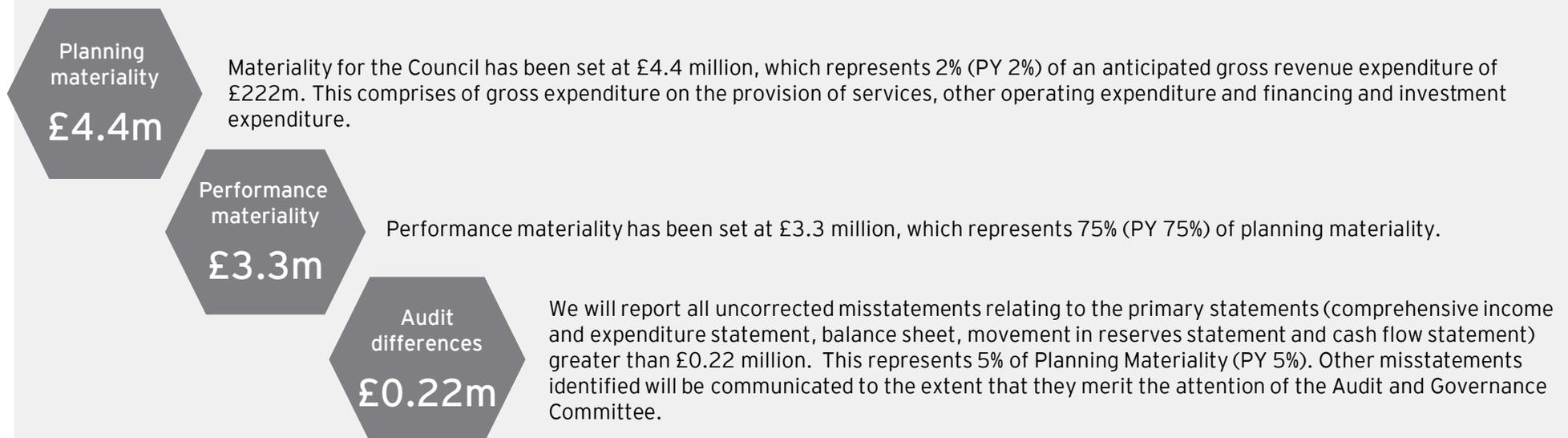
Risk / area of focus	Risk identified	Change from PY	Details
Implementation of IFRS 16 - Leases from 1 April 2020	Inherent risk	New	Oxford City Council will need to possibly make disclosures in its 2019/20 accounts in line with IAS 8 on its adoption of the requirements of IFRS 16 (Leases) for financial year commencing 1 April 2020. The new standard will eliminate the distinction between operating and finance leases held as lessee and it is expected that significant work will be required by officers to identify all of the leases that it has in place at 1 April 2020 including prior year comparatives. A readiness assessment is encouraged to prepare for the upcoming implementation.

# Overview of our 2019/20 audit strategy

## Group Materiality



## Council Only Materiality



# Overview of our 2019/20 audit strategy

## Audit scope

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

- Our audit opinion on whether the financial statements of Oxford City Council give a true and fair view of the financial position as at 31 March 2020 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 Council's 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.



02

# Audit risks



## Our response to significant risks

### Incorrect capitalisation of revenue expenditure

#### Financial statement impact

Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts.

Capital Additions 18/19: £25 m

#### What is the risk?

Local authorities have a statutory duty to balance their annual budget and are operating in a financially challenged environment with reducing levels of government funding and increasing demand for services.

The Council's Constitution requires the Head of Financial Services to prepare a Capital Strategy which;

- Sets out the principles the Council will follow in its capital planning.
- Outlines the methodology for inclusion of schemes within the Capital Programme.
- Sets out the arrangement for management of capital schemes.
- Identifies the capital schemes to be undertaken over the following four financial years and how those schemes will be funded.

Achievement of budget is critical to minimizing the impact and usage of the Council's usable reserves and provides a basis for the following year's budget. Any deficit outturn against the budget is therefore not a desirable outcome for the council and management, and therefore this desire to achieve the budget increases the risk that the financial statements may be materially misstated.

Whilst there is no more than normal pressure on the Council to meet the outturn position, due to the size of the capital programme (£105m) there is a risk of inappropriate capitalization of revenue expenditure.

#### What will we do?

- ▶ Review of the capital programme to assess what schemes are included and identify anything unusual or unexpected.
- ▶ Review capital expenditure incurred by the Council to ensure that it has been correctly classified as capital rather than revenue.

## 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?

##### Pension Liability Valuation

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Oxfordshire County Council. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2019 this totalled £211 million. The information disclosed is based on the IAS 19 report issued to the Council by the actuary. 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.

##### Valuation of Land and Buildings

The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. To assist Management internal and external valuers support these judgements. At 31 March 2019 the value of Property, Plant and Equipment included on the Group's balance sheet totalled £879 m. In addition there was also £128 m of Investment Property.

#### What will we do?

We will:

- ▶ Liaise with the auditors of Oxfordshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Oxford City Council;
- ▶ Assess the work of the Pension Fund actuary (Hyman Robertson) 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;
- ▶ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19; and
- ▶ Consider any accounting implications in 2019/20 arising from the McCloud judgement and Supreme Court ruling in 2019.

We will:

- ▶ Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Sample testing key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- ▶ 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 IP. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- ▶ Review assets not subject to valuation in 2019/20 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 accounting entries have been correctly processed in the financial statements.

## 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?

##### Group Structure

The Council has a growing number of companies within the group structure five of which are wholly owned by the Council and two where the company is jointly owned. With this growth comes additional complexity and risk arising from the need to understand and implement the accounting and reporting requirements for these operations.

One of these components, Oxford Direct Services Ltd (ODS), will be a significant component to the group.

The risk is considered significant because ODS is a significant component based on the size of the subsidiary. The accounts of the components will need to be consolidated into the Group accounts with appropriate consolidating adjustments. This gives scope for potential material error.

We will:

- ▶ Examine the group structure and determine which elements are in scope;
- ▶ Monitor the position to identify any other components that might move into scope by the year end;
- ▶ Review the Council's approach to consolidation and production of group accounts to ensure that this meets the requirements of the Code of Audit Practice;
- ▶ Liaise with the external auditor of ODS, Mazars, asking them to undertake a programme of work in line with Group audits.

##### IFRS 16- Leases

Oxford City Council will need to adopt the requirements of IFRS 16 (Leases) for financial years commencing 1 April 2020. The new standard will eliminate the distinction between operating and finance leases and it is expected that significant work will be required by officers to identify all of the leases that the Council has in place at 1 April 2020. Comparative disclosures will also be required.

A readiness assessment is encouraged to prepare for the upcoming implementation and to ensure that the leases disclosed are complete and accurate.

We will:

- ▶ Assess the authority's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2020/21;
- ▶ Check additional disclosure requirements as required by the Code for 2019/20 have been complied with;
- ▶ Continue to liaise with officers to ensure that questions and issues can be fully and quickly resolved.



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## Value for Money Risks





# Value for Money

## Background

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. This is known as our value for money conclusion. For 2019/20 this is based on the overall evaluation criterion:

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

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

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

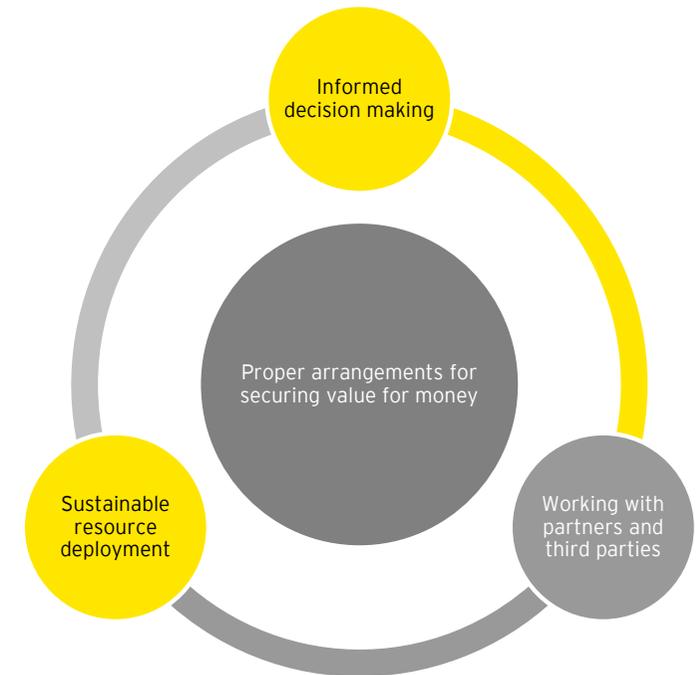
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

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

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

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work. We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level. In 2019/20 this has included consideration of the steps taken by the Council to consider the impact of Brexit on its future service provision, medium-term financing and investment values. Although the precise impact cannot yet be modelled, we anticipate that Authorities will be carrying out scenario planning and that Brexit and its impact will feature on operational risk registers.

Our risk assessment considers both the potential financial impact of any issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. Our work is currently ongoing in finalising the work on value for money risks. In particular we are awaiting revised guidance from the NAO to risks. Based on historical knowledge we do not anticipate there being any significant value for money risks but we will update the Audit and Governance Committee once all value for money work has been completed at the planning stage.





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04

# Audit materiality



# Materiality

## Materiality

For planning purposes, materiality for the group for 2019/20 has been set at £4.6m. This represents 2% of the Council's prior year gross expenditure on provision of services.

Materiality for the Council only for 2019/20 has been set at £4.4 million, which represents an anticipated gross revenue expenditure of £222m.

Materiality will be reassessed throughout the audit process.



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

## 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 £3.5m (£3.3m for the Council only) which represents 75% of planning materiality.

**Audit difference threshold** - we propose that misstatements identified below this threshold are deemed clearly trivial. The same threshold for misstatements is used for component reporting. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, housing revenue account and collection fund that have an effect on income or that relate to other comprehensive income.

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 Audit and Governance Committee, or are important from a qualitative perspective.

**Specific materiality** - We have set a materiality of £1k for the audit fee and £5k for Officers remuneration including exit packages and related party transactions, 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 this.



05

# Scope of our audit



## Our Audit Process and Strategy

### Objective and Scope of our Audit scoping

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

We issue an audit report that covers:

#### 1. Financial statement audit

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

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

#### Procedures required by standards

- 7.2.
- 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 2019/20, 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 and Governance Committee.

#### **Internal audit:**

We will regularly meet with Internal Audit (BDO), 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, the Narrative Statement and the Annual Governance Statement.

## Scoping the group audit

### Group scoping

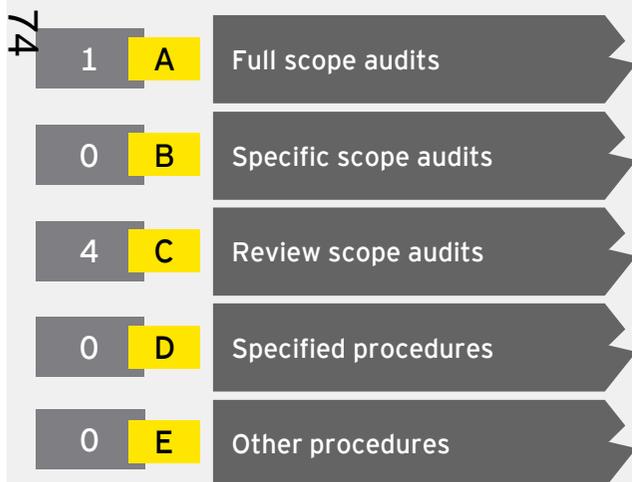
Our audit strategy for performing an audit of an entity with multiple components is risk based. We identify components as:

- 1. Significant components:** A component is significant when it is likely to include risks of material misstatement of the group financial statements, either because of its relative financial size to the group (quantitative criteria), or because of its specific nature or circumstances (qualitative criteria). We generally assign significant components a full or specific scope given their importance to the financial statements.
- 2. Not significant components:** The number of additional components and extent of procedures performed depended primarily on: evidence from significant components, the effectiveness of group wide controls and the results of analytical procedures.

