

Oxford City Council &  
Group  
Draft Audit results  
report

Year ended 31 March 2021

31 March 2022

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**EY**

Building a better  
working world

Agenda Item 3

31 March 2022



Oxford City Council  
Town Hall  
St Aldate's Chambers  
Oxford  
OX1 1BX

Dear Audit & Governance Committee Members

2020-21 Audit results report

We are pleased to attach our audit results report, summarising the status of our audit for the forthcoming meeting of the Audit & Governance Committee. We will update the Audit & Governance Committee at its meeting scheduled for 12 April 2022 on further progress to that date and explain the remaining steps to the issue of our final opinion.

The audit is designed to express an opinion on the 2020-21 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on Oxford City Council & Group's accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process. We have also included an update on our work on value for money arrangements.

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

This report provides an update to the initial draft that we provided to the October Committee. For ease of use we have added shading to all changes made to that draft report. We welcome the opportunity to discuss the contents of this report with you at the Audit & Governance Committee meeting on 12 April 2022.

Yours faithfully

Maria Grindley

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

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



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# 01 Executive Summary

## Executive summary

### Scope update

Changes in materiality - In our audit planning report tabled at the 22 April Audit & Governance Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our planning materiality measure of 2% of gross expenditure on provision of services and performance materiality at 75% of planning materiality.

### Materiality Re-Assessment:

During the audit we identified errors in the treatment of Grants. This resulted in us having to revise our materiality and as a result we needed to complete significant additional testing across a number of significant accounts. For further details on the nature of the error please see Section 2 - Accounting for Covid-19 related expenditure. The errors are detailed at Section 4. Below we show the updated Materiality Re-Assessment:

Materiality - Council	Audit Plan	Final	Materiality Re-Assessment
Planning	£4.1 m	£ 5.1m	£4.2 m
Performance	£3.1 m	£ 3.8 m	£3.1 m
Reporting	£0.2 m	£ 0.3 m	£0.2 m
Materiality - Group	Audit Plan	Final	
Planning	£4.7 m	£ 5.6 m	£4.6 m
Performance	£3.5 m	£ 4.2 m	£3.4 m
Reporting	£0.23 m	£ 0.3 m	£0.2 m

Additional EY consultation requirements concerning the impact on auditor reports because of Covid-19.

The continued impact of the Covid-19 pandemic increases the risks to the material accuracy of financial statements and disclosures. To ensure we are providing the right assurances to the Authority and its stakeholders the firm has introduced a rigorous risk assessed consultation process for all auditor reports to ensure that they include the appropriate narrative.

# Executive summary

## Scope Update

### Changes to reporting timescales

As a result of COVID-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2021 No 263, have been published and came into force on 31 March 2021. This announced a change to publication date for final, audited accounts from 31 July to 30 September 2021 for all relevant authorities.

### Additional audit procedures as a result of Covid-19

Other changes in the entity and regulatory environment as a result of Covid-19 that have not resulted in an additional risk, but result in the following impacts on our audit strategy were as follows:

Information Produced by the Entity (IPE): We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Council's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and

→ Agree IPE to scanned documents or other system screenshots.

## Status of the audit

Our audit work in respect of the Council and Group opinion is well progressed.

There have been delays in getting the required information to us in a number of cases, some from third parties and some from the Council's team supporting the treatment of Grants, which has in turn delayed our ability to progress the audit as quickly as we would have liked. Whilst we recognise that there are good reasons for this we will include this in our post-audit wash up discussion with officers to ensure we can have a smoother audit process in the coming year.

Details of each outstanding item, actions required to resolve and responsibility is included in Appendix B.

# Executive summary

## Auditor responsibilities under the new Code of Audit Practice 2020

Under the Code of Audit Practice 2020 we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council 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 Council plans and manages its resources to ensure it can continue to deliver its services;
- Governance  
How the Council ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness:  
How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

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## Status of the audit – Value for Money

We have previously reported to the Committee the changes in the arrangements to the VFM for 2020/21. We are currently completing our risk assessment work and assessing the Council against the three sub-criteria. This includes arranging meetings with senior officers to understand in detail the arrangements in place. As at the date of this report we are not reporting any significant weakness in arrangements. We will provide an update at the September Audit & Governance Committee meeting on our final conclusions. This update will also include the timelines for receipt of the VFM Commentary and our conclusions against each of the three sub-criteria.

## Executive summary

### Audit differences

As at the date of this report, we are not reporting any audit mis-statements greater than our reporting thresholds of £3.8 m & £4.2 m for the Council and the Group respectively. We will provide an update at the Audit & Governance Committee meeting and a final position at the conclusion of the audit.

There are a number of uncorrected mis-statements greater than our reporting threshold for uncorrected mis-statements of £0.3 m. These are detailed at Section 4.

There have been a number of presentational and disclosure amendments which we have identified and have been corrected by management. See Section 4 of this report for further details of the mis-statements.

### Other reporting issues

We have not yet reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We will complete this review and report back any findings to the September Audit & Governance Committee meeting.

