



Oxford City Council and
Group
Draft Audit planning
report

Year ended 31 March 2021
13 April 2021

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13 April 2021



Members of the Audit & Governance Committee
Oxford City Council
Council Offices
Sr Aldates
Oxford
OX1 1DS

Dear 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 & Governance Committee with a basis to review our proposed audit approach and scope for the 2020/21 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

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

This report is intended solely for the information and use of the Audit and Accounts 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 22 April 2021 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 & 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 Accounts 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 & 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 2020/21 audit strategy



Overview of our 2020/21 audit strategy

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

Audit risks and areas of focus

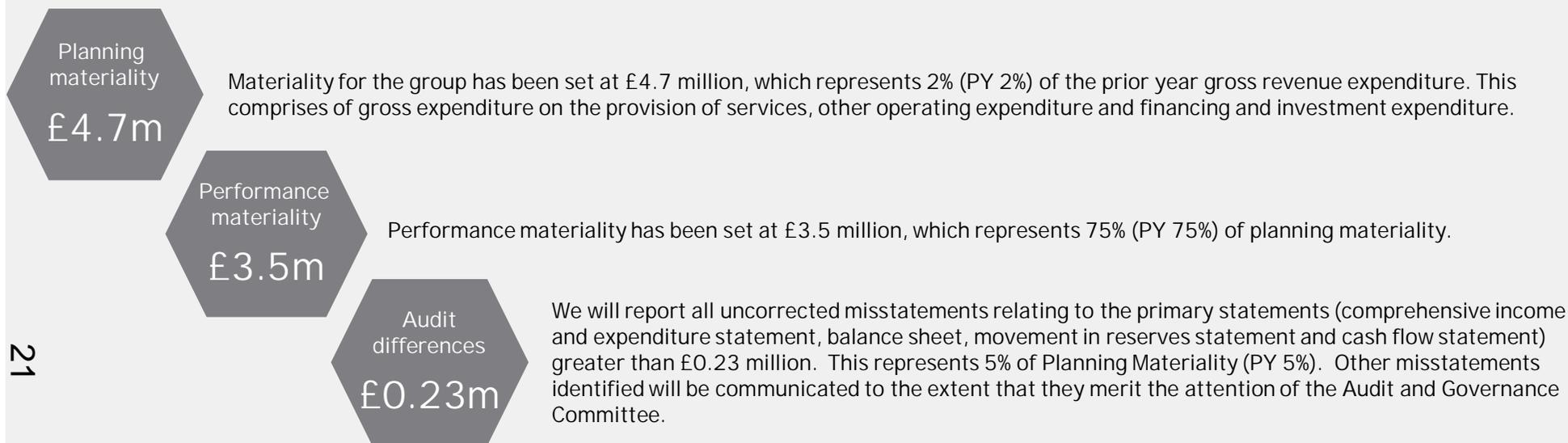
Risk / area of focus	Risk identified	Change from PY	Details	
19	Inappropriate capitalisation of revenue expenditure due to fraud or error	Fraud risk	No change in risk or focus	<p>Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>Our judgement is the significant risk at the Council may manifest itself in the improper capitalisation of revenue expenditure.</p>
	Valuation of Land and Buildings	Significant risk	No change in risk or focus	<p>The fair values of Property, Plant and Equipment (PPE) and Investment Property (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and, for PPE, depreciation charges. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. Covid-19 brought additional uncertainties with regards to valuations in 2020 and we will continue to assess the impact of Covid-19 on the valuation of PPE and IP as of 31 March 2021.</p>
	Disclosures on Going Concern	Inherent risk	No change in risk or focus	<p>The unpredictability of the current environment gives rise to a risk that the Authority would not appropriately disclose the key factors relating to going concern, underpinned by a management assessment with particular reference to Covid-19 and the Authority's actual year end financial position and performance for the going concern period of 12 months after the auditor's report date.</p>
	Accounting for Covid-19 grants	Inherent risk	New area of focus	<p>The Authority received a series of grants from the UK government during 2020/21 in support for the pandemic crisis management. We identified the accounting treatment of those grants as an area of focus since this is a new and significant development for the Council.</p>