For all other components we perform other procedures to confirm that there is no risk of material misstatement within those locations. These procedures are detailed below.

### Scoping by Entity

Our preliminary audit scopes by number of locations we have adopted are set out below.



### Full scope component

- ▶ Oxford Direct Services Limited, a wholly owned subsidiary, commenced trading from 1 April 2018 and is expected to have a significant impact onto the group financial statements for 2019/20. As a result, this component has been designated a full scope audit designation based on size.

### Scope definitions

**Full scope:** components where a full audit is performed to the materiality levels assigned by the Group audit team for purposes of the consolidated audit. Procedures performed at full scope locations support an interoffice conclusion on the reporting package. These may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements because of the materiality used and any additional procedures required to comply with local laws and regulations.

**Specific scope:** components where the audit is limited to specific accounts or disclosures identified by the Group audit team based on the size and/or risk profile of those accounts.

**Review scope:** components where procedures primarily consist of analytical procedures and inquiries of management. On-site or desk top reviews may be performed, according to our assessment of risk and the availability of information centrally. In aggregate, the total contribution of these components was 16% of Group gross revenue expenditure.

**Specified Procedures:** components where the component team performs procedures specified by the Group audit team in order to respond to a risk identified.

**Other procedures:** For those components that we do not consider material to the Group financial statements in terms of size relative to the Group and risk, we perform other procedures to confirm that there is no risk of material misstatement within those locations.



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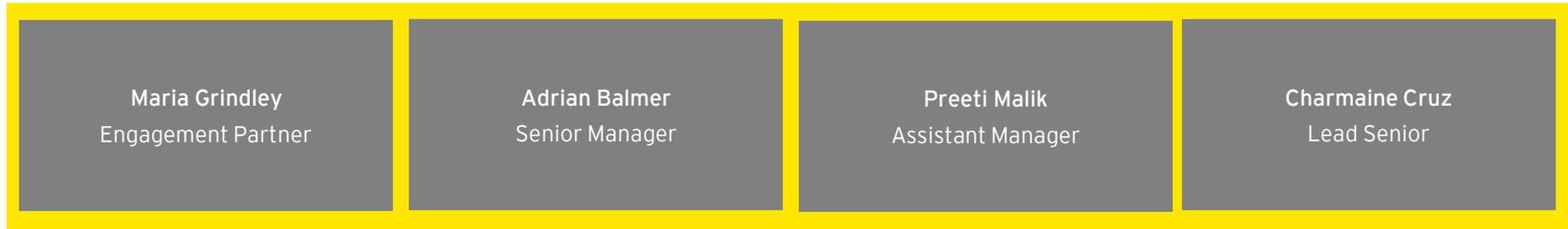
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Audit team



## Audit team

### Audit team structure:



## Use of specialists

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

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

Area	Specialists
Pensions disclosure	EY Actuaries, Hymans Robertson, PWC (Consulting actuary to NAO)
Property Valuations	EY Valuers, CARTER JONAS, Marshalls, Internal Valuer

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.



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# Audit timeline





# Audit timeline

## Indicative 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 2019/20.

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

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Audit phase	Timetable	Audit committee timetable	Deliverables
Planning: Risk assessment and setting of scopes.	January 2020		
Walkthrough of key systems and processes	January 2020		
Interim audit testing	February 2020		
	March	Audit and Governance Committee	Audit Planning Report
Year end audit: Account testing	June 2020		
Year end audit Audit Completion procedures	July 2020	Audit and Governance Committee	Audit Results Report Audit opinions and completion certificates
	August - October 2020	Audit and Governance Committee	Annual Audit Letter



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# 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
<p>08</p> <ul style="list-style-type: none"> <li>▶ The principal threats, if any, to objectivity and independence identified by Ernst &amp; Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;</li> <li>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</li> <li>▶ The overall assessment of threats and safeguards;</li> <li>▶ Information about the general policies and process within EY to maintain objectivity and independence.</li> <li>▶ 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]</li> </ul>	<ul style="list-style-type: none"> <li>▶ 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;</li> <li>▶ Details of non-audit services provided and the fees charged in relation thereto;</li> <li>▶ 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;</li> <li>▶ Written confirmation that all covered persons are independent;</li> <li>▶ 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;</li> <li>▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and</li> <li>▶ An opportunity to discuss auditor independence issues.</li> </ul>

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 Maria Grindley, your audit engagement partner and the audit engagement team have not been compromised.

### Self interest threats

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

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

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

At the time of writing, we have not undertaken any non-audit work, therefore no additional safeguards are required.

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 Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

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

## 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 2018

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

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

<https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2018>



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## Appendices



## Appendix A

### Fees

Public Sector Audit Appointments Ltd (PSAA) has published the fee scale for the audit of the 2019/20 accounts of opted-in principal local government and police bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Planned fee 2019/20	Scale fee 2019/20	Final Fee 2018/19
	£	£	£
Total Fee - Code work	66,355	66,355	66,355
Additional Fee	*	*	*
Housing Benefits Certification		N/a	20,000**
 Total Fees	66,355	66,355	66,355

*All fees exclude VAT*

\* - The planned fee is likely to increase to reflect the increased complexity of the Council's group structure, as set out earlier in the plan. We will update the Committee when we have quantified this impact and the consequential fee implication for 2019-20. In addition we have proposed additional fee for the 2018-19 audit and this is currently with PSAA for consideration. We will confirm any final additional fee for 2018-19 once we have final approval from PSAA.

\*\* Housing Benefits Certification work no longer falls under the PSAA as in previous years. We undertook this work in 2018-19.

The agreed fee presented is based on the following assumptions:

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

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

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

## Appendix B

# Required communications with the Audit and Governance Committee

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

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Terms of engagement	Confirmation by the Audit and 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"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit results report	
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"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	Audit Planning Report and Audit Results Report	

## Appendix B

# Required communications with the Audit and Governance 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"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	Audit results report
Misstatements 98	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Corrected misstatements that are significant</li> <li>▶ Material misstatements corrected by management</li> </ul>	Audit results report
Fraud	<ul style="list-style-type: none"> <li>▶ Enquiries of the Audit and Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	Audit results report
Related parties	<ul style="list-style-type: none"> <li>▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</li> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	Audit results report

## Appendix B

# Required communications with the Audit and Governance Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	  When and where
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	Audit results report
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▶ 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</li> <li>▶ Enquiry of the Audit and 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 Audit and Governance Committee may be aware of</li> </ul>	Audit results report
87 Internal controls	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit</li> </ul>	Management letter/ Audit results report
Group audits	<ul style="list-style-type: none"> <li>▶ An overview of the type of work to be performed on the financial information of the components</li> <li>▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components</li> <li>▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work</li> <li>▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted</li> <li>▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements</li> </ul>	Audit planning report Audit results report

## Appendix B

# Required communications with the Audit and Governance Committee (continued)

		 Our Reporting to you
<b>Required communications</b>	 <b>What is reported?</b>	 <b>When and where</b>
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"> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit results report
 Fee Reporting	<ul style="list-style-type: none"> <li>▶ Breakdown of fee information when the audit plan is agreed</li> <li>▶ Breakdown of fee information at the completion of the audit</li> <li>▶ Any non-audit work</li> </ul>	Audit planning report Audit results report
Certification work	Summary of certification work undertaken	Certification 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

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- ▶ 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 Group and 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.
- ▶ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the Audit and Governance Committee reporting appropriately addresses matters communicated by us to the Audit and Governance Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- ▶ Maintaining auditor independence.

### Purpose and evaluation of materiality

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

Materiality determines:

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

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

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Addressed to Chief Financial Officers and Audit Committee Chairs for  
PSAA audited bodies (Local Government, Police and Crime  
Commissioners, Chief Constables, Fire and Rescue Authorities)

10<sup>th</sup> February 2020

Sent by email

Dear Chief Financial Officer and Audit Committee Chair

## Sustainability of UK local public audit

I am writing to you to address the concerns we all share regarding the timetable for financial reporting and auditing. I also want to set out our position on the audit fees determined by Public Sector Audit Appointments Limited (PSAA). This will support conversations your Audit Partner will be having with you as we plan and deliver your 2019/20 external audit. I have also reflected on the themes emerging from my attendance at the Local Public Audit Stakeholder forum last month and conversations we have had at five Chief Financial Officer fora since December 2019.

### UK local public audit market context

At the end of January 2020, 85 organisations had not yet received their audit opinion on the 2018-2019 financial statements. The factors that have led to this unprecedented position are extensive, impact all audit suppliers in the PSAA contract and need to be considered by public sector finance professionals and Audit Committees. In summary, the types of issues and challenges we have seen include:

1. Financial reporting and decision making in local government has become increasingly complex, for example from the growth in commercialisation, speculative ventures and investments.
2. Some local authorities have a shortage of financial reporting skills, capabilities and weaknesses in audit readiness (including keeping pace with technological advancement in data management and processing for audit).
3. There has been a significant increase in the specialised skills, time and cost required by auditors to address regulatory expectations. This includes responding to regulator feedback and a zero tolerance on audit quality failures.
4. Public sector auditing has become less attractive as a profession, especially due to the compressed timetable, regulatory pressure and greater compliance requirements. This has

contributed to higher attrition rates in our profession over the past year and the shortage of specialist public sector audit staff and multidisciplinary teams (for example valuation, pensions, tax and accounting) during the compressed timetables.

We have increased investment in our audit quality programme, technology, compliance, talent and recruitment initiatives and will continue to do so. We are focussed on consistently delivering high quality audits, as a poor quality audit affects our reputation and yours. We are proud of having the highest quality scores of the audit suppliers in PSAA's recent audit quality report and as a firm having had no fines or sanctions imposed by the Financial Reporting Council (FRC) for any audits conducted in the past five years.

### **Regulatory, contractual and legal context**

We support the Financial Reporting Council's (FRC) recent quality report and statements arising from recent corporate failures, which have highlighted that tight reporting deadlines are a contributory factor to audit failings and their expectation that audit firms should delay signing opinions to ensure audit quality.

Our contract with PSAA states that we will not issue an opinion where the audit is not complete.

We also believe the requirements of the Accounts and Audit Regulations 2015 have not been explained effectively to you. You are currently required to publish a statement of accounts, annual governance statement and narrative statement by the 31<sup>st</sup> July with or without an audit opinion. If you are not able to publish an audit opinion at that time, you should explain why. This means the 31<sup>st</sup> July is not a statutory audit deadline. I and your Audit Partner will support you in meeting your requirements under the 2015 regulations whilst safeguarding our high standards of audit quality.

All of these points were discussed at the recent Local Public Audit Stakeholder forum. We support the pressing need for CIPFA and the ICAEW to work with officials from the Ministry of Housing, Communities and Local Government (MHCLG) to revisit and confirm in writing their response and expectations on the timetable and requirements for financial reporting and external audit. We understand that ICAEW has asked that such measures include a relaxation of the 31<sup>st</sup> July publication deadline for the 2019/20 financial statements or a permanent change to the 2015 regulations.

Either way, we believe the current timetable and expectations for financial reporting and external audit are unsustainable and need to change.

### **Delivering our 2019/20 external audits**

Since December 2019, I and colleague Audit Partners have had conversations with five Chief Financial Officer groups, outlining the framework we will use to plan, schedule and deliver 2019/20 external audits under the terms of our contract with PSAA. Our delivery model takes account of plans to conclude our outstanding 2018/19 external audits.

I am providing regular updates to PSAA to provide assurance on the sustainability of our delivery plan and how we are continuing to safeguard high standards of audit quality.

Because of our views on the factors driving an unsustainable timetable, to ensure we deliver the best quality audit, I have informed PSAA, NAO and Local Public Audit Stakeholder forum that we will be scheduling a number of 2019/20 external audits for completion after the 31<sup>st</sup> July 2020.

