Oxford City Council & Group

Provisional Audit planning report

Year ended 31 March 2026

23 April 2026

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23 April 2026

Audit & Governance Committee
Oxford City Council
Oxford Town Hall,
St Aldate's,
Oxford,
OX1 1BX

Dear Audit & Governance Committee Members

Provisional Audit planning report 2025/26

We are pleased to attach our audit planning report for the forthcoming meeting of the Audit and Governance Committee. The purpose of this report is to provide the Committee with a basis to review our proposed audit approach and scope for the 2025/26 audit, in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2024 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards, and other professional requirements.

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

We welcome the opportunity to discuss this report with you on 07 July 2026 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Andrew Brittain

For and on behalf of Ernst & Young LLP

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Public Sector Audit Appointments Ltd (PSAA) issued the 'Statement of responsibilities of auditors and audited bodies'. It is available from the PSAA website (https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/). 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 October 2025)" issued by the PSAA (https://www.psaa.co.uk/managing-audit-quality/contract-monitoring-2023-24-to-2027-28/terms-of-appointment-from-2023-24/terms-of-appointment-and-further-guidance-from-1-october-2025/) sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice 2024 (the NAO Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.This report is made solely to the **Audit and Governance Committee and management of** Oxford City Council. Our work has been undertaken so that we might state to the **Audit and Governance Committee and management of Oxford City Council** those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the **Audit and Governance Committee and management of Oxford City Council** for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Overview of our 2025/26 audit strategy

2025/26 audit strategy overview: Rebuilding Assurance

The purpose of this report

As the Council's body charged with governance, the Audit and Governance Committee plays a crucial role in ensuring assurance over both the quality of the draft financial statements prepared by management and the Council's wider arrangements to support a timely and efficient audit. Failure to achieve this will significantly increase the level of resources required to fulfil our respective responsibilities.

As part of our responsibilities, we assess and report on the adequacy of the Council's external financial reporting arrangements, as well as the effectiveness of the Audit and Governance Committee in fulfilling its role within those arrangements as part of our Value for Money assessment. Our ability to complete the audit is dependent on the timely formulation of appropriately supported accounting judgements, provision of accurate and relevant supporting evidence, access to the finance team and management's responsiveness to issues identified during the audit. Wherever necessary, we will consider invoking other statutory reporting powers to highlight any weaknesses in these arrangements.

We direct Audit and Governance Committee members and officers to the Public Sector Audit Appointment Limited's Statement of Responsibilities (paragraphs 26-28) for expectations on preparing financial statements (see Appendix A).

Our shared strategy to rebuild assurance

We are now in Phase 2 of the implementation of the Ministry for Housing, Communities and Local Government's (MHCLG) measures to address the backlog facing local government audit. Throughout 2023/24 and 2024/25, we have applied a structured, risk-based prioritisation approach to local government audits to support a return to unqualified audit opinions wherever feasible, while still meeting statutory backstop requirements. Our approach recognises that recovery depends heavily on the Council's own capacity and preparedness and that audit effort must be targeted where it can deliver meaningful assurance.

Management has overall responsibility for leading and sustaining the Council's recovery from a disclaimed audit opinion. This includes ensuring that the financial statements are prepared in accordance with proper practices and supported by complete, accurate and timely audit evidence.

To deliver this, it is essential that management:

- Strengthen the underlying control environment, particularly in areas linked to prior year disclaimers.
- Provide high quality working papers and ensure that all audit evidence is complete, consistent and readily accessible.
- Allocate sufficient, knowledgeable resources throughout the audit cycle.
- Actively engage with auditors, promptly addressing findings and resolving weaknesses in financial reporting arrangements.
- Communicate transparently with the Audit and Governance Committee, as Those Charged with Governance, ensuring that Committee members have clear visibility of risks, progress and emerging issues.

In line with the National Audit Office's Local Audit Reset and Recovery Implementation Guidance (LARRIGs) - and specifically the guidance on rebuilding assurance following a disclaimed opinion - management must support the restoration of reliable opening balances and enable a phased progression from disclaimed to qualified and ultimately unmodified audit opinions. Achieving this requires sustained delivery of the "natural rebuild," through the completion of all planned audit procedures across successive annual cycles, alongside targeted work to rebuild assurance over historical balances, including both usable and unusable reserves, where cumulative gaps in evidence present the most significant challenges.

2025/26 audit strategy overview: Rebuilding Assurance

Our shared strategy to rebuild assurance continued

Appendix A explains the expected timeline to full assurance set out within the NAO's LARRIG 01 guidance, along with our assessment of the Council's status. During 2023/24 and 2024/25, the focus of the rebuild process has been on this "natural" rebuild, to complete all planned audit procedures for each respective audit year. As set out in our Audit Results Reports dated February 2025 and February 2026, we were not able to complete all planned audit procedures for the following reasons:

The imposition of the statutory backstop arrangements required us to conclude our work by a specific backstop date. As a result, and consistent with prior year reporting, there were areas where we were unable to obtain sufficient appropriate audit evidence to complete planned procedures before the backstop date, most notably in relation to Property, Plant and Equipment and Investment Property valuations, Reserves and associated balances. Consequently, these limitations prevented us from completing all planned audit work required to obtain assurance over these areas.

As part of our interim audit procedures for 2025/26, we will undertake a detailed risk assessment to evaluate the risk of material misstatement in the opening reserves balances at 1 April 2025, and to assess management's readiness to support the historic rebuild process over transactions and balances in 2021/22 and 2022/23 that were not subject to audit. This work is expected to be completed by 30 June 2026 and is essential to determining whether the pre-2023/24 gaps in assurance - particularly those relating to reserves and other cumulative balances - can be sufficiently addressed to support future progression towards qualified or unmodified audit opinions.

We will discuss the outcome of our risk assessment over the opening reserves balances with management to confirm our planned approach for 2025/26. However, because we were unable to complete all planned audit procedures for 2023/24 and 2024/25 for the reasons outlined above, it is unlikely that we will commence any rebuilding of assurance over the historic position during the 2025/26 audit cycle. In line with our established prioritisation principles, we will focus our audit resources on rebuilding assurance for those bodies where planned audit procedures were completed in 2023/24 and 2024/25, in order to support the sector wide objective of returning to unmodified audit opinions as quickly and sustainably as possible.

It is therefore critical that management ensure they can provide high quality working papers, robust audit evidence, and resolve the underlying issues identified in prior years as part of the 2025/26 audit cycle. This will be essential to avoid any further delay in the eventual process for rebuilding assurance over the Council's historic position.

2025/26 audit strategy overview: Rebuilding Assurance

Preparedness for audit

Our ability to complete the audit is dependent on the timely formulation of appropriately supported accounting judgements, provision of accurate and relevant supporting evidence, access to the finance team and management's responsiveness to issues identified during the audit. Our 2024/25 reporting included our assessment of the effectiveness of the Council's arrangements to support the external audit process across a range of relevant measures (reproduced in Appendix A). We concluded that the Council was not fully prepared for the audit and that improvements were required in relation to:

- Quality and timeliness of audit evidence, with working papers and supporting documentation frequently below the standard required
- Responsiveness to audit queries and delays in providing information necessary to complete planned procedures
- Capacity within the finance team to support the audit effectively and to address issues on a timely basis
- The availability of key finance personnel to support the execution phase of the audit in accordance with the agreed project plan.
- Support for key accounting judgements and estimates, particularly in relation to PPE and Investment Property valuations
- Volume of audit and disclosure adjustments, indicating weaknesses in year-end financial reporting and review processes
- The completeness of the draft financial statements submitted for audit, including required IFRS 16 related entries and disclosures.

We will continue to report on our assessment of the quality of the Council's financial statements' preparation and support, to support ongoing transparency of the audit process to those charged with governance, and to facilitate benchmarking and tracking of progress in future years.