Overview of our 2020/21 audit strategy

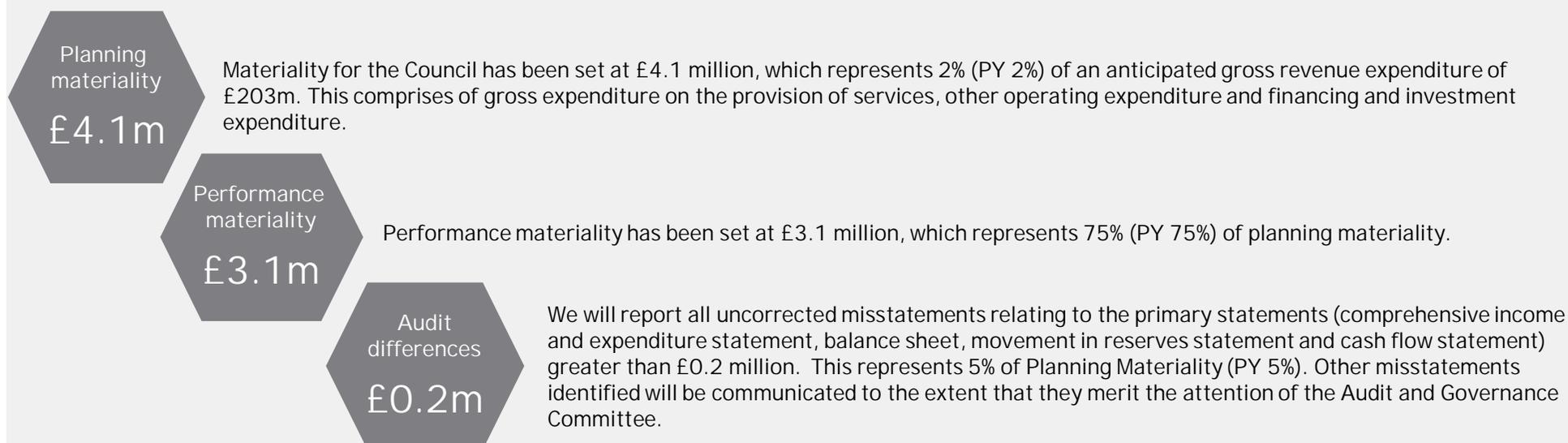
Risk / area of focus	Risk identified	Change from PY	Details
20 Pension Liability Valuation	Inherent risk	No change in risk or focus	<p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Oxfordshire County Council.</p> <p>The Council's pension fund asset is a material estimated balance and the Code requires that this asset be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.</p> <p>Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p> <p>For 2020/21 the Council will need to consider the potential for the ongoing impact of the national issues in relation to the Goodwin and McCloud cases.</p>
Group Consolidation	Inherent risk	No change in risk or focus	<p>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.</p> <p>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.</p> <p>In addition we have also identified 2 of the components as being specific Group scope for our purposes of review and consolidation. This is because these entities have significant individual balances which we need to consider. The 2 entities where this is the case are: Oxford City Housing Limited (OCHL) and Oxford West-End Development (OxWED). Mazars and Wenn Townsend are the auditors for OCHL and OxWED respectively and so we have written to them to understand their approach to testing at these 2 subsidiaries.</p>

Overview of our 2020/21 audit strategy

Group Materiality



Council Only Materiality



Overview of our 2020/21 audit strategy

Audit scope

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

- Our audit opinion on whether the financial statements of Oxford City Council give a true and fair view of the financial position as at 31 March 2021 and of the income and expenditure for the year then ended; and
- Our commentary against specified reporting criteria (see Section 03) on the arrangements the Authority has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

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:

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- 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. The extent of our procedures will depend on the materiality of the Council's balances for the Whole of Government Accounts.

Taking the above into account, and as articulated in this outline audit plan, our professional responsibilities require us to independently assess the risks of providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with Public Sector Audit Appointments (PSAA) allow them to vary the fee dependent on 'the auditors assessment of risk and the work needed to meet their professional responsibilities'. PSAA are aware that the setting of scale fees has not kept up to date with the changing requirements of external audit with increased focused on, for example, valuations of PPE and investment property, pension obligations, the auditing of groups and the introduction of new accounting standards such as IFRS 15 and 9 in recent years as well as the expansion of factors impacting on the value for money conclusion. In Section 09 we have highlighted where additional work will be required for 2020/21 at this stage. We will discuss with management the associated fees as the audit progresses.