Each of our regional office leads has agreed with me a delivery plan for the 2019/20 external audits. The proposed timing of your external audit has been determined using a consistent set of principles to ensure we have a fair and equitable basis for scheduling audits before the 31<sup>st</sup> July and those afterwards. These principles include our assessment of your preparedness for audit, expectation on level of audit errors and findings, the degree of risk and complexity including any significant changes since the prior year and maximising our availability of qualified and experienced audit staff and specialists.

### **Audit costs and fees**

I am having ongoing discussions with PSAA on the current context with local public audit and our associated costs. I recognise you already have or may wish to respond to PSAA's recent letter to Chief Financial Officers on their current approach to consulting with you on how it determines your audit fee.

I have said to PSAA that we do not believe the existing scale fees provide a clear link with both a public sector organisation's risk and complexity, and the audit profession context for cost and fee increases, including the attractiveness of audit, investment in technology, innovation and the regulatory environment. This is exacerbated by submitting a tender response in 2016/17 financial year 18 months before the delivery period for the five-year cycle we are now currently in.

Since 2016/17, the public sector audit market has changed considerably. This is not only due to the concerns I have set out above that have led to an unsustainable timetable and expectations for financial reporting and external audit, but also because:

1. Some local public audit bodies have insufficient digital and IT systems and are unable to meet the standards required of an increasingly data-driven audit. In delivering those audits, we have incurred additional costs which were not reflected in our bid for the current PSAA contract.
2. Our cost of compliance to maintain our licence to practice and maintain high quality and sustainable local public audit has doubled since 2017.
3. We need to invest over a five to ten-year cycle to recruit, train and develop a sustainable specialist team of public sector audit staff. We and other firms in the sector face intense competition for the best people, with appropriate public sector skills, as a result of a shrinking resource pool. We need to remunerate our people appropriately to maintain the attractiveness of the profession, provide the highest performing audit teams and protect audit quality.

In the face of all these unprecedented factors, we still remain committed to deliver high quality sustainable local public audit that serves the public interest and stakeholder needs. It is clear therefore that audit fees for local public audit will have to rise.

I recognise that until there are any changes to the way PSAA determines its scale fees, your Audit Partner should be communicating with you in a timely and effective fashion any proposed variations to your scale fee to reflect changes in audit scope, risks and findings.

### Next steps

We welcomed the opportunity to respond to *Independent review into the arrangements in place to support the transparency and quality of local authority financial reporting and external audit in England* ("Call for Views") led by Sir Tony Redmond. The Call for Views together with the National Audit Office (NAO) Code of Audit Practice ("Code") present a significant opportunity to shape the long-term sustainability of local government, police, fire and rescue service financial reporting and auditing.

Your Audit Partner will be contacting you shortly and no later than the end of February 2020 to discuss the proposed timing of your 2019/20 external audit and a current estimate of your audit fee. Once those discussions have taken place, our regional office lead and your Audit Partner will write to you to confirm our delivery plan for the office that provides your 2019/20 external audit.

I would also like to offer to join appropriate Chief Financial Officer and Audit Committee Chair forums to discuss what we are doing to improve audit quality, the wider dynamics of local public audit and the future of audit.

By March 2020, we will publish our point of view on the various reviews underway into the long-term sustainability of local government financial reporting and external audit. We are committed to working with MHCLG, NAO, PSAA and all key stakeholders that form part of the Local Public Audit Stakeholder forum in support of this aim. Your Audit Partner will be able to discuss our point of view with you and at your future Audit Committee meetings.

In the meantime, if you have any questions on this letter, please do not hesitate to contact me using the details provided.

Yours faithfully,



Janet Dawson  
UK Government and Public-Sector Assurance Leader  
Ernst & Young LLP

# Local Government Audit Committee Briefing

Quarter 4, December 2019





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This sector briefing is one of the ways that we support you and your organisation in an environment that is constantly changing and evolving.

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It covers issues which may have an impact on your organisation and the Local Government sector as a whole.

The briefings are produced by our national Government and Public Sector (GPS) team, using our public sector knowledge, and EY's wider expertise across UK and international business.

The briefings bring together not only technical issues relevant to the Local Government sector but also wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing.

We hope that you find the briefing informative and should this raise any issues that you would like to discuss further please contact your local audit team.



## Government and economic news

### **EY Club item**

#### **Economic forecast – EY Club item**

The latest EY ITEM Club forecast highlights that continued uncertainties – including those surrounding Brexit – and the weak economic global environment continue to weigh on the UK economy post the General Election. Fiscal policy will be more supportive than previously planned, with the 2020/21 spending review indicating that public spending will rise by 4.1% in real terms. This briefing considers the prospects for social care funding and the housing crisis.

#### **The EY ITEM Club anticipates that continued Brexit uncertainty will restrict UK economic growth in 2020**

The EY ITEM Club's autumn forecast predicts relatively weak UK GDP growth of just 1.0% in 2020. This reflects an assumption that the UK will leave the EU at the end of January with Boris Johnson's withdrawal agreement, in addition to the fact that uncertainty

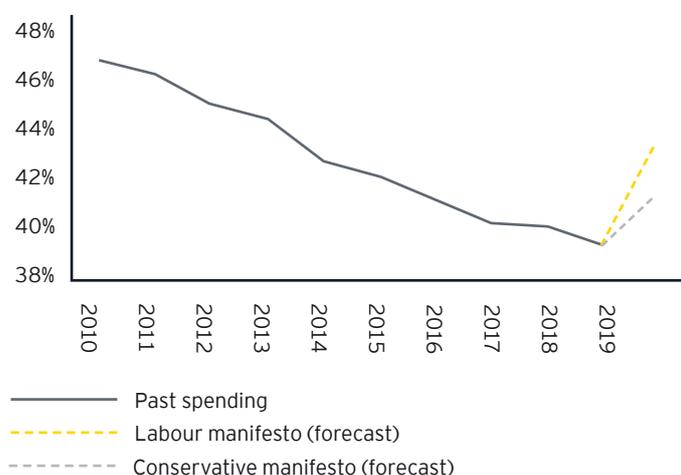
around the UK's future relationship with the EU remains. This is likely to limit any recovery in business investment in the immediate future. Geopolitical and trade pressures weighing on the global economy are also likely to cause a drag on the UK economy.

UK GDP growth for 2019 remains on track to be 1.3% in 2019, in line with past EY ITEM Club forecasts and representing a slight decline on the 1.4% figure for 2018. By comparison, 1.0% in 2020 would be a significant decline, and this is likely to have important consequences for local government.

#### **Local authorities will likely need to continue to be innovative to deliver high quality social care**

Chancellor Sajid Javid has pledged public spending increases of 4.1% in real terms in the 2020/21 spending review – the fastest increase in 15 years – whilst it is anticipated that the Budget for 2020/21 will contain further fiscal loosening measures. Austerity to the extent of the past decade appears to be at an end.

**Figure 1: UK public sector spending (% of GDP)**



Sources: Office for Budget Responsibility; BBC

Despite this, the Conservative manifesto pledges maintaining the £1bn of grant funding announced in the last spending review for the duration of the next parliament as well as £500mn of funding for potholes (in contrast with an extra £13bn proposed by the Labour manifesto).

The Conservative manifesto is light on detail on social care reform that has been anticipated in the continuously delayed green paper. On top of the maintenance of the £1bn of grant funding, they refer to the need for more staff, better infrastructure and a new entitlement to an extra week of leave for people undertaking care on an unpaid basis. But this falls short of a long-term solution, which the Conservatives have stated needs to come from cross-party consensus. It also does not indicate how the manifesto commitment that 'no one needing care has to sell their home to pay for it' will be achieved.<sup>1</sup>

Until more clarity emerges in this regard, local authorities may continue to be financially and operationally squeezed in their delivery of social care. This is compounded by the fact that there were 136,000 job vacancies in the health and social work sector (17% of all UK vacancies),<sup>2</sup> whilst labour markets remain tight, with unemployment of 3.9% just one percentage point above

the joint-lowest level since 1974. Despite this, continued funding constraints will mean that badly needed wage growth in the sector is unlikely to materialise to a great extent in the next year, even given recent strong economy-wide wage growth. Furthermore, UK wide productivity remains low, with Q2 2019 being the fourth consecutive quarter without growth.

### The housing crisis remains a major pressure on local government

The latest RICS survey indicated that average housing stock levels on estate agents' books in September were close to the lowest level in the survey's history. Housing market activity is also forecast to remain below the 2016 peak until at least 2023. The Government's initiatives to boost house building will take time to have a significant effect, so are unlikely to markedly influence housing availability in the short term at least. In addition, the proportion of new houses that will be affordable must also be seen as a significant measure as to the effectiveness of central government policy dealing with the housing crisis.

Local authorities therefore continue to take up the mantle in combating the crisis, with 78% of councils having a housing or property company as of March 2019. Councils are finding different ways of delivering, developing their own land in some cases and making acquisitions in others, working with different types of partners and providers, and applying focus to affordable housing and various specific-need groups (such as the elderly).<sup>3</sup>

### Certainty elusive as Brexit continues to dominate the political agenda

The Conservatives' primary election campaign promise to 'Get Brexit Done' only represents the beginning of a long process of trade deal negotiations, both with the EU and other third partners. The Government has stated its intention to negotiate a deal with the EU next year, not extending the implementation period beyond 2020. That said, the delays to the withdrawal agreement process suggest that it is difficult to guarantee this. Furthermore, the Government plans to agree new free trade agreements to cover 80% of UK trade over the next three years.<sup>1</sup> Economic and political uncertainty are therefore likely to remain prominent during this period, if not beyond.

<sup>1</sup> The Telegraph, 'Conservative Party manifesto 2019', 10 December 2019, [online]. Available at: <https://www.telegraph.co.uk/politics/2019/12/10/conservative-manifesto-2019-nhs-election/>

<sup>2</sup> Office for National Statistics, 'Vacancies and jobs in the UK', 12 November 2019, [online]. Available at: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/jobsandvacanciesintheuk/november2019>

<sup>3</sup> Inside Housing, 'Councils are finding their building confidence', 15 March 2019, [online]. Available at: <https://www.insidehousing.co.uk/sponsored/sponsored/councils-are-finding-their-building-confidence?>

Central government is therefore likely to remain focused on international trade and relations over the next few years. It will become increasingly important for local government to continue to play a leading role in society, delivering vital services for local residents. There is little in the EY ITEM Club's forecasts to suggest that the economy will provide much support in meeting these challenges.

## **The need for innovation to improve the social care system's capacity**

The lead up to the UK election saw all major political parties making proposed commitments to expand social care. The newly elected Conservative government has stated that the social care system needs to 'give every person the dignity and security they deserve'. Aside from a commitment to maintain the extra £1bn of grant funding, there has been little further detail about what social care reform may happen in the term of the Parliament.

This financial commitment contributes, albeit probably not sufficiently, to the proposed funding gap. However, funding in the social care system is not the only shortfall; recent research by the Nuffield Trust has suggested there are 165,000 over 65s with unmet care needs and providing these with just two hours of care a day would require 90,000 new home care workers. This doesn't consider any other forms of social care, such as adults with special or complex needs. Therefore, the shortfall of 90,000 care workers is likely to be a prudent figure.

### **Successful expansion of the social care system will be heavily influenced by macroeconomic conditions.**

Any expansion of the social care system in the UK will need careful consideration of the existing conditions in the labour market. The current unemployment rate of 3.9% stands at near record low levels. However, despite nominal wage growth standing at its highest rate since 2008, real wage growth remains near zero. These conditions will make it challenging to expand the workforce of the social care system without significantly increasing spending or looking for alternative means of delivery.

### **It is possible to establish an economically sustainable social care system.**

There are examples of successful social care system transformations from across the globe that provide insightful lessons for potential reform in the UK's social care system.