Scope of our audit

In accordance with the NAO Code, our primary objectives are to conduct work that supports the delivery of our audit report to the Council. Additionally, we aim to ensure that the Council has established proper arrangements for securing economy, efficiency, and effectiveness in its use of resources, as mandated by relevant legislation and the requirements of the NAO Code. We will issue an Audit Results Report that the summarises our opinion on the financial statements by 31 December 2026 and other procedures required by the Code. This includes our assessment of the control environment, including our follow up of the recommendations that we made in 2024/25 (refer to Appendix D). In addition, our Auditor's Annual Report will conclude on whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources and report a commentary on those arrangements.

As part of the additional scope for the 2025/26 audit, CIPFA Bulletin 22 provides practical guidance on applying indexation to the valuation of Property Plant, and Equipment (PPE) under the 2025/26 Code, supporting the move to quinquennial revaluations with annual indexation in between rather than annual full valuations. The bulletin sets expectations on selecting appropriate indices, applying indexation consistently, accounting treatments, disclosures, and audit evidence, including when desktop or full revaluations are required, supported by worked examples and depreciation guidance.

In addition to the audit of Oxford City Council as the parent entity, we will also complete audit procedures in respect of the Group financial statements. The Group comprises Oxford Direct Services Limited (ODSL), Oxford Direct Services Trading Limited (ODSTL), Oxford City Housing Limited (OCHL), OxWed LLP and Barton Oxford LLP. Audit work over these subsidiary companies and joint venture is performed by component auditors, Mazars and Wenn Townsend. EY acts as the Group auditor and primary audit team and is responsible for the direction, supervision and evaluation of the work performed by the component auditors, and for forming the Group audit opinion.

Our Group risk assessment and procedures are outlined in Section 5.

2025/26 audit strategy overview: Rebuilding Assurance

Timeline

An audit timetable has been agreed with management. In Section 7 we include a provisional timeline for the audit. It is essential that all parties collaborate to ensure compliance with this timeline.

Our independence considerations

There are no issues with our independence and objectivity to be noted. Please see Appendix B.

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2025/26 audit strategy overview: Audit risks and materiality

Audit risks and areas of focus

The purpose of our audit is to obtain reasonable assurance to express an opinion about whether the group financial statements as a whole are free from material misstatement, whether due to fraud or error. There is one significant change to the scoping for the audit of the 2025/26 financial statements, relating to the implementation of CIPFA's Bulletin 22 in relation to the valuation of Property, Plant and Equipment.

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

Risk/area of focus	Risk identified	Change from PY	Details
Presumptive risk of management override of controls	Fraud risk	No change in risk or focus	There is a risk that the financial statements as a whole are not free from material misstatement whether caused by fraud or error. We perform mandatory procedures regardless of specifically identified fraud risks.
Risk of fraud in revenue and expenditure recognition, through inappropriate capitalisation of revenue expenditure	Fraud risk	No change in risk or focus	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure.
Inappropriate revenue recognition of rental income	Fraud risk	No change in risk or focus	As noted above 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. Rental income is a non-standard income stream for local authorities, given they have the power to determine a rental charge investment and other properties they may own. There is incentive to overstate rental income, in order to improve the position of the general fund. Therefore, we have assessed the risk is most likely to occur through recognition of rental income in the incorrect accounting period.

2025/26 audit strategy overview: Audit risks and materiality

Audit risks and areas of focus continued

Risk/area of focus	Risk identified	Change from PY	Details
Valuation of Property, Plant and Equipment and Investment Property	Significant Risk	Increase in focus	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 subjective material judgements and apply estimation techniques given the inherent estimation uncertainty to calculate the year-end balances recorded in the balance sheet. As the valuation is dependent upon a number of judgements and assumptions, small changes in which can have a significant impact upon the financial statements. In the 2025/26 financial statements the Council will be required to apply CIPFA Bulletin 22 which reassesses the current regime of valuation for non-investment assets across the public sector. The guidance mandates a quinquennial revaluation or a five-year rolling programme for formal valuations, supported by annual indexation in the intervening years. Successful implementation will depend on the Council ensuring that their existing valuation programme is adapted in line with the guidance and that appropriate indices are selected to be applied in intervening years.
Pension Liability Valuation	Significant Risk	Increase in risk	Accounting for the Council's participation in the Oxfordshire Pension Fund involves significant estimation and judgement, including financial and demographic assumptions. This risk has been elevated to Significant Risk in the current year due to the identification of a material prior period error relating to the IAS 19 asset ceiling (IFRIC 14), which resulted in a material misstatement of pension assets and comparatives. There is a risk that the net pension liability recognised is materially misstated, as its recognition and measurement is subject to significant management judgement, including the application of the IAS 19 asset ceiling and the assessment of the Council's ability to realise future economic benefits. The Council 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.

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2025/26 audit strategy overview: Audit risks and materiality

Audit risks and areas of focus continued

Risk/area of focus	Risk identified	Change from PY	Details
Group Consolidation	Inherent risk	No change in risk or focus	As part of our Group scoping, we have identified 1 subsidiary, Oxford Direct Services Limited, as being full Group reporting scope. This will involve full consideration of ODSL as well as extensive liaison with the external auditors of ODSL, Mazars, as well as our review of Mazars' documentation and testing schedules. In addition, we have also identified three of the components as being specific Group reporting scope for our purposes of review and consolidation. This is because these entities have significant individual balances which we need to consider. The three entities where this is the case are: Oxford City Housing Limited (OCHL), Oxford Direct Services Trading Limited (ODSTL) and Oxwed LLP. We will be sending group audit instructions to the component auditors to understand their approach to testing at these subsidiaries/JV.
Recognition and Classification of Grants Received in Advance	Inherent risk	New area of audit focus in CY	A material prior-year error was identified in the recognition and classification of capital grants, with amounts incorrectly held within Grants Received in Advance despite recognition conditions having been met. Although the Council corrected the error through the 2024/25 Income and Expenditure Statement, the prior-year comparatives were not restated in line with IAS 8 and the CIPFA Code. This gives rise to increased inherent risk over the appropriate accounting treatment, presentation and comparability of grant income and capital reserves.

2025/26 audit strategy overview: Audit risks and materiality

Group Materiality

Planning materiality
£6.63m

Group Materiality has been set at £6.63m, which represents 2% of Group's 2024/25 gross expenditure on provision of services (2024/25: £331m).

Performance materiality
£3.31m

Group Performance materiality has been set at £3.31m, which represents 50% of materiality.

Audit differences
£0.33m

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement, housing revenue account and collection fund) greater than £0.33m. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit and Governance Committee.

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Council Materiality

Planning materiality
£5.68m

Council Materiality has been set at £5.68m, which represents 2% of Council 2024/25 gross expenditure on provision of services (2024/25: £284m).

Performance materiality
£2.84m

Council Performance materiality has been set at £2.84m, which represents 50% of materiality.

Audit differences
£0.28m

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement, housing revenue account and collection fund) greater than £0.28m. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit and Governance Committee.

2025/26 audit strategy overview: Value for Money

Our risk assessment

Under the NAO Code we are required to:

- Satisfy ourselves that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources, having regard to NAO AGN 03.
- Design work to provide sufficient assurance to support reporting against the Code's specified reporting criteria outlined below; and
- Apply a risk-based approach to our work, informed by sector knowledge, the annual governance statement, evidence from the financial statements audit and relevant work of other bodies.

In undertaking our risk assessment, we obtain an understanding of the key processes the Council has in place, including financial management, risk management and partnership working arrangements. Our Auditor's Annual Report, which will be issued in draft before 30 November 2026 will include a summary of our commentary on the arrangements in place against each of the three value for money criteria and recommendations raised as a result of any significant weaknesses identified. A key part of our work will be the follow up of previous recommendations to provide the Committee with assurance on the pace of planned improvements.