02

Audit risks



Our response to significant risks

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

<p>Inappropriate capitalisation of revenue expenditure due to fraud or error*</p>	<p>What is the risk?</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>From our risk assessment, we have assessed that the risk manifests itself solely through the inappropriate capitalisation of revenue expenditure to improve the financial position of the general fund.</p>	<p>What will we do?</p> <p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ For significant additions we will examine invoices, capital expenditure authorisations, leases and other data that support these additions. We review the sample selected against the definition of capital expenditure in IAS 16. ▶ Journal testing – we will use our testing of Journals to identify high risk transactions, such as items originally recorded as revenue expenditure and subsequently capitalised.
<p>Financial statement impact</p> <p>Inappropriate capitalisation of revenue expenditure would decrease the net expenditure from the general fund, and increase the value of non-current assets.</p>		

Our response to significant risks

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

<p>Valuation of Land and Buildings – Property, Plant and Equipment (PPE) and Investment Property (IP)</p>	<p>What is the risk?</p> <p>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.</p>	<p>What will we do?</p> <p>We will:</p> <ul style="list-style-type: none"> ▶ Consider the work performed by the Council’s valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; ▶ Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
<p>Financial statement impact</p> <p>Misstatements that occur in relation to valuation could affect the year end carrying value of PPE and IP (31 March 2020: £883 m and £126 m, respectively).</p>	<p>Covid-19 brought additional uncertainties with regards to valuations in 2020 and we will continue to assess the impact of Covid-19 on the valuation of PPE and IP as of 31 March 2021. The significant risk is therefore specific to the valuation assertion.</p>	<ul style="list-style-type: none"> ▶ 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 and any significant changes notified to the valuer; ▶ Review assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated; ▶ Consider changes to useful economic lives as a result of the most recent valuation; ▶ Consider the potential impact of Covid-19 on valuation uncertainties; and ▶ Test accounting entries have been correctly processed in the financial statements.

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Other areas of audit focus

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

What is the risk/area of focus?

Disclosures on Going Concern

There is a presumption that the Authority will continue as a going concern for the foreseeable future. However, the Authority is required to carry out a going concern assessment that is proportionate to the risks it faces. In light of the continued impact of Covid-19 on its income sources, there is a need for the Authority to ensure its going concern assessment, including its cashflow forecast, is thorough and appropriately comprehensive.

The Authority is then required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified. We consider the unpredictability of the current environment to give rise to a risk that the Authority will not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19.

What will we do?

- Continue to assess the adequacy of disclosures required in 2020/21, and the impact on our opinion, should these be inadequate;
- Obtain management's going concern assessment and review for any evidence of bias and consistency with the accounts;
- Review the financial modelling and forecasts prepared by the Authority. This will consider key assumptions, stress testing applied to those assumptions and consider the risk to cashflow up to at least 12 months after the signing date of the accounts and opinion;
- Ensure that an appropriate going concern disclosure has been made within the financial statements; and
- Considered the impact on our audit report and comply with EY consultation requirements, if such are determined appropriate.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
<p>New central government grants and other Covid-19 funding streams.</p> <p>Central Government have provided a number of new and different Covid-19 related grants to local authorities during the year. There are also funds that have been provided for the Council to disseminate to other bodies.</p> <p>27 The Council needs to review each of these to establish how they need to be accounted for. It needs to assess whether it is acting as a principal or agent, with the accounting to follow that decision. For those where the decision is a principal, it also needs to assess whether there are any initial conditions that may also affect the recognition of the grants as revenue during 2020/21.</p>	<p>On a sample of the grant and funding population we will:</p> <ul style="list-style-type: none"> • Review the Council's decision for new grant or funding arrangements whether it is acting as principal or agent; • Review whether any initial conditions are attached to grants impacting their recognition; • Assess whether the accounting appropriately follows those judgements; and • Check the Council has adequately disclosed grant income received in the year, under both principal and agent arrangements.