~~We~~ We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts (WGA) submission. We have been notified that the final guidance supporting the WGA submission for 2020-21 will be available later in 2022. This work will be completed once this is available and we will provide an update on timing for the WGA at the October Audit & Governance Committee meeting.

We have no other matters to report.



# Executive summary

## Areas of audit focus

In our Audit Plan we identified a number of key areas of focus for our audit of the financial report of Oxford City Council & Group. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised within the "Areas of Audit Focus" section of this report.

We request that you review these and other matters set out in this report to ensure:

- There are no residual further considerations or matters that could impact these issues;
- You concur with the resolution of the issue; and
- There are no further significant issues you are aware of to be considered before the financial report is finalised.

There are no matters, other than those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit & Governance Committee or Management.

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## Control observations

During the audit we are reporting 1 Control Observation at Section 7.

## Independence

In our Audit Plan presented at the 22 April Audit & Governance Committee meeting we did not identify any independence issues.

Please refer to Section 9 for our update on Independence.

## Executive summary

### Significant Risks and Areas of audit focus

Our audit plan identified significant risks and areas of focus for our audit of the Authority's financial statements. We summarise below our latest findings.

Significant risk	Findings & conclusions
Misstatements due to fraud or error	Our work on this area is complete and as at the date of this report we have found no indications of management override of controls. This area is under final review.
Incorrect capitalisation of revenue expenditure	Our work on this area is complete and we have found no instances of incorrect capitalisation of revenue expenditure.
Valuation of land and buildings 9	Our work on valuations is complete. Our internal valuation specialists have reviewed a sample of 9 assets across various asset types. We have received their final report and can confirm that they identified one significant finding related to covered market valuation which has been amended by the Council - please see details in Section 4. This area is under final review.

## Executive summary

### Significant Risks and Areas of audit focus

Our audit plan identified significant risks and areas of focus for our audit of the Authority's financial statements. We summarise below our latest findings on other areas of audit focus.

Other area of audit focus	Findings & conclusions
Accounting for Covid-19 related Grant Expenditure	We identified material errors in the assessment of Agent and Principal. We needed to re-assess materiality and complete significant additional testing across all significant accounts. This area is now complete and is under final review.
Pension liability 17	Our work on this area is complete. We agreed the Authority's pension liability disclosures to the actuarial report and worked through our pensions advisory team's review of work carried out by PwC (Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors). Due to recent additional requirements as a result of the updated ISA 540 (Estimates), we requested additional information for further reasonableness checks on gross liability. Our EY Pensions specialists were able to confirm that the Gross Liability was within an acceptable limit within a variance of < 1.5%. We received the IAS19 assurance letter from the auditor of the Oxfordshire Pension Fund which enabled us to conclude on this area of audit focus. Adjustments were noted within the Pension Fund but the impact of these on Oxford City Council was not material.
Going concern	This area is substantially complete. The draft accounts included a detailed disclosure on going concern. We have received management's assessment of going concern along with details of financial modelling and forecasts prepared by the Council. We have also assessed the deliverables being received from the auditors of the component auditors of the Group subsidiaries. We have requested some further information in respect of Group Cashflows and details around the Council's continued support for subsidiaries. We will provide an update at the Audit & Governance Committee meeting.
Group Consolidation	Our work on Group Consolidation is substantially complete. We have completed a review of the work undertaken by Wenn Townsend on OxWED and we have completed a review of the work undertaken by Mazars on their work completed on ODS and OCHL. We have received all group deliverables and are finalising our work on consolidation. We will provide an update at the Audit & Governance Committee meeting.



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## 02 Areas of Audit Focus





## Areas of audit focus

# Significant risk

### Incorrect capitalisation of revenue expenditure

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#### What is the risk?

Under ISA240 there is also 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.

For Oxford City Council, we consider this risk to be present in:

- Additions to property, plant and equipment and Revenue Expenditure Financed from Capital Under Statute (REFCUS).

We have considered the capitalisation of revenue expenditure on property, plant and equipment as a specific area of risk given the extent of the Authority's capital programme.

#### What judgements are we focused on?

How management decides on appropriate capitalisation of revenue expenditure, including consideration of REFCUS.

#### What did we do?

We sample tested additions to property, plant and equipment to ensure that they have been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised.

#### What are our conclusions?

We have not identified any issues with management's accounting policies or practices in relation to opting to finance expenditure from capital sources.

We focused our testing on property, plant and equipment capital additions and also Revenue Expenditure Financed from Capital Under Statute (REFCUS) capital additions.

Our testing of capital additions is complete and our testing has not identified any instances where expenditure had been inappropriately capitalised.



## Areas of audit focus

# Significant risk

### Risk of error in the valuation of land and buildings

#### What is the risk?

The fair value of Property, Plant and Equipment and Investment Properties represent significant balances in the Authority's accounts, totalling approximately £886 million and are subject to valuation changes, impairment reviews and depreciation charges. In addition, the Council also has material balances on Investment Property at £126 million which are also subject to annual valuations.

In calculating amounts recorded in the Authority's balance sheet, management are required to make material judgements and apply estimation techniques.