2025/26 audit strategy overview: Value for Money

Our risk assessment (continued)

	Financial sustainability	Governance	Improving economy, efficiency and effectiveness
	How the Council plans and manages its resources to ensure it can continue to deliver its services.	How the Council ensures that it makes informed decisions and properly manages its risks.	How the Council uses information about its costs and performance to improve the way it manages and delivers its services.
Risks of significant weaknesses in arrangements identified in 2025/26:	▪ No specific risk of a significant weakness identified for planning purposes at this stage	▪ Risk of a significant weakness identified in governance arrangements, specifically relating to the effectiveness of arrangements to support an efficient and effective external audit ▪ This risk is informed by repeated prior-year audit outcomes, including disclaimed opinions, and persistent issues with audit readiness, timeliness, and the quality of supporting evidence. ▪ Accordingly, governance – particularly financial governance and audit support arrangements – will be a key area of focus within our 2025/26 VFM work	▪ No specific risk of a significant weakness identified for planning purposes at this stage.
Recommendations identified in 2024/25 (refer to Appendix D):	▪ No recommendations were made in 2024/25	▪ Prior-year audit reporting highlighted the need for the Council to- Strengthen capacity within the finance function and Improve audit readiness, including the timeliness and quality of working papers and supporting evidence ▪ These matters inform our 2025/26 audit risk assessment and planning approach ▪ No new statutory recommendations (e.g. Section 24) were issued in 2024/25; however, progress against earlier matters will be considered as part of our VFM work in 2025/26	▪ No recommendations were made in 2024/25

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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.

Presumptive risk of management override of controls*

What is the risk, and the key judgements and estimates?

In accordance with ISA 240, the presumptive risk of management override of controls is present at every entity and we design the appropriate procedures to consider such risk.

- Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.
- Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud.

We consider this risk to be relevant to the Group and Council as a single entity.

Our response: Key areas of challenge and professional judgement

In order to address the risks outlined we will carry out a range of procedures including:

- Identifying fraud risks during the planning stages.
- Inquiry of management about risks of fraud and the controls put in place to address those risks.
- Understanding the oversight given by those charged with governance of management's processes over fraud.
- Discussing with those charged with governance the risks of fraud in the entity, including those risks that are specific to the entity's business sector (those that may arise from economic industry and operating conditions).
- Considering whether there are any fraud risk factors associated with related party relationships and transactions and if so, whether they give rise to a risk of material misstatement due to fraud.
- Considering the effectiveness of management's controls designed to address the risk of fraud and determining an appropriate strategy to address those identified risks of fraud.
- Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.
- Undertaking procedures to identify significant unusual transactions.
- Considering whether management bias was present in the key accounting estimates and judgements in the financial statements.

Having evaluated this risk, we have considered whether we need to perform other audit procedures not referred to above. We concluded that those procedures included under 'Inappropriate capitalisation of revenue expenditure' and 'Inappropriate revenue recognition of rental income' are required.

Our response to significant risks

Inappropriate capitalisation of revenue expenditure*

Financial statement impact	What is the risk, and the key judgements and estimates?	Our response: Key areas of challenge and professional judgement
We have assessed that the risk of misreporting revenue outturn in the financial statements is most likely to be achieved through: ▪ Revenue expenditure being inappropriately recognised as capital expenditure at the point it is posted to the general ledger. ▪ Expenditure being classified as revenue expenditure financed as capital under statute (REFCUS) when it is inappropriate to do so. ▪ Expenditure being inappropriately transferred by journal from revenue to capital codes on the general ledger at the end of the year. If this were to happen it would have the impact of understating revenue expenditure and overstating Property, Plant and Equipment (PPE), Investment Property (IP) additions and REFCUS in the financial statements.	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure.	In order to address the risks outlined we will carry out a range of procedures including: ▪ Testing PPE and IP additions to ensure that the expenditure incurred and capitalised is clearly capital in nature. ▪ Assessing whether the capitalised spend clearly enhances or extends the useful like of asset rather than simply repairing or maintaining the asset on which it is incurred. ▪ Considering whether any development or other related costs that have been capitalised are reasonable to capitalise, i.e., the costs incurred are directly attributable to bringing the asset into operational use. ▪ Testing REFCUS, if material, to ensure that it is appropriate for the revenue expenditure incurred to be financed from ringfenced capital resources. Based on our work at the planning stage of the audit we do not expect there to be material REFCUS in the year. ▪ Seeking to identify and understand the basis for any significant journals transferring expenditure from unexpected revenue to capital codes on the general ledger at the end of the year.

Our response to significant risks

Inappropriate revenue recognition of rental income*

Financial statement impact	What is the risk, and the key judgements and estimates?	Our response: Key areas of challenge and professional judgement
Local authorities have the power to determine a rental charge on council owned investment and other properties. Annual income is predetermined through the rent setting exercise – usually at the inception of the lease/contract and reviewed at predetermined periods stipulated within that agreement. Amounts recognised in each year's financial statements are merely the result of the Council's property base and annual rental charges. Rental income is a significant income stream within the accounts - £8.5m in 24/25.	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have assessed the risk is most likely to occur through the inappropriate revenue recognition of rental income as this is a non-standard income stream for local government and the Council has incentive to overstate rental income, in order to improve the general fund position.	In response to the risk, we will: ▪ Understand the Council's approach recognising rental income; ▪ Challenge the assumptions made by management in their recognition approach; ▪ Test revenue from rental properties using lowered testing thresholds, to ensure they are appropriately supported by documentary evidence, and that the revenue recognised is appropriate; ▪ Test cut-off of revenue from rental properties at to ensure income from rental agreements straddling the financial year end is recognised in the correct accounting period. ▪ Seek to identify and understand the basis for any significant journals increasing income and receivables at the end of the year.

Our response to significant risks

Valuation of Property, Plant and Equipment and Investment Property

Financial statement impact	What is the risk, and the key judgements and estimates?	Our response: Key areas of challenge and professional judgement
The relevant 2024/25 account balances in the audited financial statements were: Property, plant and equipment: £1,159m Relating to land and buildings, including council dwellings: £1,084m Additions totalled: £127m	Management is required to make subjective material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet given the inherent estimation uncertainty. 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. In the 2025/26 financial statements the Council will be required to apply CIPFA Bulletin 22 which reassesses the current regime of valuation for non-investment assets across the public sector. The guidance mandates a quinquennial revaluation or a five-year rolling programme for formal valuations, supported by annual indexation in the intervening years. These changes do not impact investment property which is still required to be revalued in full each year. The statutory override in place for infrastructure assets was scheduled to end 31 March 2025 however a permanent solution is yet to be agreed and as such the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2025 extend the statutory accounting override for infrastructure assets for a further four years, covering 2025/26 (and beyond). The extension continues to carry an expectation that Councils will continue to address information deficits to ensure timely adoption of future Code requirements once a more permanent solution is delivered.	In response to the risk, we will: ▪ Review and assess management's assessment and planned approach to CIPFA Bulletin 22, in the context of other challenges in the application. In particular considering the appropriateness of indices applied to assets not revalued during intervening years and triggers for revaluation; ▪ Review and appraise the work performed by the Council's valuer, 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 price per square metre); ▪ Involve EY internal specialists to challenge the work performed by the Council's valuers, focusing on more material assets which have been subject to audit differences in the past; ▪ Assess any changes to useful economic lives against the most recent valuer assessments; ▪ Test accounting entries have been correctly processed in the financial statements; ▪ Sample test transfers from assets under construction and confirm for a sample that remain within assets under construction that development is still in progress; ▪ Review and assess management's impairment assessment of ongoing and completed capital projects to ensure assets are held at an appropriate value. For infrastructure assets we will test a sample of infrastructure assets to determine their existence as at 31 March 2026 and review the depreciation policy for infrastructure assets and ensure it remains appropriate and in line with CIPFA guidance. We will also assess whether infrastructure additions for 2025/26 have been recorded in sufficient detail to enable verification of the underlying physical asset.