In 2013, the Australian Government introduced a universal social care system referred to as the National Disability Insurance Scheme (NDIS). The NDIS entitles people with a 'permanent and significant' disability (under the age of 65), to full funding for 'any reasonable and necessary' support needs relating to their disability (subject to certain restrictions). Funding is allocated to the individual, and the individual or their guardian chooses which providers supply the funded goods and services (subject to other restrictions). The scheme is entirely publicly funded.

Research commissioned by the Australian Government in 2011, found that by approximately 2025 the cost of maintaining the status quo in relation to the care of people with a disability would be greater than the cost of an NDIS. The status quo heavily relied on a fragmented funding system of grants that offered little long-term security for those with disabilities. A broken system was deemed to be constraining those with special needs' ability and the ability of their carers to participate in Australian society. Other downstream costs of the status quo included those seen in the criminal justice system, health system, homelessness and costs relating to social isolation.

### **Expanding social care requires innovation and careful consideration of labour supply and community needs.**

There was a clear need to overhaul the social care system in Australia, however it meant the disability sector in Australia would need to double its workforce to meet the needs of the NDIS. Consultations on the NDIS to date have highlighted several key issues that would be of important consideration in the proposed expansion of social care in the UK:

- ▶ **Vulnerable clients:** the communities that some providers serve may have complex and more pressing needs, including isolation, complex disability support and challenges in self-determining their needs. These clients require more highly qualified staff to service their needs.

- ▶ **Higher operating costs:** low client numbers (or difficulty in finding connection with clients that are in a region), and/or highly dispersed clients result in high per-client costs under existing staff utilisation.
- ▶ **Workforce:** challenges in recruiting and retaining qualified workers as well as providing learning and development opportunities.
- ▶ **Temporary supply gaps during transition:** temporary supply gaps during transition to full implementation of the scheme, where some supports (such as certain specialist supports and Allied Health services) take time to reach levels required to meet demand.
- ▶ **Geographic isolation:** physical distance and travel time results in high costs for service delivery for isolated or highly dispersed communities.

Many of these challenges would likely impact any proposed expansion of the social care workforce in the UK too. Focus should therefore be applied to mitigating these during the formation of any associated policy. However, what else should be considered in the need to expand social care?

### The need to improve capacity

The call to expand the social care system pertains to the current and growing challenge of lack of capacity in the system. Whilst expanding the workforce is one means to try and tackle this, so is improving productivity. Where significant workforce challenges exist, then focusing on technologically enabled productivity gains is likely to be crucial.

There are a range of opportunities through which technology has the potential to improve the productivity of the social care system:

- ▶ **Managing front-door demand:** predictive analytics can now be used to identify risk and vulnerable groups to proactively target interventions before demand materialises.
- ▶ **Making existing service delivery for staff more efficient:** Robotic Process Automation (RPA) and Artificial Intelligence (AI) applications provide improved productive capacity and flexibility for staff through streamlined processes and automated administration tasks, allowing staff to focus on supporting user needs.
- ▶ **Technology-enabled care:** assistive technology provides a vehicle to personalise and tailor support, reducing intrusion whilst providing a platform for connectivity and care, such as virtual reality empathy training, real time care monitoring and work flowed predictive analytics.
- ▶ **Procurement and commissioning:** data driven decision making through predictive analytics, digital care planning and eBrokerage now provides an effective platform for evidence-based outcome-focused commissioning.

It is vital that any proposed expansion of the social care system doesn't purely focus on increasing the number of social care workers. The system needs fundamental transformations in its digital infrastructure and it is through the productivity gains that can be yielded from those, that the system can best overcome its capacity challenges.

## The EY ITEM Club forecast for the UK economy, autumn 2019

% changes on previous year

	GDP	Domestic demand	Consumer spending	Fixed investment	Exports	Imports
2017	1.9	1.2	2.2	1.6	6.1	3.5
2018	1.4	1.4	1.6	-0.1	-0.9	0.7
2019 (forecast)	1.3	2.3	1.2	-0.3	-0.1	4.3
2020 (forecast)	1	0.8	1.4	-0.4	1.1	0.3
2021 (forecast)	1.5	1.8	1.8	2.7	2.5	3.1
2022 (forecast)	1.7	2	1.9	2.3	3.2	3.8
2023 (forecast)	1.8	2	2	2.6	3.5	3.7

## Future Funding for Vital Services

Research conducted by the Institute for Fiscal Studies (IFS) has predicted that council tax revenues will significantly fall short of the funding required to provide key services, including social care. If council tax revenues increase at their current rate in line with inflation at 2% then this would result in a shortfall of £4bn by 2024/25, rising to £18bn by the mid-2030s. An increase in council tax by 4% per year would still result in a shortfall of £1.6bn by 2024/25 and £8.7bn by 2034/35. There have been calls within the local authority sector to significantly reform and address the issue of long-term sustainable funding for social care.

The research has also concluded that councils have cut other services by up to 40% since 2010 in order to protect social care spending. Local authority budgets are under significant pressure due to a decade of funding cuts from central government and increased cost pressures from increased demand for services. The IFS has found that budgets of local authorities are increasingly focused on fulfilling statutory duties and focusing spending on those that need it the most, as opposed to providing equitable services to all. This has resulted in significant cuts to a range of services previously provided by local authorities that are not required under statute. For example, per-person spending on culture and recreation is 50% lower in 2019/20 compared to 2009/10.

Similar analysis conducted by the Trade Union Congress has found that funding for key local services related to social care, waste management and transport have fallen by, on average, 16% since 2010. There were significant regional variations with the North East and North West regions showing a fall of 20% compared to 2010 levels, whilst some metropolitan boroughs in London had a 30% decrease.

Local authorities have become increasingly more reliant on council tax and business rates income. Excluding educational spend, half of all spending is funded from council tax whilst 30% of spend is funded from business rates. With reform of business rate retention and Fair Funding reviews on the horizon, it is likely that councils will become even more reliant on council tax and business rate income. Consequently, authorities with a smaller tax base may find that their sources of revenue fall behind neighbouring authorities with a larger tax base.

## Public Works Loan Board (PWLB) Interest Rate Increase

On 9 October 2019 HM Treasury announced a 1% interest rate increase for all new PWLB loans with immediate effect. The Secretary of State for Housing, Communities and Local Government noted that this was a necessary step to control the increase and dependency on PWLB borrowing. Total PWLB borrowing increased by 72% from 2017/18 to 2018/19 to £9.1bn new loans across all local authorities before this interest rate hike.

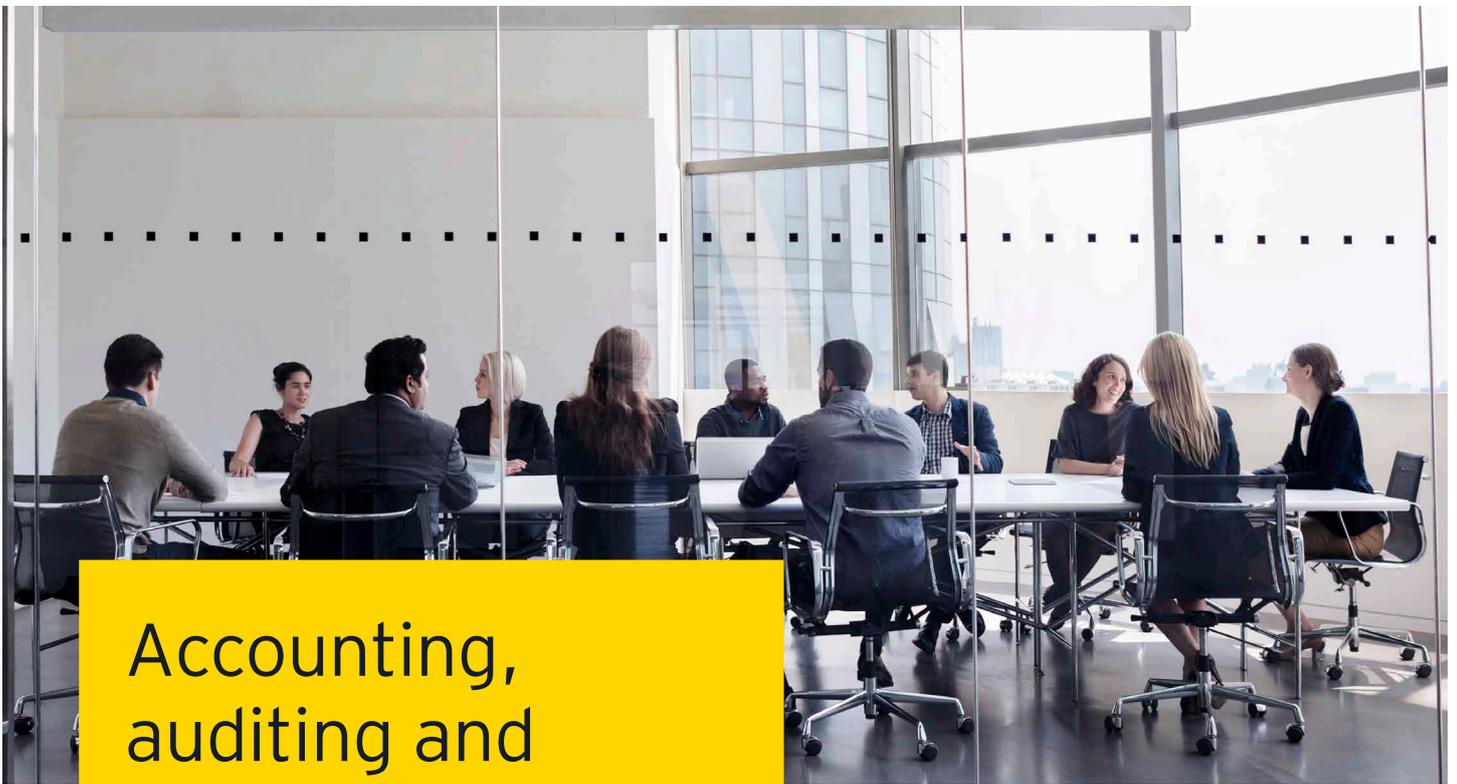
A spokesman from the Local Government Association (LGA) has commented that this PWLB rate increase could cost councils an extra £70mn a year. This may put at risk many vital capital schemes, including the construction of much needed council houses, which may now be delayed or cancelled due to unaffordability. The London Councils umbrella group have also indicated that the interest rate increase is likely to have a 'severe impact' on housing and regeneration schemes.

The credit rating agency Moody's has commented that the PWLB interest rate increase is overall 'credit negative' for the sector as the cost of capital for local authorities on new borrowing will increase in the short term. However, in the long term, the increase in interest rates should reduce the overall level of debt accumulated in the sector.

Moody's have also predicted that the rate hike will deter some councils from borrowing to invest in commercial property schemes with marginal returns. This comes as the chief executive of the Chartered Institute of Public Finance and Accountancy (CIPFA), Rob Whiteman, has commented that central government has concerns on the types of commercial property investments entered into by local authorities. Some of which are controversial due to the scale of borrowing and the increase in exposure to economic volatility for local authorities. He warned that 'the PWLB [interest rate] hike was a very blunt instrument' and does not help the sector as whole. However, if controversial commercial investments continue within the sector then it is likely that central government will impose greater regulation upon local authorities, or even sanctions if CIPFA's Prudential Code is not adhered to.

The initial impact of the interest rate increase on PWLB loan borrowing has suggested that the value of new loans drawn down in October 2019 has decreased by 71% compared to September 2019. In response to interest rate hike councillors and mayors from multiple London Boroughs have written to the Chancellor of the Exchequer calling on him to reverse the increase.





# Accounting, auditing and governance

## Going Concern

In response to recent well-publicised corporate failures, the Financial Reporting Council (FRC), the regulator of external auditors, has issued a revised standard on going concern, International Standard on Auditing ('ISA') (UK) 570. The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019 (e.g., the 2020/21 accounts), with early adoption possible.