#### What judgements are we focused on?

We focused on aspects of the land and buildings valuation which could have a material impact on the financial statements, primarily:

- harder to value assets – such as assets which are valued on a depreciated replacement cost basis;
- the assumptions and estimates used to calculate the valuation; and
- changes to the basis for valuing the assets.

#### What did we do?

We confirmed that the Authority's valuers are members of RICS and registered valuers. We reviewed the instructions provided to the valuer against the requirements of the Code and IFRS and found no issues.

For a sample of assets we assessed whether the valuation basis was appropriate and whether the assumptions used were supportable and reperformed the valuers' calculations.

We challenged the information provided by the valuer as the management's expert.

We have considered the impact of assets not revalued in year, and whether this could lead to a material misstatement of the closing asset valuation.

#### What are our conclusions?

We:

- considered the competence, capability and objectivity of the Council's valuers;
- considered the scope of the valuers' work;
- ensured Land & assets have been revalued within a 5 year rolling programme as required by the Code;
- ensured Investment Property assets had been annually revalued as required by the Code;
- considered if there were any specific changes to assets that should have been communicated to the valuer(s);
- ensured that it was appropriate that no disclosure needed to be made in the accounts in relation to any valuation uncertainty;

We noted no issues from the above procedures.

Our work in respect of this significant risk is complete and in final review. We provide further details of the work completed on the following page.



## Areas of audit focus

# Significant risk (cont'd)

### Risk of error in the valuation of land and buildings

#### What is the risk?

The fair value of Property, Plant and Equipment and Investment Properties represent significant balances in the Authority's accounts, totalling approximately £886 million and are subject to valuation changes, impairment reviews and depreciation charges. In addition, the Council also has material balances on Investment Property at £126 million which are also subject to annual valuations.

In calculating amounts recorded in the Authority's balance sheet, management are required to make material judgements and apply estimation techniques.

#### What judgements are we focused on?

We focused on aspects of the land and buildings valuation which could have a material impact on the financial statements, primarily:

- harder to value assets – such as assets which are valued on a depreciated replacement cost basis;
- the assumptions and estimates used to calculate the valuation; and
- changes to the basis for valuing the assets.

#### What did we do?

We confirmed that the Authority's valuers are members of RICS and registered valuers. We reviewed the instructions provided to the valuer against the requirements of the Code and IFRS and found no issues.

For a sample of assets we assessed whether the valuation basis was appropriate and whether the assumptions used were supportable and reperformed the valuers' calculations.

We challenged the information provided by the valuer as the management's expert.

We have considered the impact of assets not revalued in year, and whether this could lead to a material misstatement of the closing asset valuation.

#### What are our conclusions?

We:

- tested a sample of Property, Plant and Equipment and Investment Property assets revalued in year to confirm that the valuation basis was appropriate and the accounting entries are correct. We agreed with the updated valuation provided for the Covered Market; and
- reviewed assets that are not subject to valuation in 2020/21 to confirm the remaining asset base is not materially misstated;

Our internal valuation specialists tested a sample of 9 assets across the portfolio. All assets sampled were within an expected range with the exception of the Covered Market. We noted that the value of the covered market was outside the expected range based on a range developed by our internal valuations experts. This has been revalued by the Council and we have agreed the amended valuation. Apart from this asset, we have not noted any material differences in valuation from our work on valuations.



## Areas of audit focus

### 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 matters that we report on

What is the risk/area of focus?	What did we do?
<p><u>New central government grants and other Covid-19 funding streams.</u></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>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>We considered the Council's judgement on material grants received in relation to whether it is acting as:</p> <ul style="list-style-type: none"> <li>• An Agent, where it has determined that it is acting as an intermediary; or</li> <li>• A Principal, where the Council has determined that it is acting on its own behalf.</li> </ul> <p>We identified material errors in the assessment of Agent and Principal. As a result we needed to re-assess materiality and complete significant additional testing across all significant accounts. This area is now complete and is under final review. The Council have introduced a new process for assessing such Grants in future.</p>
<p><u>Valuation of defined benefit pension scheme</u></p> <p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Oxfordshire County Council.</p> <p>The Council's pension liability is a material estimated balance and is required to be disclosed on the Council's balance sheet. At 31 March 2020 this totalled £144.4 million.</p> <p>The information disclosed is based on the IAS 19 report issued by the Pension Fund actuary to the Council. Accounting for these schemes involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on its behalf.</p> <p>We are required to undertake procedures on the use of the use of the actuary as management's expert and the assumptions underlying fair value estimates.</p>	<p>Our testing for the defined pension liability is complete. Due to the impact of revised ISA 540 on accounting estimates we needed to involve our internal EY Pensions Specialists. Following their review they concluded that the Pensions Liability was within an acceptable range based on their independent assessment. They concluded that the liability was within a range of &lt; 1.5%. We have no material findings we need to report. We received the IAS19 assurance letter from the auditor of the Oxfordshire Pension Fund . We assessed the findings in the assurance letter for any associated impact on Oxford City Council and noted that there was no material impact.</p>



## Areas of audit focus

### Other areas of audit focus (continued)

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 matters that we report on

#### What is the risk/area of focus?

##### Disclosures on Going Concern

Covid-19 has created a number of financial pressures throughout local government, creating financial stress in either, or a combination of, increasing service demand leading to increased expenditure in specific services, and reductions in income sources.