Our response to significant risks

Pension Liability Valuation

Financial statement impact	What is the risk, and the key judgements and estimates?	Our response: Key areas of challenge and professional judgement
The Council's net pension liability is measured as the sum of the long-term payments due to members as they retire against the Council's share of the Pension Fund investments. At 31 March 2025 the Council's net liability totalled £21.8m. An unfunded liability of £5.5m was also recorded on the Council's balance sheet and a material Group pension asset is considered in full.	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 the Council. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	In response to the risk, we will: ▪ Liaise with the auditor of Oxfordshire Pension Fund to obtain assurances over the information supplied to the actuary and confirm joint assurances in respect of employer and employee contributions. ▪ Engage our actuarial specialists to assess the work of the actuary. This will involve a consideration of the net asset/liability and any calculation of the asset ceiling in accordance with IFRIC 14 where relevant . ▪ Assessing the work of PwC, appointed to consider actuarial assumptions used at the year end for all local government sector bodies. ▪ Review and test the accounting entries and disclosures made within the Group Council's financial statements in relation to IAS19. ▪ Require an updated IAS19 report in July to ensure that there have been no material movement in the value of pension fund assets between the initial IAS19 report, and the signing of the financial statements. ▪ Consider the valuation and disclosure of unfunded liabilities, for which there are no plan assets to meet the pension liabilities. As part of our audit procedures, we will request that the Group and Council obtain an asset ceiling report from its actuaries. Our actuarial specialists will review the asset ceiling report to satisfy themselves that it is materially correct. Following review, we will also ensure that pension assets and liabilities are appropriately recorded within the Group financial statements.

Other areas of audit focus

Financial statement impact	What is the risk, and the key judgements and estimates?	Our response: Key areas of challenge and professional judgement
Group Consolidation (inherent risk)		
The Group accounts include a number of significant subsidiaries and jointly controlled entities. There is a risk that the group boundary is not appropriately assessed, or that consolidation adjustments, including the elimination of intra-group balances and transactions, are not accurately prepared in accordance with the Code of Practice, resulting in a material misstatement of the Group Balance Sheet, Group Comprehensive Income and Expenditure Statement and related disclosures.	The Council has a number of companies within the group structure three of which are wholly owned by the Council and two where the company is jointly owned. With this 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 (ODSL), will be a significant component to the group based on size. Three of the entities are specific scope with material balances specific to couple of accounts: OCHL, ODSTL and Oxwed LLP. The risk is considered inherent because these entities are significant component based on the size and risk of the subsidiary. The accounts of the components will need to be consolidated into the Group accounts with appropriate consolidating adjustments. This gives scope for potential material error.	We will: • Examine the group structure and review management's group boundary assessment in order to determine which elements are in scope; • Monitor the position to identify any other components that result in a change in 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 ODSL, ODSTL and OCHL, Mazars, asking them to undertake a programme of work in line with Group audits. • Liaise with the external auditor of Oxwed LLP, Wenn Townsend, asking them to undertake a programme of work in line with Group audits.

Other areas of audit focus

Financial statement impact	What is the risk, and the key judgements and estimates?	Our response: Key areas of challenge and professional judgement
Recognition and Classification of Grants Received in Advance (inherent risk)		
The prior-year error was corrected through the 2024/25 I&E rather than through opening reserves, leaving prior-year comparatives misstated and impacting current-year performance. Grants Received in Advance and capital reserves were misstated by £16.9m, with nil impact on the General Fund after statutory transfers.	There is a risk that conditional capital grants are incorrectly recognised or classified, with amounts remaining within Grants Received in Advance despite the relevant recognition conditions having been met or being transferred to inappropriate reserves. This could result in a material misstatement of opening balances, prior-year comparatives, income and capital reserves, particularly given the material prior-period error identified in the prior year and the control weaknesses noted over grant assessment and year-end review. Key judgements relate to assessing when grant conditions have been satisfied, determining whether funding should be recognised as income or retained as a liability, and deciding the appropriate classification between the Capital Grants Unapplied reserve and the Capital Adjustment Account, including the application of the CIPFA Code and IAS 8 and the related statutory reserve transfers.	We will: • Perform targeted testing over capital grants and Grants Received in Advance to assess whether recognition conditions are met in the correct period. • Assess the classification of grants between liabilities and capital reserves, including the appropriateness of statutory transfers. • Evaluate the impact on comparatives, presentation and disclosures, ensuring compliance with the CIPFA Code and IAS 8. • Involve a technical specialist, where appropriate, to support judgements over grant recognition and correction of prior-period errors.

03 Value for money

Value for money

Council's responsibilities for value for money

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 the financial statements, the Council is required to bring together a commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the 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 arrangements for securing value for money from the use of resources.

Auditor responsibilities

Under the NAO Code we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The 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.

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.

Value for money

Planning and identifying risks of significant weakness in value for money arrangements

The NAO's guidance notes require us to conduct a risk assessment that collects sufficient evidence to document our evaluation of the Council's arrangements, allowing us to draft a commentary under the three reporting criteria. This involves identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations. In considering the Council's arrangements, we consider:

- The annual governance statement;
- Evidence of arrangements during the reporting period;
- Evidence obtained from our audit of the financial statements;
- The work of inspectorates and other bodies; and
- Any other evidence that we deem necessary to facilitate the performance of our statutory duties.

We then evaluate whether there is evidence indicating significant weaknesses in arrangements. According to the NAO's guidance, determining what constitutes a significant weakness and the extent of additional audit work required to address the risk is based on professional judgment. The NAO indicates that a weakness can be considered significant if it:

- Exposes, or could reasonably be expected to expose, the council to significant financial loss or risk;
- Leads to, or could reasonably be expected to lead to, significant impact on the quality or effectiveness of service or on the council's reputation or unlawful actions;
- 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.

When planning work identifies a risk of significant weakness, the NAO's guidance requires us to consider the additional evidence needed to verify whether there is a significant weakness in arrangements. This involves conducting further procedures as necessary. We are required to report our planned procedures to the Audit and Governance Committee.

Reporting on value for money arrangements

If we determine that the Council has not made proper arrangements for securing economy, efficiency, and effectiveness in its use of resources, the NAO Code mandates that we reference this by exception in the audit report on the financial statements.

Additionally, we are required to provide a commentary on the value for money arrangements in the Auditor's Annual Report. The NAO Code specifies that this commentary should be clear, readily understandable, and highlight any issues we wish to draw to the Council's or the wider public's attention. This may include matters that are not considered significant weaknesses in arrangements but should still be brought to the Council's attention. It will also cover details of any recommendations from the audit and the follow-up of previously issued recommendations, along with our assessment of their satisfactory implementation. Our 2025/26 Auditor's Annual Report must be issued in draft by 30 November 2026 to comply with the revised requirements of the NAO Code.

Value for money

Status of our 2025/26 value for money planning

We have yet to complete our detailed value for money planning. We have outlined our judgements on arrangements in 2024/25 below, and as a result, one area of focus will be on the Council's Governance arrangements. We will update the next Audit and Governance Committee meeting on the outcome of our value for money planning and our planned response to any additional identified risks of significant weaknesses in arrangements.