Audit risks

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
<p data-bbox="91 467 952 510">Pension Liability Valuation</p> <p data-bbox="91 510 952 670">The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Oxfordshire County Council.</p> <p data-bbox="91 670 952 798">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 2020 this totalled £144.4 million.</p> <p data-bbox="91 798 952 893">20 The information disclosed is based on the IAS 19 report issued to the Council by the actuary of the County Council.</p> <p data-bbox="91 893 952 1091">Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<ul data-bbox="952 467 2121 1091" style="list-style-type: none"><li data-bbox="952 510 2121 574">• Liaise with the auditors of Oxfordshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Oxford City Council;<li data-bbox="952 574 2121 702">• Assess the work of the Pension Fund actuary including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team;<li data-bbox="952 702 2121 766">• Consider any updated information in respect of the impact of national issues including Goodwin and McCloud; and<li data-bbox="952 766 2121 861">• Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

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?

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 based on size. Two of the entities are in specific scope with material balances specific to one or 2 accounts: OCHL and OxWED.

The risk is considered inherent because these entities are 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.

What will we do?

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 and OCHL, Mazars, asking them to undertake a programme of work in line with Group audits.
- Liaise with the external auditor of OxWED, Wenn Townsend, asking them to undertake a programme of work in line with Group audits.



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Value for Money risks





Value for Money

The Authority's responsibilities for value for money (VFM)

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

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

Auditor's responsibilities under the new Code

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

The specified reporting criteria are:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

Planning and identifying VFM risks

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

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

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

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



Planning and identifying VFM risks (continued)

However, the NAO states that a weakness may be said to be significant if it:

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

We should also be informed by a consideration of:

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

Responding to identified risks

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

Reporting on VFM

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

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

Status of our 2020/21 VFM planning

We have yet to fully finalise our detailed VFM planning. However, one area of focus will be on the arrangements that the Authority has in place in relation to financial sustainability in light of the impact of Covid-19. We will continue to update the Audit & Governance Committee meeting on the outcome of our VFM planning, any further changes to our risk assessment and also our planned response to any identified risks of significant weaknesses in arrangements.



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Audit materiality



Materiality

Materiality – Oxford City Council Group

For 2020/21 planning purposes, we are using the prior year's final materiality, which was set at £4.7m for the Group. This represents 2% of the Group's prior year gross revenue expenditure on provision of services. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix C.



We request that the Audit & 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 for the Group at £3.5m, which represents 75% of planning materiality.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet and collection fund that have an effect on income or that relate to other comprehensive income. The threshold has been set at 5% of planning materiality.

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 accounts committee, or are important from a qualitative perspective.



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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 the Authority has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period, to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

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

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

Procedures required by standards

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

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

2. Arrangements to secure value for money through economic, efficient and effective use of resources

We are required to consider whether the Council has put in place arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

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

For 2020/21 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

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

- 3 Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- 2 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 Accounts Committee.

Internal audit:

As in prior years, we will 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 issues are raised that could have an impact on the year-end financial statements.

Scoping the group audit

Group scoping

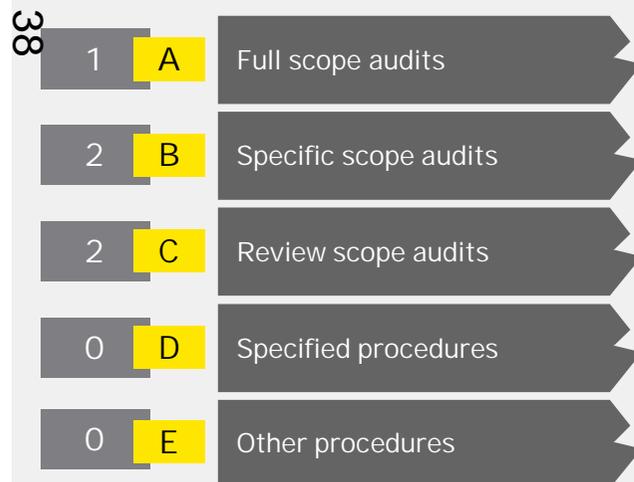
Our audit strategy for performing an audit of an entity with multiple components is risk based. We identify components as:

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 has a significant impact onto the group financial statements. 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. Oxford West End Development (OxWED) & Oxford City Housing Limited have been assigned specific scope for the purposes of the 2020/21 audit.