There remains a presumption that the Council will continue as a going concern for the foreseeable future. However, the Council is required to carry out a going concern assessment that is proportionate to the significant risks it faces. In light of the continued impact of Covid-19 on the Council's day to day finances, its annual budget, its cashflow and its medium term financial strategy, there is a need for the Council to ensure its going concern assessment is thorough and appropriately comprehensive.

The auditor's report in respect of going concern covers a 12-month period from the date of the audit report, therefore the Council's assessment will also need to cover this period. The Council 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.

In addition, the auditing standard in relation to going concern (ISA570) has been revised with effect for the 2020/21 accounts audit.

#### What did we do?

We are required to meet the requirements of the revised auditing standard on going concern (ISA 570) and consider the adequacy of the Council's going concern assessment and its disclosure in the accounts by:

- Challenging management's identification of events or conditions impacting going concern.
- Testing management's resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias).
- Reviewing the Council's cashflow forecast covering the foreseeable future, to ensure that it has sufficient liquidity to continue to operate as a going concern.
- Undertaking a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern.
- Challenging the disclosure made in the accounts in respect of going concern and any material uncertainties.

We discussed the detailed implications of the revised auditing standard with finance staff and noted the information provided in the committee papers, budget and the Medium Term Financial Strategy (MTFS) in support of the going concern disclosure.

We have received an assessment of the Council's going concern basis of preparation of accounts. We are in the process of concluding on this area at a group level based on the Council's responsibilities to its subsidiaries. We will provide an update on our conclusions at the Audit & Governance Committee.



## Areas of audit focus

### Other areas of audit focus (continued)

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 matters that we report on

#### 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 specific scope with material balances specific to one or 2 accounts: Oxford City Housing Limited and Oxford West End Development (OxWED).

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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 did we do?

Our work is ongoing in this area as we are currently waiting for component auditors to finalise the audit of subsidiary accounts.

We have:

- Examined the group structure and determine which elements are in scope; and
- Monitored the position to identify any other components that might move into scope by the year end however we have no further changes to report.

#### We have completed the procedures below:

- Reviewing the Council's approach to consolidation and production of group accounts to ensure that this meets the requirements of the Code of Audit Practice;
- Liaised with the external auditor of ODS and OCHL, Mazars, asking them to undertake a programme of work in line with Group audits. We have completed a review of their audit files. Reviewed the deliverables requested from Mazar with no material issues noted.
- Liaised with the external auditor of OxWED, Wenn Townsend, asking them to undertake a programme of work in line with Group audits. We have completed our review and received the requested information with no issues noted.

We are checking final consolidation adjustments as part of our audit and will provide an update at the Audit & Governance Committee meeting.



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## 03 Audit Report



# Audit Report

## Draft audit report 20-21

TO BE INCLUDED AT THE END OF THE AUDIT

Our opinion on the financial statements

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# 04 Audit Differences





# Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

## Summary of adjusted/unadjusted differences

### Adjusted Mis-Statements:

As at the date of this report, we are reporting the following audit mis-statements greater than our reporting thresholds of £3.8 m & £4.2 m for the Council and the Group respectively. We will provide an update at the Audit & Governance Committee meeting on and a final position at the conclusion of the audit.

### Factual Mis-Statement:

#### Incorrect Treatment of Grants:

Adjustment of Grants incorrectly treated and removed from Comprehensive Income and Expenditure Statement: Income and Expenditure £26.3 m overstated.

We identified an asset which was outside the range developed by our internal valuer. We recommended that the Council undertake an updated valuation of the asset which has now been provided and we have agreed with the revised valuation.

### Uncorrected Mis-Statements:

We identified an issue with the incorrect treatment of depreciation resulting in a £1.6 unadjusted mis-statement.

In the response from the Pension Fund Auditor the auditor reported adjustments to the Pension Fund Accounts of £12.5 m. Oxford City Council's share of the adjustment is approximately £1.5 m. The Council have decided not to adjust this amount and so has been treated as an unadjusted mis-statement.

There have been a number of presentational and disclosure amendments which we have identified and have been corrected by management.



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# 05 Value for Money



# Value for money

## The Council's responsibilities for value for money (VFM)

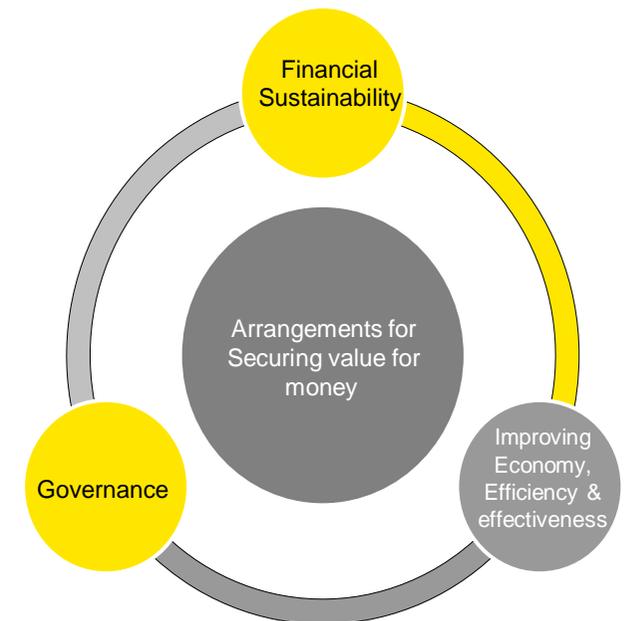
The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with its financial statements, the Council 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 Council 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.