Criteria	2024/25 judgements on arrangements	2024/25 Recommendations (refer to Appendix D)
Financial sustainability	Based on our 2024/25 work, we concluded that the Council had proper arrangements in place for medium-term financial planning, budget setting and in-year monitoring. No significant weakness was identified in relation to financial sustainability.	▪ No recommendations identified
Governance	We identified a significant weakness in the Council's governance arrangements, specifically relating to its capacity to support an efficient external audit and to produce timely, accurate and sufficiently evidenced financial statements. These issues have persisted over multiple audit cycles and contributed to repeated audit scope limitations and disclaimed opinions.	▪ The Council should undertake an urgent and comprehensive strengthening of its financial reporting and audit-support processes. This should include a full review of finance team workflows; targeted increases in capacity; and the implementation of a robust quality-assurance framework for year-end working papers, including clear prepared-by/reviewed-by controls. The Council should introduce a joint audit project-management process to monitor delivery against deadlines. These measures are necessary to restore reliable financial reporting, meet statutory requirements, and mitigate the risk of further qualified or disclaimed audit opinions.
Improving economy, efficiency and effectiveness	Our work in 2024/25 did not identify any significant weaknesses in the Council's arrangements for using cost and performance information to manage and deliver services and improve outcomes.	▪ No recommendations identified

04 Audit materiality

Materiality

Group materiality

For planning purposes, Group materiality for 2025/26 has been set at £6.63 million. This represents 2% of the Group's 2024/25 gross expenditure on provision of services. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix G.

Group's Gross expenditure on provision of services

£331m

Planning materiality	Performance materiality	Audit differences
£6.63m	**£3.31m**	**£0.33m**

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Council's Gross expenditure on provision of services

£284m

Planning materiality	Performance materiality	Audit differences
£5.68m	**£2.84m**	**£0.28m**

Component performance materiality is determined as a percentage of Group performance materiality, based on each component's relative size and assessed risk to the Group (see Appendix C) for the assignment of scope for individual components

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

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £3.31 million which represents 50% of group materiality. We have selected this threshold due to the fact we have not been able to obtain sufficient and appropriate evidence to support the closing balances of Property, Plant & Equipment, Investment Properties, Short-Term Debtors, Leases, Long term Creditors, Reserves, All other disclosures, Capital Expenditure and Financing, Comprehensive income and expenditure and Housing Revenue Account while concluding 24/25 audit. We also noted a number of control deficiencies while carrying out 24/25 audit.

Component performance materiality – we determine component performance materiality as a percentage of Group performance materiality based on risk and relative size to the Group.

Audit difference threshold – We will report to you all uncorrected misstatements over £0.33 million, relating to the Group income statement and balance sheet that have an effect on income and misstatements in the OCI.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow or disclosures and corrected misstatements will be communicated to the extent that they merit the attention of the Audit and Governance Committee or are important from a qualitative perspective.

The component reporting limit for adjustments of £0.28 million is lower than the Group audit difference threshold and reflects the relative size and risk profile of the component.

05 Scope of our audit

Audit process and strategy

Objectives of our audit scoping

In accordance with the NAO Code, our primary objectives are to conduct work that supports the delivery of our audit report to the Council. Additionally, we aim to ensure that the Council has established proper arrangements for securing economy, efficiency, and effectiveness in its use of resources, as mandated by relevant legislation and the requirements of the NAO Code. We will issue an audit report that covers:

1. **Financial statement audit**

Our opinion on the financial statements:

- Whether the financial statements give a true and fair view of the financial position of the group and its expenditure and income for the period in question; and
- Whether the financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.

Our opinion on other matters:

- whether other information published together with the audited financial statements is consistent with the financial statements.

Other procedures required by the Code:

- Examine and report on the consistency of the Whole of Government Accounts schedules or returns with the body's audited financial statements for the relevant reporting period in line with the instructions issued by the National Audit Office.

2. **Arrangements for securing economy, efficiency and effectiveness (value for money)**

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources and report a commentary on those arrangements.

Internal audit

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 they raise issues that could have an impact on the financial statements.

In 2024/25, the Council's Internal Audit Annual Report concluded that there was Moderate assurance that a generally sound system of internal control was in place to support the achievement of the Council's objectives, although controls were not applied consistently across all services and some areas of non-compliance and control weaknesses were identified.

Scoping the group audit

Group scoping

The Council prepares its annual report and financial statements on a group basis. In line with ISA (UK) 600, our audit strategy for performing an audit of a group with multiple components is risk-based and our scoping of the group audit responds to the risks of material misstatement that we have identified for the group financial statements.

We first determined whether centralised procedures could be performed before we determined which components to include in the group audit scope, and the work to be performed at those components.

We next identified individually relevant components based on various risk characteristics and applied professional judgement to determine which accounts were to be included in the work performed at these components. We then considered whether the remaining group significant account balances not yet subject to audit procedures, in aggregate, could give rise to a risk of material misstatement of the group financial statements. When determined that these residual balances could give rise to a risk of material misstatement of the group financial statements, we determine whether it is necessary to perform audit procedures on further accounts in components which are individually relevant and/or include accounts in additional components within the group audit scope to address the risks of material misstatement of the group financial statements. Having identified the components for which work will be performed, we determined the scope to assign to each component.

For the remaining residual amount of balances and accounts of the group financial statements which are not included within the group scope we perform further risk assessment procedures to confirm that there is no risk of material misstatement within those amounts.

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Scoping the group audit

Coverage of Gross Expenditure/Profit Before Tax/Total assets

Based on the Group's prior year results, our scoping is expected to achieve the following coverage of the group's gross expenditure, profit before tax and total assets. The remaining components, individually do not exceed more than 1% of the Group's net operating expenditure and 1% of total assets. Our audit approach is risk based and therefore the data below on coverage is provided for your information only. Further details on the scoping of the Group audit can be found at Appendix C.

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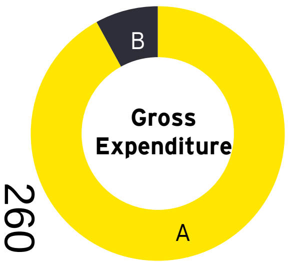
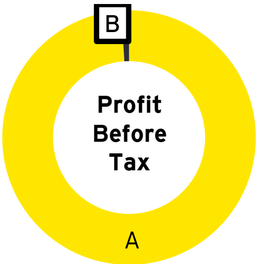


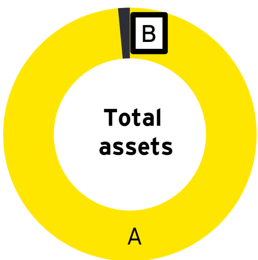
100%
(2025: 100%)

of the group's forecast revenue will be covered by full and specific scope audits.



100%
(2025: 100%)

of the group's Profit before tax will be covered by full and specific scope audits.



100%
(2025: 100%)

of the group's forecast total assets will be covered by full and specific scope audits.

A

Full Scope audits: Oxford City Council and Oxford Direct Services (ODSL) Locations involving the design and performance of audit procedures on a significant proportion of the financial information of the component. 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 scope of work, materiality used and any additional procedures required to comply with local laws and regulations

B

Specific Scope: Oxford Direct Services Trading Limited (ODSTL); Oxford City Housing Limited (OCHL); Oxwed LLP Locations involving the design and performance of audit procedures on one or more classes of transactions, account balances, or disclosures of the financial information of the group. The accounts included in the scope are not a significant proportion of the financial information of the component.

C

Specified Procedures: These amounts have been evaluated as not presenting a risk of material misstatement to the group financial statements. Individually, these components do not exceed more than 1% of the Group's revenue.

06 Audit team

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Audit team

Audit team leadership

The global engagement team is led by Stephen Reid, who has overall responsibility for the performance of the audit and for the auditor's report issued on behalf of EY.

Our approach to the use of specialists

When auditing key judgements, we are often required to use the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where EY specialists are expected to 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 Group'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
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

Andrew Brittain
Key audit partner

Preeti Malik
Manager

Louisa Hotson
Assistant Manager

Harry Brown
Senior 1

Specialist 1
(EY Real Estates)

Specialist 2
(Specialist PWC consulting actuary and EY Actuaries)

07 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 2025/26.