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. Oxford Direct Services Trading Limited (ODST) & Barton Oxford LLP have both been assigned as review scope for the purposes of the 2020/21 audit.

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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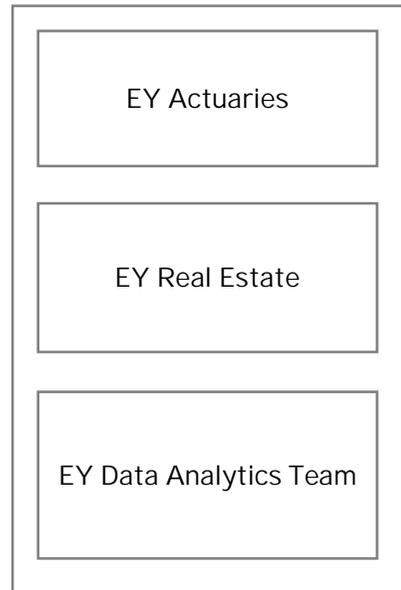
Audit team



Audit team

Audit team structure:

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Working together with the Authority

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

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

* Key Audit Partner

Use of specialists

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
Valuation of Land and Buildings	EY Valuations Team
Pensions disclosure	EY Actuaries

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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

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 2020/21.

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

Audit phase	Timetable	Audit & Governance Committee timetable	Deliverables
43 Planning: Risk assessment and setting of scopes. Walkthrough of key systems and processes Interim audit testing (Started)	February-April 2021	Audit & Governance Committee	Audit Planning Report Interim audit update
Year end audit	June - July 2021	Audit & Governance Committee	Draft Audit Results Report
Audit Completion procedures	September 2021	Audit & Governance Committee	Audit Results Report Audit opinions and completion certificates Annual Audit Letter to follow soon after the sign off



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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 December 2019, 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>▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us;</p> <p>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</p> <p>45. The overall assessment of threats and safeguards;</p> <p>▶ Information about the general policies and process within EY to maintain objectivity and independence.</p>	<p>▶ 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;</p> <p>▶ Details of non-audit/additional services provided and the fees charged in relation thereto;</p> <p>▶ 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;</p> <p>▶ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner</p> <p>▶ 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;</p> <p>▶ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and</p> <p>▶ An opportunity to discuss auditor independence issues.</p>

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 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 those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved

When the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you.

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 2020

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2020 and can be found here:

<https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2020>



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Appendices



Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Planned fee 2020/21	Final Fee 2019/20
	£	£
Base Audit Fee – Code work (See Note 1)	TBC	66,355
Proposed increase to the scale fee due to changes in work required to address professional and regulatory requirements and scope associated with risk (Note 1)	TBC	42,909
Scale fee variation – Covid-19 and Going Concern considerations, addressing significant risk on PPE valuation and VFM conclusion (Note 2)	TBC	23,500
Total fees	TBC	

Notes:

1. We remain in discussion with PSAA about increasing the scale fee to reflect the additional work auditors are required to do to meet regulatory requirements.
2. The 2019/20 additional fees have been discussed with management, who have challenged the level of fees, and therefore it has been referred to PSAA for consideration.

All fees exclude VAT

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 those charged with governance

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



Our Reporting to you

Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Audit and Accounts Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report
Significant findings from the audit	<ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process 	Audit results report

Required communications (continued)

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

Appendix B

Required communications (continued)

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence 	Audit Planning Report and Audit Results Report	
 External confirmations	<ul style="list-style-type: none"> • Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures 	Audit results report	
Consideration of laws and regulations	<ul style="list-style-type: none"> • Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off • Enquiry of the Audit and Accounts 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 Accounts Committee may be aware of 	Audit results report	
Internal controls	<ul style="list-style-type: none"> • Significant deficiencies in internal controls identified during the audit 	Audit results report	

Appendix B

Required communications (continued)

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report	
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report	
Auditors report	<ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor's report 	Audit results report	
 Fee Reporting	<ul style="list-style-type: none"> Breakdown of fee information when the audit plan is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	Audit planning report Audit results report	

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the Audit and Accounts Committee reporting appropriately addresses matters communicated by us to the Audit and Accounts Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- Maintaining auditor independence.

Additional audit information (continued)

Purpose and evaluation of materiality

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

Materiality determines:

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

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

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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