The uncertain economic environment, risks arising from Brexit and weakness in the retail sector due to falling consumer spending mean increasing risks around going concern in the corporate sector. These risks are also prevalent, to a lesser extent, in local government. Public interest expectations around the work of auditors on going concern, and the FRC's expectations on how we robustly challenge management, have also never been higher.

The revised standard increases the work auditors are required to perform when assessing whether an entity is a going concern. As a starting point, the expectation of the regulator is that there are going concern uncertainties in every business which must be identified by the auditor, before a robust consideration of management's assessment is carried out. This requires auditors to perform:

- ▶ An enhanced risk assessment to inform the auditor's challenge of management's identification of events or conditions impacting going concern, more specific requirements to test management's resulting assessment of going concern, an

evaluation of the supporting evidence obtained which includes consideration of the risk of management bias:

- ▶ If we identify events or conditions that management did not, further procedures are required including consideration of control weaknesses and risk of fraud.
- ▶ The testing of management's method of assessment, assumptions, the relevance and reliability of data, management's future actions and events since management's assessment are more explicitly described in the new standard, although many of the required steps will reflect current best practice.
- ▶ The evaluation of evidence when we draw our conclusions on going concern includes a stand back requirement to consider all the evidence obtained (whether corroborative or contradictory) and consideration of management bias even if all judgements and assumptions are individually reasonable.
- ▶ Financial statement disclosures around going concern now need to be considered for 'appropriateness' not 'adequacy'.
- ▶ Extended requirements to report to regulators where we have concerns about going concern.

Your local audit team will provide further details later in 2020 on what these changes might mean for the work management must perform on going concern and the expectations of the audit team.

## Public Sector Audit Consultations

There are two recent consultations which may change the shape of public sector financial reporting and auditing. These are:

- ▶ Independent review into the arrangements in place to support the transparency and quality of local authority financial reporting and external audit in England (Call for Views) led by Sir Tony Redmond.
- ▶ Local audit in England – Code of Audit Practice – Draft Code Consultation led by the National Audit Office (NAO Code).

We believe reforms should be guided by the following principles:

- ▶ Reforms should enhance, or at least should not create risks to, the quality of financial reporting and external audit
- ▶ The importance of the multidisciplinary audit firm model, to enable local auditors to respond efficiently and effectively to the increased reporting complexity and risks facing public sector bodies.
- ▶ There should not be a two-tier system of generally accepted accounting and auditing standards between the public and corporate sectors.
- ▶ To be effective and sustainable, reforms need to focus on the public sector financial reporting and external audit ecosystem as a whole (e.g., public bodies governance, controls, reporting and auditing). This should include changes to how local auditors conduct and report on local public bodies' Value for Money arrangements.

We also believe that increased transparency of reporting to local taxpayers and other users of accounts is needed to improve the effectiveness of local public bodies' corporate governance, financial position, risk appetite and rationale for significant decisions.

The Call for Views and changes to the NAO Code comes at a time of significant scrutiny of the UK audit market and profession. We believe it is crucial that the outcomes from the Call for Views, and the finalisation of the NAO Code, is closely aligned with the outcome of these various reviews.

We have responded to both consultations and are committed to work with Sir Tony Redmond, the UK government and the NAO in support of improving the transparency and sustainability of public sector financial reporting and external audit. In our next briefing, we will share the key messages in our responses to both consultations. We encourage Audit Committees to be aware of and contribute its views to these important consultations and developments and your Engagement Lead will be happy to discuss these matters with you.

## CIPFA Publications: Financial Management and Commercial Investments

On 11 October 2019 CIPFA launched its first financial management code in 15 years. The financial management Code (FM Code) is designed to help officers navigate the increasing complex issues of public sector finance, including financial sustainability. The FM Code requires all local authorities, including police, fire and other authorities, to demonstrate that the processes they have in place satisfy the principles of good financial management. The FM Code identifies risks to financial sustainability, introduces a framework of assurance and sets explicit standards of financial management. Complying with the standards set out in the FM Code is the collective responsibility of elected members, the chief finance officer and the leadership team. Ultimately the FM code aims at improving financial decision making.

The FM Code is built on elements of other CIPFA codes and applicability will be familiar to users of publications such as The Prudential Code for Capital Finance, Treasury Management in the Public Sector Code of Practice and Code of Practice on Local Authority Accounting in the United Kingdom.

CIPFA chief executive, Rob Whiteman, said that 'CIPFA's ambition was to embed good financial management as an organisational responsibility ... and move towards a sense of collective responsibility when it comes to finance.' The National Audit Office Auditor General, Gareth Davies, welcomed the new financial management code as it will help local authorities to improve their standards of financial management and cope with the financial challenges they are facing.

CIPFA has also issued new guidance for local authorities on what is expected from them when commercial property investments are made. The institute has warned that authorities must not borrow more than, or in advance of, their needs purely in the interest of profit. The cornerstone of this new guidance, published on 15 November 2019, is that under the prudential framework local authorities should not put public money and services at risk to the extent that an investment bank or commercial investor may legitimately do with their shareholders' funds.



## Other news

### Green Revolution

Although 230 English councils have declared climate emergencies over the past year, there has been a slow rollout of industrial strategies and policies to implement clean growth development opportunities. Climate action groups are calling on a proportion of the UK Share Prosperity Fund to be ringfenced for climate projects that enable clean growth. This would assist the Government to achieve its net zero carbon target by 2050 through implementation of local schemes. The Green Alliance's head of policy has called on local policy makers to put clean growth at the heart of local industry strategies to attract industries of the future and to enable local resilience in a world affected by climate change.

The Friends of the Earth group have analysed and ranked each local authority based on their green credentials. The group is calling on all local authorities to do more to combat climate change, including improving the energy efficiency standards of new build homes. A poll by Unison and ComRes suggests that if councils were to receive increased funding, 39% of the public would like additional money to be spent on prioritising refuse and recycling.

The LGA's environmental spokesperson has suggested that a joint national task force led by councils should be set up to drive

initiatives to make councils more climate friendly. The LGA has also indicated that national climate change targets are unlikely to be achieved unless councils are given long term funding and devolved powers to combat climate change. The chair of the County Council Network has called on the government to engage with local authorities to provide genuine devolution and sustainable funding framework.

### EY audit quality and transparency reports

This year, for the first time, EY is publishing a UK Audit Quality Report alongside our UK Transparency Report and both reports are now available on [ey.com](https://www.ey.com).

As our profession continues to face scrutiny, we believe it is vital that we are as open and transparent as possible. Together these reports aim to achieve this by setting out how we're addressing our public interest responsibilities and delivering high quality audits.

Our Audit Quality Report sets out the actions we've taken over the last five years to improve audit quality and, importantly, those that we will focus on in the future. We hope that by sharing the details of our long-term and future investment plans with you, this will instil confidence in our commitment to quality.

## Audit Quality

We understand our role in society is to serve the public interest. Delivering consistently high quality audits is how we play our part in restoring and sustaining confidence. A commitment to audit quality starts at the top of the organisation. EY leaders set a clear tone from the top by promoting, maintaining and demonstrating a culture based on a commitment to quality, integrity, and collaboration.

It is also critical that we create an environment where our teams are supported to deliver high-quality audits. We have established the Audit Quality Board ('AQB') to take a lead in setting this tone and we hold regular events and issue communications to reinforce a priority on audit quality.

The importance of setting the right expectations for all our audit teams is why 'tone at the top' is the first pillar of our Sustainable Audit Quality ('SAQ') programme.

We have already made significant investments to improve audit quality over the last five years through our SAQ programme. We began this programme in 2014 when we set up the UK AQB and our Audit Quality Support Team and launched annual Audit Quality Summits for our partners and senior staff. Since then, our approach to partner and staff remuneration has been focused on ensuring audit quality is reinforced as a critical factor in determining pay awards.

Our investment in audit quality is now £25mn a year higher than in 2014; however, we recognise that there remains more to do. We will continue to invest to meet the expectations of all our stakeholders and society as a whole.

## Exceptional Talent

The competition for talented people with the right mindset to deliver high-quality audits has never been higher. As a result, the profession continues to face challenges with recruiting and retaining the right number of people with the right skills. This has been exacerbated by the increased demands and pressures that the profession is facing in the current environment. We are committed to attracting, developing, inspiring and retaining outstanding audit professionals and promoting an inclusive culture for them to be able to deliver to the best of their abilities. We have been recruiting, and continue to recruit, across our business and aim to deliver an exceptional experience for our people throughout the recruitment process their career.

## Accountability

Society as a whole and our regulators rightly expect us to be accountable for the work we perform. Without this accountability being recognised and responded to at all levels in the audit process, we will not achieve the improvements we need to make in delivering consistently high quality audits. We believe that, as auditors, we are accountable not just to ourselves, but to our teams, our organisation, our stakeholders and the public interest. We have embedded a culture of accountability at all levels of the audit process, whilst also providing the support necessary for our people to take responsibility for their work. We are further reinforcing the importance of accountability through the SAQ programme, our quality ratings and our partners' performance evaluations. Monitoring our audit performance and the effectiveness of our actions to improve audit quality is a key part of our system of quality control and the activities of the AQB, ensuring that we hold ourselves fully accountable for the quality of work we do.

## Audit Technology and Digital

The extent to which the entities we audit create and use data has increased significantly. This generates a unique opportunity to drive greater assurance and hence improve audit quality through the appropriate analysis of this data. During the past five years, we have been undergoing an unprecedented transformation in our capability to leverage and interrogate the data created by the entities we audit and in improving our own technology supporting the audit process. This allows us to increase audit quality not only through improved data analysis, but also through using technology to improve project management, timely review and resolution of issues identified in our audits.

To take advantage of the opportunities offered by innovative technologies in every EY audit, we have transformed EY's Global Audit Methodology (GAM) to put data at the heart of the audit. Known as EY Digital GAM, this new approach has been piloted in 2019 and will be phased in globally from 2020. Digital GAM is powered by our digital audit technology, using this to embed data analysis and automated techniques in all phases of the audit. It also simplifies certain tasks and improves linkage from one audit procedure to another.

This updated methodology will further enhance audit quality through:

- ▶ The standardising or automating of routine audit tasks, enabling teams to focus on identified anomalies or higher risk judgemental aspects of the audit; and
- ▶ Providing greater clarity on the risks inherent in an organisation, driving a more focused audit approach.

## **Simplification and innovation**

A natural response to regulatory inspection findings and the pressures we face to deliver the highest quality audits is to do more and more work; however, if this is not targeted in the right areas or effectively performed, it can actually be counter-productive. The quality of our audits is improved where we can also deliver simplification and innovation in the way we perform and document our work. In a world of ever-increasing complexity and data availability, we have innovated our audit technologies and approach – not only to stay ahead of these changes, but also to use them to our advantage and improve audit quality. Where possible, we have also used this opportunity to simplify our work, giving our audit teams greater clarity on key risks and increased time to focus on these.

## **Enablement and Quality Support**

The complexity of the organisations we audit continues to increase, making risk assessment and key audit judgements ever more difficult. At the same time, the expectations of all our stakeholders for us to perform high-quality audits and provide trust and confidence also increases. We have to ensure that we have the right support for our audit teams to help them address complexity, challenge management appropriately and document our judgements clearly. We have always provided, and continue to provide, technical accounting and risk management support

to our audit teams as required. Since 2014 we have significantly increased the level of support provided to individual audit teams, particularly those on our most challenging and complex audits. This includes coaching programmes and coaching kits, as well as other processes designed to improve audit quality. Importantly, we also routinely monitor audit quality indicators and have in place processes to learn quickly from both positive and negative quality outcomes.

There is no doubt we are in challenging times and there is uncertainty ahead. Our main focus will continue to be on delivering high-quality audits and we have every confidence that the steps we have taken, and those we plan to make, to deliver audit quality are the right ones. We will continue to support our audit teams through the investment in technology, processes and, most of all, in our people. Our purpose must be to deliver audits of the highest quality and provide confidence to the capital markets and other stakeholders.