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

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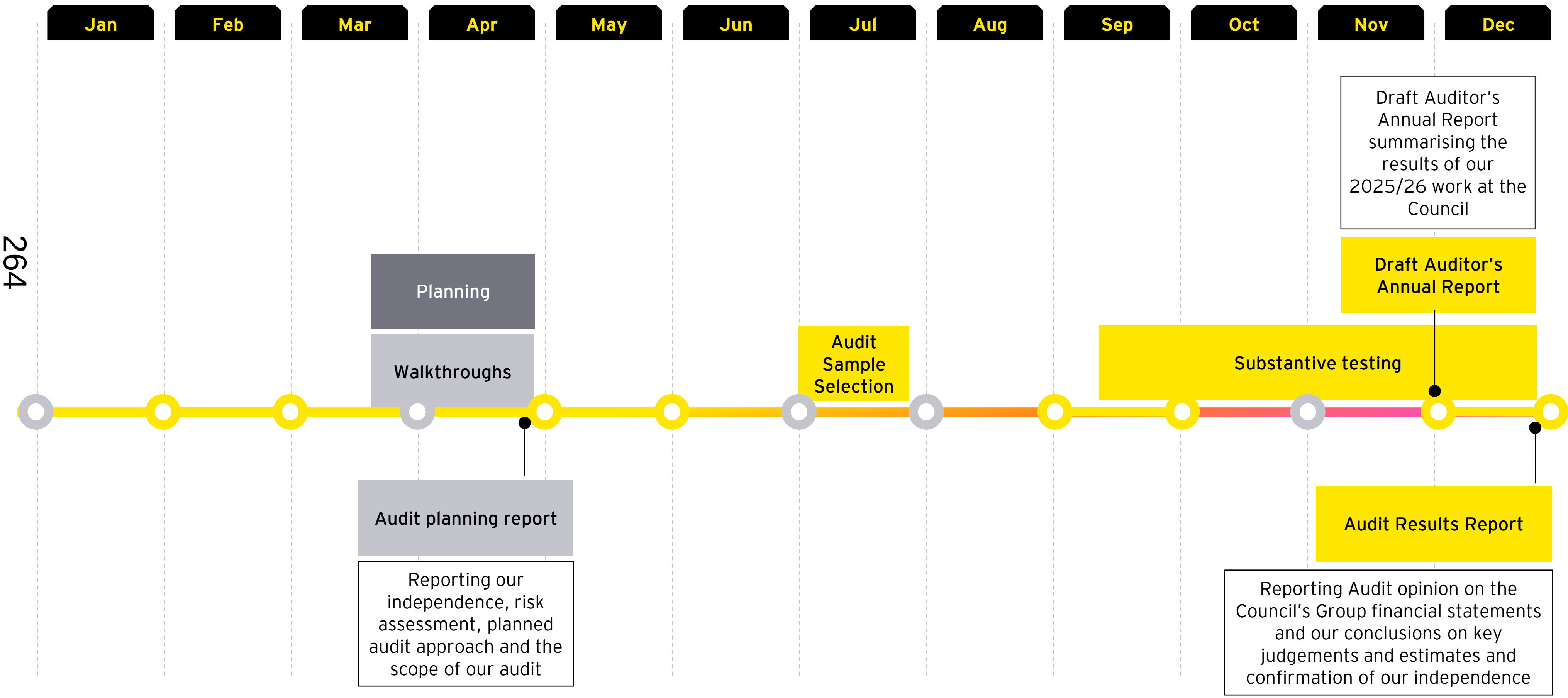

08 Appendices

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Appendix A — Rebuilding assurance: responsibilities

The Council’s responsibilities

As set out in Appendix [B] our fee is based on the assumption that the Council complies with PSAA’s Statement of Responsibilities of auditors and audited bodies. See https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/. In particular, the Council should have regard to paragraphs 26-28 of the Statement of Responsibilities which clearly set out what is expected of audited bodies in preparing their financial statements. We set out these paragraphs in full below:

Preparation of the statement of accounts

26. Audited bodies are expected to follow Good Industry Practice and applicable recommendations and guidance from CIPFA and, as applicable, other relevant organisations as to proper accounting procedures and controls, including in the preparation and review of working papers and financial statements.

27. In preparing their statement of accounts, audited bodies are expected to:

- prepare realistic plans that include clear targets and achievable timetables for the production of the financial statements;
- ensure that finance staff have access to appropriate resources to enable compliance with the requirements of the applicable financial framework, including having access to the current copy of the CIPFA/LASAAC Code, applicable disclosure checklists, and any other relevant CIPFA Codes.
- assign responsibilities clearly to staff with the appropriate expertise and experience;
- provide necessary resources to enable delivery of the plan;
- maintain adequate documentation in support of the financial statements and, at the start of the audit, providing a complete set of working papers that provide an adequate explanation of the entries in those financial statements including the appropriateness of the accounting policies used and the judgements and estimates made by management;
- ensure that senior management monitors, supervises and reviews work to meet agreed standards and deadlines;
- ensure that a senior individual at top management level personally reviews and approves the financial statements before presentation to the auditor; and
- during the course of the audit provide responses to auditor queries on a timely basis.

28. If draft financial statements and supporting working papers of appropriate quality are not available at the agreed start date of the audit, the auditor may be unable to meet the planned audit timetable, and the start date of the audit will be delayed.

Observations from 2024/25

As we have outlined in prior years, our ability to complete the audit is dependent on the timely formulation of appropriately supported accounting judgements, provision of accurate and relevant supporting evidence, access to the finance team and management’s responsiveness to issues identified during the audit. We presented our views on the effectiveness of the Council’s arrangements to support external financial across a range of relevant measures as part of our 2024/25 Audit Results Report.

We have repeated this assessment on the following page. Where we have been unable to undertake all planned procedures, this is likely to extend the timetable to recover assurance on the Council’s financial statements, see page 40 for further details.

Appendix A — Rebuilding assurance continued

Progress to full assurance

The chart below sets out the illustrative timescale for the process of rebuilding assurance set out in the NAO's Local Audit Reset and Recovery Implementation Guidance (LARRIG) 01, together with our view of the Council's actual progress against that timescale, the reasons for that assessment and what still needs to be done to successfully rebuild assurance.

The guidance recognises that the path to full assurance, and therefore an unqualified opinion, will usually take a number of years to achieve, and depends upon co-ordination and engagement between the Council and audit team. Since 2022/23, we have applied a structured, risk-based prioritisation approach to local government audits to support a return to unqualified audit opinions wherever feasible, while still meeting statutory backstop requirements.