## Risk assessment

We have previously reported to the Committee the changes in the arrangements to the VFM for 2020/21.

We are currently completing our risk assessment work and assessing the Council against the three sub-criteria. This includes arranging meetings with senior officers to understand in detail the arrangements in place. As at the date of this report we are not reporting any significant weakness in arrangements. We will provide an update at the September Audit & Governance Committee meeting on our final conclusions. This update will also include the timelines for receipt of the VFM Commentary and our conclusions against each of the three sub-criteria.





## 06 Other reporting issues

# Other reporting issues

### Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2020/21 with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2020/21 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement. We confirmed that the information contained within the AGS was an accurate reflection of the fact pattern at Oxford City Council and Group during 2020/21.

### Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We have been made aware that the system as well as guidance to complete this will not be available until later in 2022 therefore we are currently unable to commence our work on the Whole of Government Accounts.

# Other reporting issues

### Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”).

We did not identify any issues which required us to issue a report in the public interest.

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### Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the [Authority]’s financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits

As at the date of this report we have nothing that we need to bring to the attention of the Audit & Governance Committee in respect of Other Matters.



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# Assessment of Control Environment

# Assessment of Control Environment

## Financial controls

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed.

Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control including group-wide or at components.

We are reporting one issue in respect of the need for the Council to fully assess all Grants for the correct accounting treatment i.e. Agent/Principal. The accounting implications are very different and therefore the Council needs to fully understand the implications and consult if necessary.



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# 08 Data Analytics



## Management Override of Controls

### What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

### What judgements are we focused on?

We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions.

The purpose of this approach is to provide a more effective, risk focused approach to auditing journal entries, minimising the burden of compliance on management by minimising randomly selected samples.

### What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.

### What are our conclusions?

At the date of writing this report our journal entry testing is under final review; we will conclude on the testing and report any material findings.