Our Transparency Report, meanwhile, sets out what we do as a firm, how we're structured and governed, how we manage risk and comply with regulation, and how we performed in FY19. During the year we established our Audit Risk Committee, to expand our risk-scanning processes on audits. The goal is to ensure that we appropriately identify high risk clients and sectors and tailor our approach to them. Looking ahead to 2020, we have a number of priority areas which include additional investment in people, increasing the scope of our Audit Quality Support Team, championing new ideas and innovation and enhancing our focus on promoting the desired culture and behaviours for audit quality.

We hope these reports offer a useful means to assess our policies and processes for maintaining independence and complying with relevant standards and regulations.

# Key Questions for the Audit Committee

## **Future Funding for Vital Services**

What is the largest cost pressure or funding gap for your authority? What actions are your authority taking to address future budget gaps in the medium to long term?

To what extent is your authority reliant on its tax based to fund services?

## **Public Works Loan Board (PWLB) Interest Rate Increase**

What impact has the PWLB interest rate increase had on your authority? Has your authority reviewed the continuing financial viability of its commercial investments?

How does your authority intent to achieve its capital strategy objectives considering the PWLB interest rate increase?

## **Going Concern**

Have you discussed with your auditors what impact the revised standard on going concern will have on your consideration of going concern and the changes to your audit?

## **Public Sector Audit Consultations**

Did your authority participate in the public sector audit consultations?

What reforms do you believe are key to the future sustainability of public sector financial reporting and auditing?

## **CIPFA Publications: Financial Management and Commercial Investments**

How has your authority adopted and implemented CIPFA's new Financial Management code?

What impact does CIPFA's guidance on commercial property investments have for your authority? Do the authority's commercial activities place the public's money at risk?

## **Green Revolution**

How does your authority's local industrial strategy enable clean growth?

What action is your authority taking to combat climate change? How does your authority plan to achieve the net zero carbon target by 2050?

## **EY audit quality and transparency reports**

Have you discussed with your auditors the benefits of a digital audit?

# Find out more

## **Future Funding for Vital Services**

<https://www.publicfinance.co.uk/news/2019/11/major-gap-between-council-revenue-and-funding-needed-says-ifs>

<https://www.publicfinance.co.uk/2019/11/ifs-councils-sacrificing-other-services-protect-social-care>

## **Public Works Loan Board (PWLB) Interest Rate Increase**

<https://www.publicfinance.co.uk/news/2019/10/increased-pwlb-interest-rate-rise-puts-capital-projects-jeopardy>

<https://www.publicfinance.co.uk/news/2019/11/whiteman-councils-risky-commercial-deals-could-prompt-increased-regulation>

## **Going Concern**

<https://www.iaasb.org/publications-resources/international-standard-auditing-isa-570-revised-going-concern>

## **Public Sector Audit Consultations**

<https://www.nao.org.uk/code-audit-practice/code-of-audit-practice-consultation/>

<https://www.gov.uk/government/news/call-for-views-for-independent-review-into-local-authority-audit>

## **CIPFA Publications: Financial Management and Commercial Investments**

<https://www.cipfa.org/policy-and-guidance/publications/f/financial-management-code>

<https://www.publicfinance.co.uk/news/2019/10/cipfa-unveils-financial-management-code>

<https://www.cipfa.org/policy-and-guidance/publications/p/prudential-property-investment>

## **Green Revolution**

<https://www.publicfinance.co.uk/news/2019/10/councils-need-funding-and-powers-create-greener-local-strategies>

<https://www.publicfinance.co.uk/news/2019/10/local-authorities-need-be-more-environmentally-friendly>

## **EY Reports on audit quality and transparency**

[https://assets.ey.com/content/dam/ey-sites/ey-com/en\\_uk/about-us/transparency-report-2019/ey-uk-2019-audit-quality-report.pdf](https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/about-us/transparency-report-2019/ey-uk-2019-audit-quality-report.pdf)

[https://www.ey.com/Publication/vwLUAssets/ey-uk-2019-transparency-report/\\$FILE/ey-uk-2019-transparency-report.pdf](https://www.ey.com/Publication/vwLUAssets/ey-uk-2019-transparency-report/$FILE/ey-uk-2019-transparency-report.pdf)

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ED None

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**To:** Audit and Governance Committee

**Date:** 9 March 2020

**Report of:** Head of Financial Services

**Title of Report:** Risk Management Reporting as at 31 January 2020.

### Summary and Recommendations

**Purpose of report:** To update the Committee on both corporate and service risks as at 31 January 2020.

**Key decision:** No

**Executive lead member:** Councillor Ed Turner

**Policy Framework:** Efficient and Effective Council

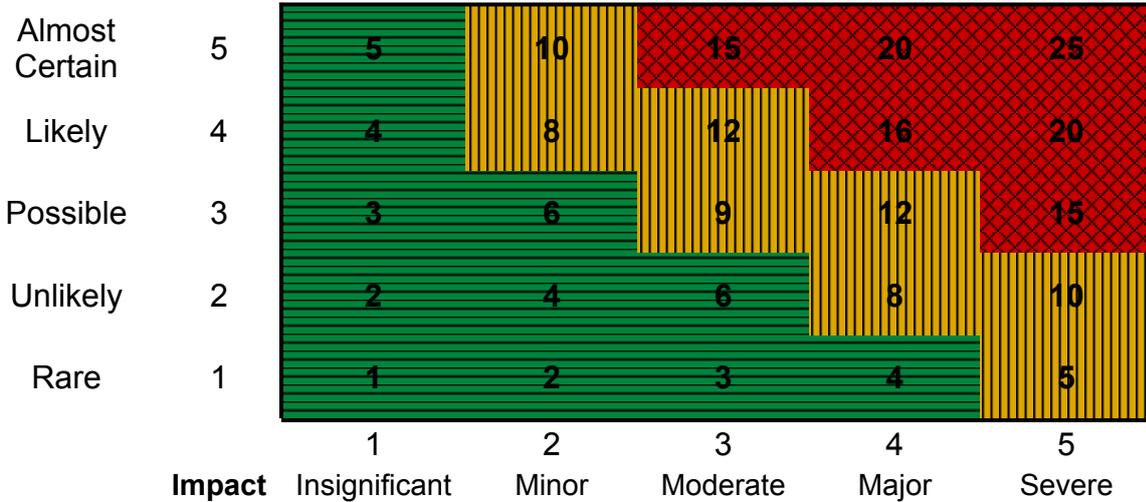
**Recommendation(s):** That the Committee reviews the risk management report and notes its contents

**Appendices:** Appendix A Corporate Risk Register

### **Risk Scoring Matrix**

1. The Council operates a 'five by five' scoring matrix based on probability and impact. The methodology for scoring risks is set out below along with a copy of the scoring matrix or 'heat map'.
2. It is possible to get the same score but end up with a different result in the heat map. For example if the probability of an event occurring is high but the impact is low it is likely to have a lower rating on the heat map. However, the higher the potential impact score the more likely the event will be classed as a red risk on the matrix.
3. The risk prioritisation matrix is shown below.

## Probability



## Key:



## Risk Identification

- Corporate Risks** – The Corporate Risk Register (CRR) is reviewed by the Corporate Management Team (CMT) on a periodic basis, any new risks are incorporated into a revised version of the CRR. Risk owners of corporate risks are generally Executive Directors.
- Service Risks** – Service Area risks are reviewed periodically by Heads of Service and Service Managers. The Financial Accounting Manager has oversight of all risks and on a quarterly basis will review service risks to determine whether they should be considered for inclusion in the Corporate Risk Register.
- Project and Programme Risk** – The Council adopts the principles of Prince2 and agile methodologies in addition to recognised industry standards in construction for managing projects. Incorporated within these methodologies is a robust process for the management of risk within a project environment. Each project is managed by the Project Manager who controls and co-ordinates all aspects of the project through to conclusion.

## Corporate Risk Register – 31<sup>st</sup> January 2020

- The Audit and Governance Committee receives information on risk on a quarterly basis. Given the timing of the Committee the Corporate Risk Register attached at Appendix A is as at 31<sup>st</sup> January.
- The number of Red risks has remained at one.
- Details of the Red risk is as follows:-
  - Housing** – the Council has key priorities around housing which include ensuring housing delivery and supply for the City of Oxford and enabling

sufficient house building and investment. Insufficient housing in Oxford leads to an increase in homelessness which has an impact on residents. There are also health and quality of life issues. The Council is implementing delivery methods for temporary accommodation and accommodation for homelessness prevention which include a rent guarantee scheme, a growth deal to facilitate additional affordable housing and a tranche of property purchases to be delivered via real lettings. In addition the Council's housing companies are in the process of constructing new affordable homes and the Cabinet has approved plans which will result in the Council's Housing Revenue Account ("HRA") purchasing the social housing using its new borrowing headroom, following the removal of the HRA borrowing cap by central government.

10. No risks have been closed in the period.

11. The table below shows the levels of Red, Amber and Green current risks over the last 12 months.

<b>Current Risk</b>	<b>Q1 2019/20</b>	<b>Q2 2019/20</b>	<b>Q3 2019/20</b>	<b>Q4 2019/20</b>
Red	1	3	1	1
Amber	10	8	9	10
Green	1	1	2	1
<b>Total risks</b>	<b>12</b>	<b>12</b>	<b>12</b>	<b>12</b>

### **Service Risk Registers**

12. Each year as part of the service planning process, all service risks are reviewed, those no longer relevant are deleted, and any new ones are added.

13. The table below shows the number of service risks as at the 31st January compared with the last 12 months.

<b>Current Risk</b>	<b>Q1 2019/20</b>	<b>Q2 2019/20</b>	<b>Q3 2019/20</b>	<b>Q4 2019/20</b>
Red	2	3	3	4
Amber	37	34	35	30
Green	12	10	9	13
<b>Total risks</b>	<b>51</b>	<b>47</b>	<b>47</b>	<b>47</b>
New risks in quarter	4	0	0	0
Closed	5	4	0	0

14. The number of Red risks has increased to four. Three remain at Red and the new Red risk was originally Amber.

15. Details of the Red risks are as follows:

- **Planning Services** - this relates to new partnership challenges to ensure the Oxford Growth strategy is supported. Brexit and local political changes could result in a review of the housing numbers which may result in plans being withdrawn or partnerships dissolved. This is being closely monitored across relevant departments within Oxford City Council.
- **Planning Services** – this relates to opposition to emerging statutory plans. The Local Plan 2036 is emerging and with changes to the National Planning Policy Framework and local political changes, this has increased the risk of legal challenges and the need for evidence to support the Council’s position. A communication strategy is being developed for all key planning and regulatory projects.
- **Financial Services** – this relates to Treasury Management and the safety of investments. This risk is constantly Red because of the potentially high impact, although the probability of a loss occurring is rated as “possible” due to the controls the Council has in place around counterparty selection and duration of investment.
- **Regulatory Services** – this relates to Public Health Protection. The emergence of Coronavirus has increased the probability given the level of tourism from affected areas in Oxford. Our resources remain the same and will be directed as necessary by Public Health England.

#### **Climate Change / Environmental Impact**

16. There are no specific impacts arising directly from this report.

#### **Equalities impact**

17. There are no equalities impacts arising directly from this report

#### **Financial Implications**

18. There are no financial implications arising directly from this report.

#### **Legal Implications**

19. There are no legal implications directly relevant to this report but having proper arrangements to manage risk throughout the organisation is an important component of good corporate governance and good business management.