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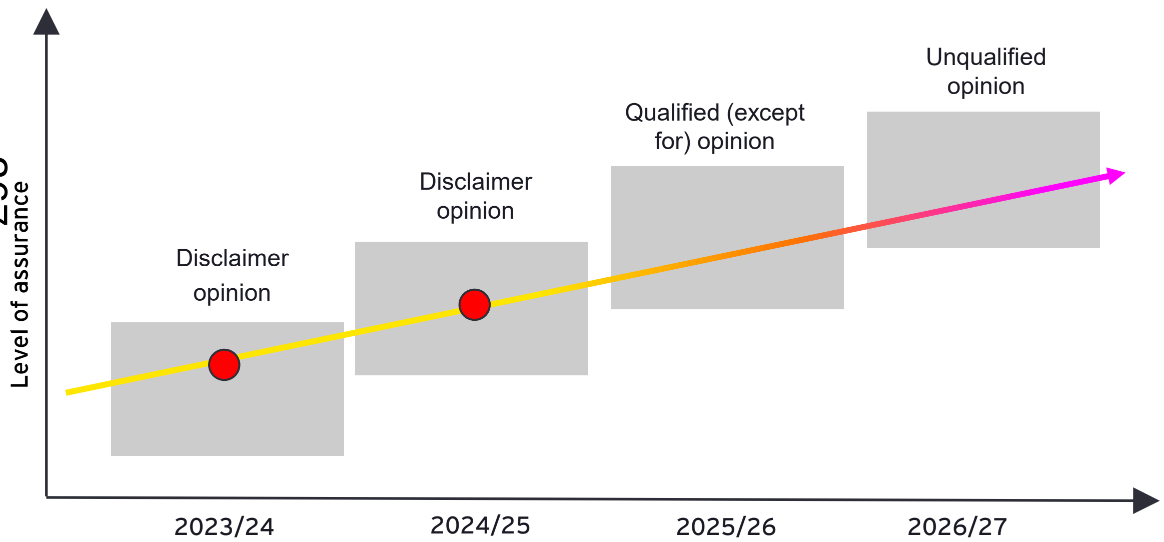

Oxford City Council progress

In the audit reports for the years ended 31 March 2024 and 31 March 2025, a disclaimer of opinion was issued due to the application of the backstop. This means the auditor has not been able to form an opinion on the financial statements.

In our view, the Council's progress falls behind the expected timescales set out in LARRIG 01.

In 2024/25, additional assurance was achieved in relation to Grants received in advance. However, there is a continuing lack of assurance over property plant and equipment and investment property balances and comparator income and expenditure balances and reserves. As a result, we anticipate that for 2025/26:

- We will have limited assurance over the opening balances for 2025/26; and
- Limited assurance over the closing reserves balance, due to uncertainty over the opening amount.

We will continue to work with the Council to rebuild assurance over time, please see recommendations made in Appendix D. Our objective is to continue to rebuild assurance, by providing assurance over the in year 2025/26 transactions and movements, where possible, and closing balances which can be materially determined without the opening balance, such as debtors and creditors.

Appendix A — Rebuilding assurance: responsibilities continued

Factors impacting the execution of the 2024/25 audit

Area	Status R	A	G	Explanation
Timeliness of the draft financial statements	Requires improvement	The financial statements were not published by the 30th June 2025 deadline set out in the Accounts and Audit Regulations.
Quality and completeness of the draft financial statements	Effective	When received, the draft financial statements were complete. There were a few of non-material internal inconsistencies, typographical and arithmetic errors in the draft financial statements that should have been detected through internal quality review prior to publication.
Delivery of working papers in accordance with agreed client assistance schedule	Effective	Majority of the working papers were provided to the agreed timetable.
Quality of working papers and supporting evidence	Requires improvement	The quality of the working papers and supporting evidence were generally below the standard required to support an efficient audit. For instance, in a number of areas we had to return the evidence given since it was not the third-party evidence that we had requested. In several instances, we were provided with complex internal workings spread across multiple tabs of a workbook, without any explanation of the calculations or how they linked to the evidence that we had requested.
Timeliness and quality of evidence supporting key accounting estimates	Requires improvement	Delays were experienced in the provision of supporting evidence for walkthroughs, leases, samples across various significant accounts. The delay in providing evidence contributed to a delay to the audit process being completed.
Access to finance team and personnel to support the audit in accordance with agreed project plan	Requires improvement	Generally there were no issues with access to the finance team and key personnel. However, ongoing capacity constraints have limited their ability to support the external audit, resulting in delays in providing responses and addressing audit queries.

Key:

Red: Ineffective. In our judgement, significant improvements are required in the Council's arrangements to support the rebuilding of assurance. Action should be taken to respond immediately.

Amber: Requires Improvement. Matters and/or issues had an impact on the delivery of the audit and should be addressed in future years.

Green: Effective. There were no significant matters that impacted the timing or effectiveness of audit procedures.

Appendix A — Rebuilding assurance: responsibilities continued

Factors impacting the execution of the 2024/25 audit

Area	Status: R	Status: A	Status: G	Explanation
Volume and value of identified misstatements		Requires improvement		A high volume and significant value of misstatements were identified during our audit, including several material adjustments relating to pensions (IAS 19), leases (IFRS 16) and income recognition. This indicates that further improvements are required in the quality of financial reporting processes.
Volume of misstatements in disclosure		Requires improvement		A substantial number of disclosure misstatements were identified, particularly in the areas of leases (IFRS 16) and Group Accounts. While most have been corrected, the volume of issues highlights the need for strengthened oversight of financial statement disclosures. We acknowledge that this is the first year of the Council implementing IFRS 16.

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Key:

Red: Ineffective. In our judgement, significant improvements are required in the Council's arrangements to support the rebuilding of assurance. Action should be taken to respond immediately.

Amber: Requires Improvement. Matters and/or issues had an impact on the delivery of the audit and should be addressed in future years.

Green: Effective. There were no significant matters that impacted the timing or effectiveness of audit procedures.

Appendix B - Independence and Fees

The FRC Ethical Standard 2024 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 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

- 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;
- The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;
- The overall assessment of threats and safeguards;
- Information about the general policies and process within EY to maintain objectivity and independence
- The IESBA Code requires EY to provide an independence assessment of any proposed non-audit service (NAS) to the PIE audit client and will need to obtain and document pre-concurrence from the audit committee/those charged with governance for the provision of all NAS prior to the commencement of the service (i.e., similar to obtaining a "pre-approval" to provide the service).

Final stage

- In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;
- Details of non-audit/additional services provided and the fees charged in relation thereto;
- Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;
- 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
- Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;
- Details of 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 (for breaches of the FRC Ethical Standard include details of its significance); and
- An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We 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.

Appendix B - Independence and Fees continued

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 Stephen Reid, 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 audited body. Examples include where we have an investment in the audited body; 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 2024 (FRC ES), and we will comply with the policies that you have approved.

None of the services would be prohibited under the FRC's ES and the services would be approved in accordance with your policy on pre-approval. In addition, 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.

At the time of writing, there are no non-audit service being provided to the Council. No additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with FRC ES Section 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.

Appendix B - Independence and Fees continued

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your company. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decisions based on that work.

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

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

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

EY Transparency Report

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 period ended 30 June 2025 and can be found here: EY UK 2025 Transparency Report.

Appendix B — Independence and Fees continued

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

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

A breakdown of our fees is shown in the table to the right.

The agreed fee presented is based on the following assumptions:

- officers meeting the agreed timetable of deliverables;
- our financial statement opinion and value for money conclusion being unqualified;
- appropriate quality of documentation is provided by the Council;
- an effective control environment; and
- compliance with PSAA's Statement of Responsibilities of auditors and audited bodies. See https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/. In particular the Council should have regard to paragraphs 26-28 of the Statement of Responsibilities which clearly sets out what is expected of audited bodies in preparing their financial statements. These are set out in full on the previous page.

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.

	Current Year	Prior Year
	£	£
Scale Fee – Code Work	£251,660	£244,806
Proposed scale fee variation	Note 2	Note 1
Total fees	**TBC**	**TBC**

All fees exclude VAT

Note 1

- The 2024/25 work is complete and we have submitted a proposal to PSAA who will use its fee variation process to determine the final fee for 2024/25. .

Note 2

- The scale fee also may be impacted by a range of other factors which will result in additional work, which include but are not limited to:
  - Consideration of correspondence from the public and formal objections.
  - New and revised accounting standards and guidance, including for example full implementation of CIPFA's Bulletin 22 in relation to the valuation of Property, Plant and Equipment
  - Non-compliance with law and regulation with an impact on the financial statements.
  - VFM risks of, or actual, significant weaknesses in arrangements and related reporting impacts.
  - The need to exercise auditor statutory powers.
  - Prior period adjustments.
  - Modified financial statement opinions

Appendix C — Scoping the group audit

The below table sets out the scoping details of all locations. We assign a scope of work to each component for which procedures are required, which when taken together in addition to procedures performed centrally by the group audit team, enable us to form an opinion on the group financial statements.