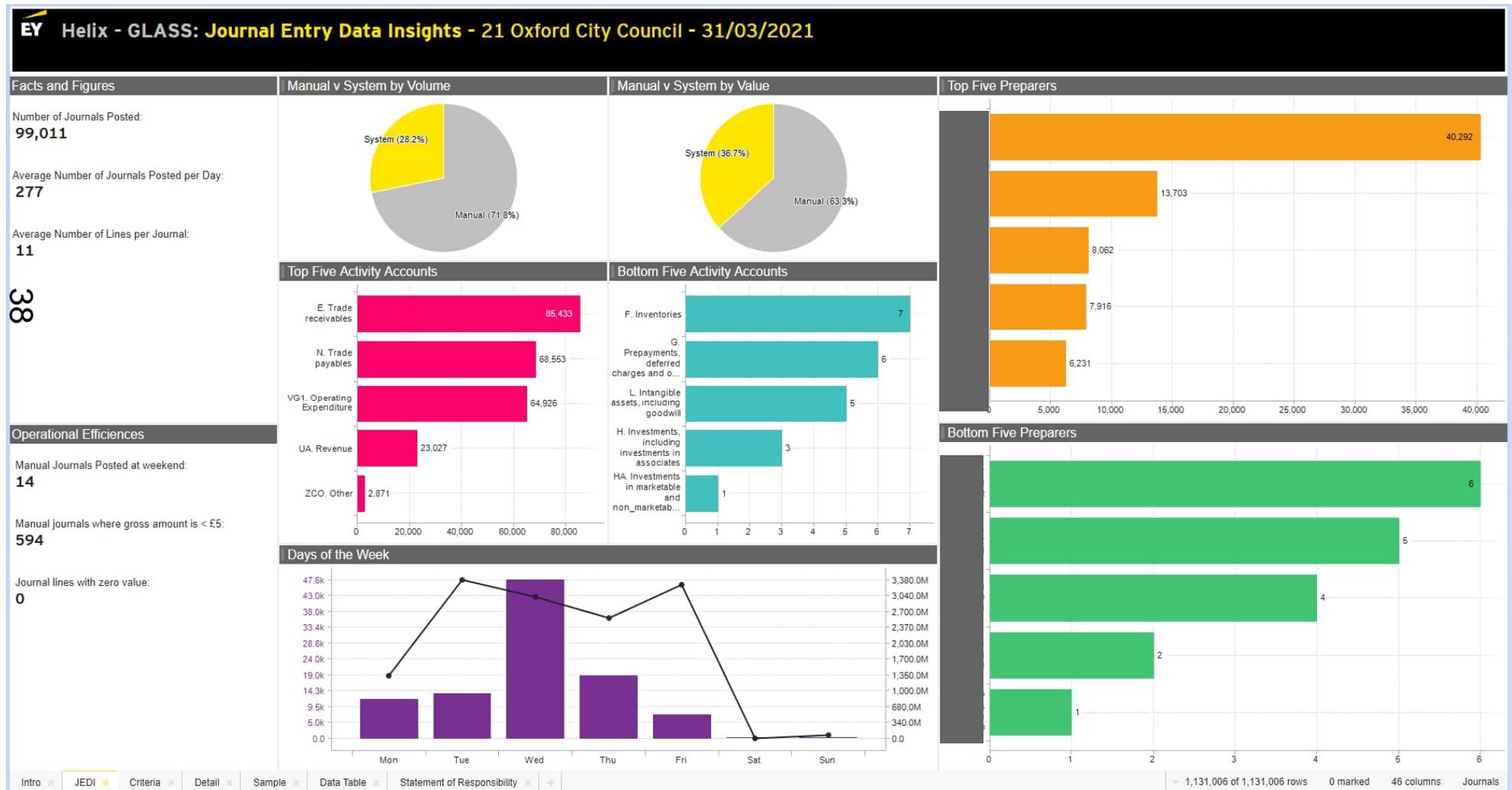


# Data Analytics

## Journal Entry Data Insights

Oxford City Council 31 March 2021

The graphic outlined below summarises the journal population for 2020/21. We isolated a sub set of journals for further investigation and obtained supporting evidence to verify the posting of these transactions included in our data subset.



Intro x JEDI x Criteria x Detail x Sample x Data Table x Statement of Responsibility x +

1,131,006 of 1,131,006 rows 0 marked 46 columns Journals

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09

Independence

## Relationships, services and related threats and safeguards

---

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, and its directors and senior management and its affiliates, including all services provided by us and our network to your company, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2020 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

### Services provided by Ernst & Young

The next page includes a summary of the fees that you have paid to us in the year ended 31 March 2021 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided are shown below. Further detail of all fees has been provided to the Audit & Governance Committee.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

We confirm there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 22 April 2021.

We complied with the APB Ethical Standards. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you and your Audit & Governance Committee consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit & Governance Committee on 12 April 2022.

We confirm we do not plan to undertake non-audit work outside of the Statement of responsibilities of auditors and audited bodies as issued by the Public Sector Audit Appointments Ltd . We will apply the necessary safeguards in our completion of this work should we be required to complete any.

## Confirmation and analysis of Audit fees

Description	Final Fee 2020/21 £	Planned Fee 2020/21 £	Final Fee 2019/20 £
Total Audit Fee – Code work	TBC	71,440	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	42,909
Scale fee variation – Covid-19 and Going Concern considerations, addressing significant risk on PPE valuation, additional work on grants and VFM conclusion (Note 2)	TBC	TBC	23,500
<b>Total Audit Fees</b>	<b>Notes 1 &amp; 2</b>	<b>TBC</b>	<b>132,764</b>

All fees exclude VAT

Note 1 – The proposed increase reflects the increased risk and complexity facing all public sector bodies, adjusted for our knowledge and risk assessment for this Authority as well as the changes and incremental increase in regulatory standards. The proposed increase in the baseline fee is relatively consistent with other councils of a similar size, risk profile and complexity that EY audits.

Note 2 – The impact of Covid-19 on the audit, the updated requirements on VfM conclusion, group requirements, use of experts for the work on valuation of PPE additional work on grants and the work on going concern will all impact the work that is required to be done. As we near the conclusion of the audit, we will be in a position to quantify the impact of these additional procedures and where we propose a variation to the Authority's scale fee. We note the significant additional procedures as a result of the incorrect treatment of Grants and the subsequent materiality re-assessment and additional testing required.

On both points, we will continue to discuss and share with you our assessment of the audit fees required to safeguard audit quality and our professional standards.

All fees are subject to final review and agreement by PSAA Ltd

## 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 end 30 June 2020:

[EY UK Transparency Report 2020 | EY UK](#)



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# 10 Appendices

## Appendix A

# Required communications with the Audit & Governance Committee

There are certain communications that we must provide to the Audit & Governance Committees of UK entities. We have detailed these here together with a reference of when and where they were covered:

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Audit & Governance Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
 Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report presented at the 22 April Audit & Governance Committee meeting
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	Audit planning report presented at the 22 April Audit & Governance Committee meeting
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 planning report presented at the 22 April Audit & Governance Committee meeting

# Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity’s ability to continue as a going concern, including: <ul style="list-style-type: none"> <li>• Whether the events or conditions constitute a material uncertainty related to going concern</li> <li>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>• The appropriateness of related disclosures in the financial statements</li> </ul>	Draft Audit results report presented at the 29 July, 20 October & 12 April Audit & Governance Committee meetings
Misstatements	<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>• Material misstatements corrected by management</li> </ul>	Draft Audit results report presented at the 29 July, 20 October & 12 April Audit & Governance Committee meetings
Subsequent events	<ul style="list-style-type: none"> <li>• Enquiry of the Audit &amp; Governance Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	Draft Audit results report presented at the 29 July, 20 October & 12 April Audit & Governance Committee meetings