#### **Name and contact details of author:-**

Name: Alison Nash

Job title: Finance Officer (Insurance)

Service Area / Department: Financial Services

Tel: 01865 252048 e-mail: anash@oxford.gov.uk

**List of background papers: None.**

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Formal Risk Summary

(Oxford)

As at: Jan-2020

Ref	Title	Risk description	Opp/Threat	Risk	Cause	Consequence	Date Raised	Owner	Gross			Current			Target			Comments	Controls						
									I	P		I	P		I	P			Control description	Due date	Status	Progress	Action Owner		
CRR-03-18-19	Housing	The Council has key priorities around Housing including ensuring Housing delivery and supply for the City and enabling sufficient house building and investment.	T	Unable to deliver affordable and acceptable housing to a "required" standard	Insufficient housing in City Increase in homelessness Impact on residents Health and quality of life issues Adverse publicity Reputation Risk Perception of unfairness reinforces tensions around immigration		1-Jun-2018	Stephen Clarke	5	4	5	4	4	3						Both Mid Lettings and OCCU own property fund purchases are on programme. A further tranche of property purchase to be delivered via real letting in 19/20.	31-Mar-2020	In Progress	90%	Dave Scholtes	
																				Continuing to work with Regulator Provider partners to enable supply of more affordable housing	31-Mar-2020	In Progress	75%	Dave Scholtes	
																				Deliver OCHL development programme and develop new business plan to both increase and speed up delivery	31-Mar-2020	In Progress	100%	Stephen Clarke	
																				Delivery of regeneration schemes, including Blackbird Leys	31-Mar-2020	In Progress	20%	Stephen Clarke	
																				Housing delivery test & housing delivery programme in planning and better part working across organisations	31-Mar-2020	In Progress	50%	Carolin Ploczynski	
																				More Council resource towards development of homes	31-Mar-2020	In Progress	90%	Alan Wylie	
																				The Council together with other Oxfordshire Councils have secured a Growth Deal including £80m to facilitate additional affordable housing 19/20 to year 2 of the delivery programme	31-Mar-2020	Completed	100%	Stephen Clarke	
CRR-031-18-19	Economic Growth	Local, national or international factors adversely affect the economic growth of the City	T	Terms of any impact of exit from the EU and Single Market resulting in the termination or suspension of investment decisions. However structural changes and economic uncertainties are affecting consumption on the High Street and in turn affecting the viability of some retail, hospitality and catering businesses	Uncertainty and loss of market access may result in increased cost of trade with EU leading to adverse local macro-economic operating conditions resulting in reduced economic growth for the city, a weaker local economy, hampering our ability to raise revenue through business rates as well as significant job losses. Loss of funding for key economic & research programmes and well as reduced FDI flows. Uncertainty about future visa requirements for EU workers and visitors may reduce labour supply as well as tourist flows limiting growth prospects of key economic sectors in the city. In the city centre, the structural changes being experienced, also carries a risk of higher than usual job losses and closures, vacancies in retail and restaurant jobs		1-Jun-2018	Tom Bindgman	5	4	4	3	4	3							Discuss with employees & Growth Board to understand emerging impact of Brexit. Update & develop Economic Development & City Centre Vision in response to evolving economic environment. Develop policy for "mainstream cities" across retail & other sectors	31-Mar-2020	In Progress	30%	Tom Bindgman
CRR-032-18-19	Balancing and Delivery of the Financial Plan	Unable to balance the Medium Term Financial Plan and hence deliver the Council's Corporate Plan priorities	T	Reduced contribution from Council companies. Business Rates reform Local Government Finance reform	Unachievable savings and income *		1-Jun-2018	Nigel Kennedy	4	3	4	3	4	3						Ensure companies are on schedule to deliver returns to Council	31-Mar-2020	In Progress	50%	Nigel Kennedy	
																				Keep abreast of changes to Business Rates reforms and Fall funding	31-Mar-2020	In Progress	20%	Nigel Kennedy	
																				Regular monitoring of revenue and capital budgets and savings savings and increased income are on target	31-Mar-2020	In Progress	100%	Nigel Kennedy	
																				Other budget sectors early and direct savings in conjunction with mainline	31-Mar-2020	In Progress	100%	Nigel Kennedy	
CRR-034-18-19	Recruitment and retention of the workforce	The challenge of recruitment and retention in some service areas, and ensuring succession planning exists for critical hard to fill roles.	T	*Proximity to London *High cost of housing *Congested infrastructure and transport links	Reduced capacity to deliver, especially in high profile projects		1-Jun-2018	Helen Bishop	3	4	3	3	3	2						Develop and implement improved recruitment processes (incl. use of social media, staff stories and other promotional material)	31-Mar-2020	In Progress	25%	Paul Adams	
																				Developed employee brand	31-Mar-2020	In Progress	25%	Paul Adams	
																				Develop greater understanding of reasons for staff leaving and obtain insight into their 'work experience' whilst at council	31-Mar-2020	In Progress	40%	Paul Adams	
																				Development of talent pipeline including work experience, apprenticeships, graduate placement, sponsoring students through qualifications, etc.	31-Mar-2020	In Progress	40%	Paul Adams	
																				Review of employment offer for hard to fill and specialist roles (pay, flexible working practices, employee benefits)	31-Mar-2020	In Progress	40%	Paul Adams	
CRR-036-18-19	Resilience of Trading Models	The Council Companies are not successful and fail to deliver outputs and financial returns	T	Lack of skilled director from Directors. Lack of capacity Lack of commercial focus. Deficiencies in governance *	Reputational damage if failing companies Reduced financial returns to the Council impacting on MTFP		1-Jun-2018	Nigel Kennedy	4	3	3	3	3	3						Delivery of improved systems	31-Mar-2020	In Progress	50%	Nigel Kennedy	
																				Establish robust system of shareholder and scrutiny meetings for wholly owned companies	31-Mar-2020	In Progress	75%	Anita J. Bradov	
																				Governance over all part ventures and companies	31-Mar-2020	In Progress	50%	Nigel Kennedy	
																				Internal audit of companies review by MCO	31-Jul-2019	Completed	100%	Nigel Kennedy	
																				Preparation of updated business plan on a quarterly basis to shareholder - OCHL	31-Mar-2020	In Progress	80%	Nigel Kennedy	
																				Preparation of updated business plan on a quarterly basis to shareholder - ODS	31-Mar-2020	In Progress	80%	Nigel Kennedy	
																				Reporting to shareholder for B&S	31-Jul-2019	Ongoing	100%	Nigel Kennedy	
																				Reporting to shareholder for OCHL	31-Jul-2019	Ongoing	100%	Nigel Kennedy	
																				Review dividend policy - OCHL	31-Mar-2020	In Progress	10%	Nigel Kennedy	
																				Change Review of OCHL	31-Mar-2020	In Progress	50%	Nigel Kennedy	
																				Update and improve ODS Operating Model	31-Mar-2020	In Progress	30%	Nigel Kennedy	
CRR-037-18-19	Local Government Reorganisation	Risk that the reorganisation or devolution is imposed to the detriment of the Council and the City	T	The 2017 bid for an Oxfordshire-wide unitary authority has six different scenarios. The Council has made clear it has no appetite to pursue this, while Growth Board have the Oxford Deal. However, the new Prime Minister and Cabinet, with ministerial changes in MIPCL, creates uncertainty over the Government's policy position on unitary going forwards. There is also new uncertainty around the Growth Deal, given the uncertainty over the status of South Oxfordshire District Council's Local Plan	If unable to respect resources and focus into making City's case in argument Significant disruption to partnership working and loss of opportunities for significant infrastructure investment Risk of weakened focus on Oxford's priorities in a single Unitary Potential negative impact on community through loss of local accountability for investment and services		1-Jun-2018	Caroline Green	5	3	3	3	3	3							Real understanding of new Government administration's view on devolution/Unitary. Growth Deal. OX-Cam Arc & seek levers to influence around Oxford Priorities. Mainstream focus on delivering growth agenda & build consensus partnership governance	31-Mar-2020	In Progress	25%	Caroline Green
CRR-038-18-19	Business Continuity Planning and Disaster Recovery including ICT Recovery Plan	There is an adverse impact on continuous business operation due to unplanned events.	T	*Disruptive event hindering access to building. *Disruptive event affecting full functionality of building. *Major technology incident (physical or cyber).	Non-delivery of business operation		1-Jun-2018	Helen Bishop	3	3	4	3	3	2						All Services to review and sign-off their BC plans to ensure up-to-date.	30-Sep-2019	Ongoing	100%	Bill Lewis	
																				Assure ICT backup and restore capabilities	30-Sep-2018	Completed	100%	Rocco Labellarte	
																				CMF to approve software priority restoration list from all Services BC plans.	30-Jun-2019	Completed	100%	Mike Newman	
																				Identify holder of BCP	31-Mar-2020	In Progress	95%	Bill Lewis	
																				Implement alternative software to CTRX to allow homeworking for own user devices	31-Mar-2020	In Progress	95%	Rocco Labellarte	
																				Include ICT systems outage in business continuity plan tests.	1-Oct-2018	Completed	100%	Mike Newman	
																				Re-establish Risk Management Group	20-Feb-2019	Completed	100%	Bill Lewis	
																				Review existing ICT recovery plan to ensure up-to-date.	30-Sep-2018	Completed	100%	Rocco Labellarte	
CRR-040-18-19	Negative Impacts of Climate Change	Climate Change leads to a number of adverse social, health and environmental impacts on the City	T	Oxford is prone to flood risk from fluvial or river sources (Cherwell and Thames) and in specific areas to pluvial or surface flooding from heavy rainfall. For fluvial flooding heavy rainfall generally normally gives Oxford between 24-48 hours to prepare and respond with flood protection. There is no warning for pluvial flooding. The City has a poor level of air quality largely arising from the use of vehicles within the City	Flooding, which is higher weather dependent; poor air quality		1-Jun-2018	Jo Colwell	4	3	3	3	3	3						Control measures relating to advocacy, clear communication, negotiation over our land assets, in particular at Beacourt and Radbridge. Risk and Risk area (Beacourt extension/Radbridge as location for recycling transfer station)	30-Dec-2022	In Progress	50%	Jo Colwell	
																				Partnership with the EA led programme to deliver the Oxford Flood Alleviation Scheme	31-Mar-2020	In Progress	50%	Jo Colwell	
																				Reputational risk is shared across partners	31-Mar-2020	In Progress	50%	Jo Colwell	
																				Council's emergency plan includes link to Crowded Spaces Evacuation Plan	30-Apr-2020	Ongoing	100%	Mike Newman	
																				Emergency plans for Council-operated buildings include dealing with a terrorist attack (including	30-Apr-2020	Ongoing	100%	Mike Newman	
																				Event plans include dealing with a terrorist attack (including evacuation procedures)	30-Apr-2020	Ongoing	100%	Mike Newman	
																				Prepared business continuity, emergency and response	30-Apr-2020	Ongoing	100%	Mike Newman	
																				Respond to intelligence received	30-Apr-2020	Ongoing	100%	Mike Newman	
																				Work with partners, particularly the Police and County Council, on mitigation measures	30-Jun-2020	In Progress	40%	Tom Sadler	
																				Carry out PSN remedial work.	30-Sep-2019	Ongoing	100%	Rocco Labellarte	
																				Ensure any security breaches are dealt with appropriately, in line with policies.	30-Jun-2018	Ongoing	100%	Helen Bishop	
																				Ensure cyber resilience (financial, anti-virus, anti-malware, password protection, two-factor authentication) is in place	30-Jun-2018	Ongoing	100%	Rocco Labellarte	
																				Ensure cyber security policies are in place.	30-Jun-2018	Ongoing	100%	Rocco Labellarte	
																				Ensure PSN accreditation is achievable. Allocate funding as necessary to ensure remedial work can be delivered.	31-Mar-2020	In Progress	40%	Nigel Kennedy	
																				Create a dedicated HSB team	30-Jun-2018	Completed	100%	Stephen Clarke	
CRR-044-18-19	Health and Safety - Buildings	Failure to comply with the various H&S legislative requirements which ensure the safety of buildings	T	Inadequate training, poor systems and procedures, failure to robustly monitor performance and address this. Inadequate reporting and skills. Inadequate maintenance of buildings	Corporate manslaughter. HSE investigation and substantial fines. Loss of reputation		1-Jun-2018	Stephen Clarke	4	4	4	3	3	2							Introduce Alphasite IT system for meeting compliance	31-Dec-2019	Completed	100%	Stephen Clarke
																				Recruit experienced H&S Manager and other staff resources	30-Sep-2018	Completed	100%	Stephen Clarke	
																				Regular programme of audits of performance to identify gaps in Process	30-Jun-2018	Ongoing	100%	Stephen Clarke	
																				Regular reporting of performance at corporate level	30-Jun-2018	Ongoing	100%	Stephen Clarke	
																				Review existing processes and systems	31-Mar-2019	Ongoing	100%	Stephen Clarke	
																				Plans to ensure that OCC is fully compliant have been completed. Any remedial action has been prioritised and funded and where necessary monitoring of this.	31-Mar-2020	In Progress	85%	Stephen Clarke	
CRR-039-18-19	Delivery of Services by External Suppliers/Partnerships or Supply Chain	The negative performance of suppliers has a direct impact on the Council's ability to achieve its goals	T	Failure of key supplier (i.e. Fusion) or reductions in funding and/or financial pressures on the Council's critical service partners may place additional burdens. Items such as the Council and poorer service outcomes for citizens and potential risks to our supply chain.	Lack of coordinated response or weak relationships with partners leads to withdrawal of services, increasing the burden on City Council services and poorer outcomes for communities.		1-Jun-2018	Ian Brodie	3	3	3	3	2	2						We continue to obtain monthly the contract with our leisure provider. Fusion's independently audited accounts for the year ended 31 December 2018, showed good improvement and growth since the previous accounting year. Their recovery and restructure plan put in place at the end of 2017 delivers a financial turnaround. Fusion anticipates that the positive trends will continue in 2019. This is also reflected with Fusion's Open Credit Report showing very low risk (since April 2019).	31-Mar-2020	In Progress	60%	Ian Brodie	
																				Work collectively and coherently with key partners to find solutions. Effective relationship management across partners will help to manage risks around service delivery and reputational risk.	31-Mar-2020	In Progress	60%	Ian Brodie	