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# Appendix A

		 Our Reporting to you
Required communications	 What is reported?	  When and where
46 Fraud	<ul style="list-style-type: none"> <li>• Enquiries of the Audit &amp; 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>• Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ol> </li> <li>• The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>• Any other matters related to fraud, relevant to Audit &amp; Governance Committee responsibility.</li> </ul>	Draft Audit results report presented at the 29 July, 20 October & 12 April Audit & Governance Committee meetings
46 Related parties	<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <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>	Draft Audit results report presented at the 29 July, 20 October & 12 April Audit & Governance Committee meetings
46 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>	Draft Audit results report presented at the 29 July, 20 October & 12 April Audit & Governance Committee meetings

# Appendix A

Required communications	 What is reported?	 When and where
47	<p>Communications whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019:</p> <ul style="list-style-type: none"> <li>• Relationships between EY, the company and senior management, its affiliates and its connected parties</li> <li>• Services provided by EY that may reasonably bear on the auditors' objectivity and independence</li> <li>• Related safeguards</li> <li>• Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees</li> <li>• A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit</li> <li>• Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy</li> <li>• Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard</li> <li>• The Audit &amp; Governance Committee should also be provided an opportunity to discuss matters affecting auditor independence</li> </ul>	
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>	Draft Audit results report presented at the 29 July, 20 October & 12 April Audit & Governance Committee meetings
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>• Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>• Enquiry of the Audit &amp; 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 &amp; Governance Committee may be aware of</li> </ul>	Draft Audit results report presented at the 29 July, 20 October & 12 April Audit & Governance Committee meetings

# Appendix A

		Our Reporting to you	
Required communications	What is reported?	When and where	
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>Significant deficiencies in internal controls identified during the audit.</li> </ul>	Draft Audit results report presented at the 29 July, 20 October & 12 April Audit & Governance Committee meetings	
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>	Draft Audit results report presented at the 29 July, 20 October & 12 April Audit & Governance Committee meetings	
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> <li>Written representations we are requesting from management and/or those charged with governance</li> </ul>	Draft Audit results report presented at the 29 July, 20 October & 12 April Audit & Governance Committee meetings	
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	Draft Audit results report presented at the 29 July, 20 October & 12 April Audit & Governance Committee meetings	
Auditors report	<ul style="list-style-type: none"> <li>Key audit matters that we will include in our auditor's report</li> <li>Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Draft Audit results report presented at the 29 July, 20 October & 12 April Audit & Governance Committee meetings	
VFM Commentary	<ul style="list-style-type: none"> <li>Report the findings from our VFM review in the Auditor's Annual Report</li> </ul>	Auditor's Annual Report presented within 3 months from the date of the audit opinion	

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## Appendix B

# Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item 	Actions to resolve 	Responsibility 
Final Statement of Accounts 20-21	Review of associated support for final accounts E.g. Incorporation of EY review comments on disclosure notes	EY and management
49 Going concern review and disclosures	EY to review Group Going Concern position following input from component auditors EY central review process and finalisation of disclosures and opinion wording	EY and management
Group Reporting from component auditors	Group consolidation review and casting of final accounts	EY
General review of completed tasks	EY to complete various levels of review on completed work	EY
Management representation letter	Receipt of signed management representation letter	Management and Audit & Governance Committee
Subsequent events review	Completion of subsequent events procedures at the Group level to the date of signing the audit report	EY and management

Until all our audit procedures are complete, we cannot confirm the final form of our audit opinion as new issues may emerge or we may not agree on final detailed disclosures in the Annual Report. At this point no issues have emerged that would cause us to modify our opinion, but we should point out that key disclosures on going concern remain to be finalised and audited.

# Draft Management representation letter

## Management Rep Letter

[To be prepared on the entity's letterhead]  
[Date]

Ernst & Young  
FAO: Maria Grindley  
EY  
Apex Plaza  
Forbury Rd  
Reading  
RG1 1YE

50 This letter of representations is provided in connection with your audit of the consolidated and council financial statements of Oxford City Council and Group ("the Council and Group") for the year ended 31 March 2021. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the council and group financial statements give a true and fair view of the Council and Group financial position of Oxford City Council as of 31 March 2021 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 for the Council.

We understand that the purpose of your audit of our consolidated and council financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

### A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 for the Council.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the council and group financial statements. We believe the Council and Group financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and are free of material misstatements, including omissions. We have approved the council financial statements.
3. The significant accounting policies adopted in the preparation of the Council and Group financial statements are appropriately described in the Council and Group financial statements.
4. As members of management of the Council and Group, we believe that the Council and Group have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 for the Council that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because (specify reasons for not correcting mis-statement).
6. We confirm the Group and Council does not have securities (debt or equity) listed on a recognized exchange.

## Management representation letter

### Management Rep Letter (cont.)

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#### B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible for determining that the Council's and Group's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the Council and Group financial statements may be materially misstated as a result of fraud.
4. We have disclosed to you, and provided you full access to information and any internal investigations relating to, all instances of identified or suspected non-compliance with law and regulations, including fraud, known to us that may have affected the Council and Group (regardless of the source or form and including, without limitation, allegations by "whistleblowers") including non-compliance matters:
  - involving financial statements;
  - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's and Group's financial statements;
  - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's and Group's activities, its ability to continue to operate, or to avoid material penalties;
  - involving management, or employees who have significant roles in internal controls, or others; or
  - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

#### C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the council and consolidated financial statements, including those related to the COVID-19 pandemic.
3. We have made available to you all minutes of the meetings of the Council and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the 29 July 2021.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's and Group's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the council and the consolidated financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

## Management representation letter

### Management Rep Letter (cont.)

7 From the date of our last management representation letter dated 24 November 2020 through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

#### D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the council financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent. No guarantees have been given to third parties.

#### E. Going Concern

1. Accounting policy a) General Principles to the council financial statements discloses all of the matters of which we are aware that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

#### F. Subsequent Events

1. Other than those described in Note X to the council and the consolidated financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to year end which require adjustment of or disclosure in the consolidated and council financial statements or notes thereto.

#### G. Other information

1. We acknowledge our responsibility for the preparation of the other information.
2. We confirm that the content contained within the other information is consistent with the financial statements.

#### H. Ownership of Assets

1. Except for assets capitalised under finance leases, the Council and Group has satisfactory title to all assets appearing in the balance sheet(s), and there are no liens or encumbrances on the Council's or Group's assets, nor has any asset been pledged as collateral. All assets to which the Council and Group has satisfactory title appear in the balance sheet(s).
2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the council and consolidated financial statements.

#### I. Reserves

1. We have properly recorded or disclosed in the council and consolidated financial statements the useable and unusable reserves.

#### J. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the asset valuations and net pension liability valuation and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and council financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

## Management representation letter

### Management Rep Letter (cont.)

#### K. Asset Valuation Estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 for the Council and the Group.
2. We confirm that the significant assumptions used in making the asset valuation estimates appropriately reflect our intent and ability to carry out planned uses of assets valued.
3. We confirm that the disclosures made in the council and consolidated financial statements with respect to the accounting estimate(s) are complete and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 for the Council and Group.
4. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the council financial statements due to subsequent events, including due to the COVID-19 pandemic.

#### L. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

*Yours faithfully,*

\_\_\_\_\_  
Head of Finance

\_\_\_\_\_  
Chair of the Audit & Governance Committee

## Progress report on implementation of IFRS 16 Leases

In previous reports to the Audit & Governance Committee, we have highlighted the issue of new accounting standards and regulatory developments. IFRS 16 introduces a number of significant changes which go beyond accounting technicalities. For example, the changes have the potential to impact on procurement processes as more information becomes available on the real cost of leases. The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.

IFRS 16 does not come into effect for the Council until 1 April 2022. However, officers should be acting now to assess the Council's leasing positions and secure the required information to ensure the Council will be fully compliance with the 2022/23 Code. The following table summarises the actions necessary to implement the adoption of IFRS 16 from 1 April 2022:

IFRS 16 theme	Summary of key measures  
Data collection	Management should have: <ul style="list-style-type: none"> <li>• Put in place a robust process to identify all arrangements that convey the right to control the use of an identified asset for a period of time. The adequacy of this process should be discussed with auditors.</li> <li>• Classified all such leases into low value; short-term; peppercorn; portfolio and individual leases</li> <li>• Identified, collected, logged and checked all significant data points that affect lease accounting including: the term of the lease; reasonably certain judgements on extension or termination; dates of rent reviews; variable payments; grandfathered decisions; non-lease components; and discount rate to be applied.</li> </ul>
Policy Choices  54	The council need to agree on certain policy choices. In particular: <ul style="list-style-type: none"> <li>• Will [the council adopt a portfolio approach?</li> <li>• Has the low value threshold been set and agreed with auditors?</li> <li>• Which asset classes, if any, are management adopting the practical expedient in relation to non-lease components?</li> <li>• What is managements policy in relation to discount rates to be used?</li> </ul>
Code adaptations for the public sector	Finance teams should understand the Code adaptations for the public sector. The Code contains general adaptations, (e.g. the definition of a lease); transitional interpretations (e.g. no restatement of prior periods) and adaptations that apply post transition (e.g. use of short-term lease exemption).
Transitional accounting arrangements	Finance teams should understand the accounting required on first implementation of IFRS 16. The main impact is on former operating leases where the authority is lessee. However, there can be implications for some finance leases where the Council is lessee; and potentially for sub-leases, where the Council is a lessor, that were operating leases under the old standard.
Ongoing accounting arrangements	Finance teams need to develop models to be able to properly account for initial recognition and subsequent measurement of right of use assets and associated liabilities. This is more complex than the previous standard due to more regular remeasurements and possible modifications after certain trigger events.
Remeasurements and modifications	Finance teams need to familiarise themselves with when the 'remeasurement' or 'modification' of a lease is required and what to do under each circumstance. A modification can lead to an additional lease being recognised. It is also important to know when remeasurements require a new discount rate is to be applied to the lease.

## EY | Assurance | Tax | Transactions | Advisory

### 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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ED None

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