**Current Risk Score**  
This is the risk score at the time that the risk is reviewed. When the risk is first identified it will be the same as the gross risk score. The current risk score is tracked to ensure that progress is being made to manage the risk and reduce the Council's exposure.

**Residual Risk Score**  
This is the risk score after mitigating actions have taken place. The residual risk score shows how effective your action plans are at managing the risk.

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## Minutes of a meeting of the AUDIT AND GOVERNANCE COMMITTEE on Thursday 9 January 2020

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### Committee members:

Councillor Munkonge (Vice-Chair)                      Councillor Corais  
Councillor Gant    Councillor Rush

### Officers:

Paul Adams, HR & Payroll Manager  
Anita Bradley, Monitoring Officer  
Lucy Cherry, Leisure and Performance Manager  
Nigel Kennedy, Head of Financial Services  
Bill Lewis, Financial Accounting Manager  
Matthew Peachey, Economic Development Manager  
Jennifer Thompson, Committee and Members Services Officer  
Scott Warner, Investigation Manager

### Also present:

Yasmin Ahmed (Internal Auditor), BDO Internal Auditor, BDO (Internal Auditor)  
Gurpreet Dulay, Manager, BDO Internal audit, BDO Internal Auditor  
Adrian Balmer (External Auditor), Ernst & Young, External Auditor (Ernst & Young)

### Apologies:

Councillors Fry and Gotch sent apologies.

## 27. Declarations of Interest

There were no declarations.

*With the consent of the Committee the Chair varied the order of the agenda to that shown in these minutes.*

## 28. Progress with the Recruitment and Retention Action Plan

The Committee considered the report of the Head of Business Improvement setting out progress on the recruitment and retention action plan.

Paul Adams (HR and payroll manager) introduced the report and answered questions from the Committee. The Head of Law and Governance asked the Committee to consider if it was satisfied with the progress made.

The Committee noted:

- The increase in the percentage of job applications from BAME candidates and the corresponding increase in job offers: where BAME employees had left this was to increase their income or to advance their careers.

- Actions taken to attract more younger people to work for the council, including apprenticeships and work experience, to rebalance the age profile in the workforce;
- Of the apprentices taken on: 5 had not completed their apprenticeship; 5 had completed and moved on; 11 had completed and remained working for the Council including 2 in permanent posts in the Fraud team;
- Cabinet had agreed the revised aims & objectives for inclusion in Equalities Action Plan (shown in Appendix 3);
- Market supplements or other inducements were considered where services found it hard to fill specific vacancies or recruit for specific skills

The report did not include employees of Oxford Direct Services (company wholly owned by the Council). The Committee asked if Oxford Direct Services' workforce statistics and recruitment and retention plans could be included in the next update; and also information about part-time working patterns.

**The Audit and Governance Committee noted the progress made on the recruitment and retention action plan; and noted the aims and objectives to be included in an updated Equalities Action Plan 2018/21.**

## **29. Internal Audit: Follow up on recommendations from the audit of Fusion**

The Committee discussed the report of the internal auditor BDO. The Fusion follow up report (discussed at this Committee on 11 March 2019) was limited on both Operational effectiveness and Design as a result the auditors carried out a separate follow-up review to ensure their recommendations were implemented. The review and recommendations focussed on meetings and communications with customers, including customer forums.

Gurpreet Dulay (BDO) introduced the report and answered questions.

Lucy Cherry (Leisure & Performance Manager) and Graham Ashby (Fusion Contract Manager) answered questions.

The Committee noted:

- There had been positive changes to the administration and focus of, and attendance at, the formal quarterly management meetings with customer reps.
- 'Meet the manager' informal sessions were held at all centres and were advertised: attendance varied but received positively and customer suggestions taken into account.
- The operation of the Leisure Partnership meetings (formal meetings between the Council client team and Fusion's contract managers)
- The recommendation on improving text alerts and follow-up messaging was marked as complete because training and new processes were in place, but BDO had not tested that this was operating as expected.
- Social media development was ongoing and teams monitored and responded to comments on their social media platforms: Fusion had changed their provided which had delayed completion of these actions.

The Leisure & Performance Manager conformed that Fusion was meeting its performance targets; and there was a positive client/contractor relationship which allowed changes and improvements to be made in partnership.

**The Committee noted the report and answers to their questions.**

### **30. Investigation Team Performance and Activity for year to 30 November 2019**

The Committee considered the report of the Head of Financial Services setting out the activity and performance of the Corporate Investigation Team for the period 1 April 2019 to 30 November 2019.

Scott Warner (Counter Fraud Manager) introduced the report and answered questions. He noted that the prevented loss from Right to Buy applications was calculated using the maximum possible discount (in accordance with the now-dissolved Audit Commission's methodology).

**The Committee noted the report, the comments and answers to questions.**

### **31. Risk Management Quarterly Reporting to December 2019**

The Committee discussed the report of the Head of Financial Services setting out corporate and service risks as at 30 November 2019 and the note from the Economic Development Manager on the risks to economic growth in Oxford.

Bill Lewis (Financial Accounting Manager) introduced the report and noted that a revised risk strategy would be presented to a future meeting.

Matt Peachey (Economic Development Manager) expanded on his note and answered questions.

The Committee noted:

- New local and national risk factors for economic growth including the incoming government's priorities (eg for transport and infrastructure investment).
- Community wealth building increased resilience, but as the Council had limited influence other anchor employers had to participate: with the constraint that local suppliers would eventually be unable to meet demand.
- Work with the Local Enterprise Partnership, major employers, and the university sector.
- Both the City Centre strategy and action plan and the Economic Strategy would be updated in 2020 with an aim to manage the long-term risks to economic sustainability.
- City centre retail occupancy figures were kept up to date. The loss of a large shop (such as the imminent closure of Boswells department store) had proportionately more economic impact on than the loss of a small shop.
- The economic impact of the proposed zero emission zone (ZEZ) had been assessed at the feasibility stage and showed long term positive benefit.

- The lack of employment space could be off-set by repurposing vacant retail units and upper floor space across the city as well as in the city centre.
- There was a lost opportunity to create a more vibrant city centre created by the current lack of centrally-located office space. The Local Plan would allow a more flexible approach to changes of use in the city centre.

**The Committee noted the report, the comments and answers to questions.**

### **32. Council Tax base 2020/21**

The Committee considered the report of the Head of Financial Services asking that it set the Council Tax Base for 2020/21 as required by section 33 of The Local Government Finance Act 1992 and the Local Authorities (Calculation of Council Tax Base) (England) Regulations 2012. Bill Lewis (Financial Accounting Manager) introduced the report.

**The Audit and Governance Committee resolved that:**

- a) the 2020/21 Council Tax Base for the City Council's area as a whole is set at **45,895.5** (as shown in Appendix 1 of the report)
- b) the projected level of collection is set at **98%**
- c) that the **tax bases for the Parishes, and for the Unparished Area of the City** (as shown in Appendix 2 of the report) be set as follows:
  - Unparished Area of the City 38,392.9
  - Littlemore Parish 1,804.5
  - Old Marston Parish 1,280.0
  - Risinghurst & Sandhills Parish 1,474.6
  - Blackbird Leys Parish 2,943.5
  - City Council Total 45,895.5

### **33. Internal Audit: Progress update Quarter 3 January 2020**

The Committee discussed the report of the internal auditor BDO informing the Committee on progress against the 2019-20 audit plan.

Yasmin Ahmed (BDO) introduced the report and answered questions.

The Committee noted:

- The changes to the audit plan to March 2020 and that the 2020/21 audit plan would be presented to the next meeting;
- The opinion and recommendation from the Treasury management review and that the returns to the Council from its investments were slightly above average, operating a risk/reward strategy based on long-term low risk investments.
- The opinion and three recommendations from the Corporate performance management review considering the current (2016-2020) corporate plan.

- the number of substantial opinions issued with no limited opinions;
- the provisional 2020/21 local government funding settlement (published on 20 December) contained no surprises but there were substantial long-term risks;
- the NHS's national business rates challenge had been unsuccessful but they may appeal: if successful this would have reduced the Council's business rates income by about £13m pa.

The Committee considered the report, findings, and recommendations from the review of Events Management and noted:

- There should be a formal policy and procedures to ensure risk assessments were carried out and there were enough staff to manage events. At present there were arrangements to properly assess risks and no indication that there were any safety risks due to a shortage of appropriate staff.
- The Monitoring Officer had concerns about the events team giving advice and the possibility of inadvertently overstepping their roles or giving misleading information: she advised that there should be more input from the legal team.
- There were concerns about the Events Team's capacity to manage their responsibilities, given their commitments, and the committee wished to discuss the follow-up actions with the team's manager.

**The Committee noted the report and the comments and answers to questions.**

**The Committee asked that the Events Team Manager attend the next meeting to discuss the audit findings and recommendations.**

### **34. Internal Audit: Recommendation follow up Quarter 3 January 2020**

The Committee discussed the report of the internal auditor BDO setting out progress on those recommendations raised by Internal Audit which are due for implementation.

Yasmin Ahmed (BDO) introduced the report and she and officers answered questions. The Committee noted the reasons for delayed progress with some recommendations: others were in progress and due to be completed before the March meeting.

**The Committee noted the report and answers to questions.**

### **35. Minutes of the previous meeting**

Further to Minute 21, the Chair sought assurance from Adrian Balmer (EY) that the 2019/20 audit would be completed in time and that there would be no recurrence of the issues that led to the late completion of the 2018/19 audit. The Committee noted that mitigation would be included in the audit plan; and there was a possible national review of the achievability of the 31 July deadline given that in 2019 40% of audits nationally did not meet the deadline.

**The Committee agreed to approve the minutes of the meeting held on 23 October 2019 as a true and accurate record subject to correcting a typographical error in Minute 21.**

**36. Dates and times of meetings**

The Committee noted the dates and times of future meetings.

**The meeting started at 6.00 pm and ended at 8.10 pm**

**Chair .....**

**Date: Monday 9 March 2020**