Detailed scoping

Component	One or more account balance is subject to centralised audit procedures	Individually relevant component (IRC) / Additional relevant component (ARC)	Scope	Statutory audit performed by EY	Coverage		
					Gross Expenditure	Profit before tax	Total assets
Oxford City Council	Yes	IRC	Full	✓	73%	88%	98%
Oxford Direct Services Limited (ODSL)	Yes	IRC	Full	X	19%	13%	0.5%
Oxford Direct Services Trading Limited (ODSTL)	No	ARC	Specific	X	2%	6%	0.5%
Oxford City Housing Limited (OCHL)	No	ARC	Specific	X	5%	4%	1%
OxWed LLP	No	ARC	Specific	X	1%	-11%	0%
Total full & specific scope coverage					**100%**	**100%**	**100%**

Appendix D — Prior year recommendations

As part of our annual audit procedures we will follow up the specific open and in progress recommendations reported within our 2024/25 reporting, including those relating to value for money arrangements. The open recommendations from prior years are outlined below:-

Internal control weaknesses

Description	Recommendation
<u>Supporting an external audit</u> There is a significant weakness in the Council's governance arrangements, specifically relating to its capacity to support the external audit process and produce timely, accurate, and sufficiently evidenced financial statements. Over multiple audit cycles (2021/22 to 2024/25), the Council has been unable to provide adequate and timely audit evidence—most notably for PPE and investment property valuations, grants received in advance, and debtor/suspense balances (including £8.18m held in suspense)—with persistent delays, incomplete documentation, and inadequate working paper quality. These issues, compounded by finance team capacity constraints and data problems linked to the QL Housing system, have resulted in repeated scope limitations and disclaimed audit opinions, demonstrating that the Council does not currently have effective processes to meet its statutory financial reporting obligations.	The Council should undertake an urgent and comprehensive strengthening of its financial reporting and audit-support processes. This should include a full review of finance team workflows; targeted increases in capacity; and the implementation of a robust quality-assurance framework for year-end working papers, including clear prepared-by/reviewed-by controls. The Council should introduce a joint audit project-management process to monitor delivery against deadlines. These measures are necessary to restore reliable financial reporting, meet statutory requirements, and mitigate the risk of further qualified or disclaimed audit opinions.
<u>Year end accounting</u> During the course of the year end audit we identified a number of areas where the year end accounting process can be improved: • During the year-end audit, we identified several instances where key accounting judgements and technical assessments were not performed appropriately: • IAS 19 Asset Ceiling – The Council recognised a pension asset in both 2023/24 and 2024/25 without applying the IFRIC 14 asset ceiling, despite actuarial valuations indicating a net liability position. This resulted in a material overstatement of net assets, requiring correction in 2024/25. Prior-year comparatives remain materially misstated due to management's decision not to restate. • Capital Grants Accounting – Prior-year grant conditions had been met, but balances were incorrectly held within Grants Received in Advance. Instead of posting a prior-period adjustment, management recognised all impacts in 2024/25, overstating income and misstating reserves. • Financial statement close process – the process would be improved with a transparent and clear audit trail of changes and updates made to the draft financial statements which flowed through to the final set of statements.	We recommend that management review their year end accounting processes to ensure the appropriate level of evidence, challenge and robustness to support the amounts and disclosures contained within the financial statements. We are happy to provide further detail and observations to help refine the process.

Appendix D — Prior year recommendations continued

Description	Recommendation
<u>Cut-off, Income Recognition, misclassification and Suspense Account Controls</u> We identified several deficiencies affecting the completeness, accuracy and cut-off of income, expenditure and debtor/creditor balances: • Rental income cut-off weaknesses: Misapplication of Accounting Policy 2 led to incorrect recognition of cross-year rental periods. No preventive or detective control exists to validate cross-year postings. Additionally, some year-end adjustments were posted on a cash basis rather than applying accrual accounting. • Long-standing overbilling (Agresso billing module):Billing parameters were not updated or periodically reviewed, resulting in overbilling from 2021–2024. No exception reporting or supervisory review detected the issue. • Debtor cut-off errors (Significant Deficiency):Cancelled invoices and credit notes issued after year-end were not reflected as adjusting events. Income relating to 2025/26 was also recognised prematurely. • Recurring uncleared suspense/holding accounts:£1.5m (below TE but recurring) remained in debtor suspense accounts at year-end. Similar issues also existed in LT creditors (Cash Suspense Reserve not cleared). • OxCity could not provide supporting evidence for items in the cash suspense reserves in Creditors (£628,205.57), as these balances are still under investigation. • Car park income was incorrectly recorded as expenditure, resulting in understatement of both income and expenditure. This indicates that neither system controls nor manual reviews detected the error. • Expenditure transactions were incorrectly posted to income accounts, indicating that controls over the accurate classification of income and expenditure within the general ledger are not operating effectively. There is insufficient review to ensure transactions are recorded in the correct nominal accounts.	We recommend that management: • Implement automated or rule-based cut-off validation for rental and licence income • Introduce periodic billing configuration reviews, exception reports, and documented change-control processes • Strengthen adjusting-event procedures for debtors and creditors • Require monthly clearance and reconciliation of all suspense and holding accounts • Enhance reviewer checklists for year-end journals and cross-year postings • Promptly investigate and clear the recurring suspense balances. Stronger controls, including documented support and regular reconciliations, should be established to ensure timely resolution of future entries. • Should introduce classification checks and supervisory review of unusual postings. • Strengthen the review process to ensure transactions are coded to the correct income or expenditure accounts. • Improve staff guidance and routine checks to prevent costs being posted as income and to ensure accurate coding in the general ledger.
<u>Expenditure Cut-off Controls</u> Testing identified that expenditure relating to the prior year was recorded in the current period, indicating ineffective period-end review controls and inconsistent application of cut-off procedures. This represents a significant deficiency.	We recommend that management should reinforce and evidence expenditure cut-off checks, introduce exception analytics for post-year-end invoicing, and ensure supervisory review is documented and challenge is clearly performed.

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Appendix D — Prior year recommendations continued

Description	Recommendation
<u>IFRS 16 – Right-of-Use Asset and Lease Accounting Controls</u> We identified several deficiencies in the operation of IFRS 16 processes: • Valuation amounts for the leased-in dwelling were appropriately brought forward as opening deemed values on transition to IFRS 16. Guidance then requires that from the date of initial application forwards the right-of-use asset and the lease liability are accounted for by applying IFRS 16 • Contract scoping errors due to inconsistent tagging in the IFRS 16 contract workbook • Unsupported interest rates used in calculating ROU asset and lease liability values, increasing the risk of measurement errors	We recommend management should: • Re-measure the relevant ROU assets at the financial year-end based on the valuation methodology permitted under IFRS 16 for ROU assets • Apply consistent scoping procedures with controls ensuring completeness of contracts • Establish a formal methodology for determining and documenting discount rates, supported by evidence and reviewer sign-off • Enhance the IFRS 16 review process and improve the reliability of the contract workbook
<u>HRA Rents – Control Not Operating</u> The Council was unable to demonstrate that annual checks on Council Dwelling rents were performed. The absence of evidence means the control was considered not operating in the year.	We recommend that the Council ensures the control is performed and evidenced consistently, with documentation retained to support audit requirements.
<u>Contracts and Agreements</u> The client was unable to provide key contract documents for testing, preventing the audit team from performing planned procedures.	We recommend that management review their policies and procedures for the storing, accessing and providing of information in order to support an external audit. We are happy to provide further detail and observations to help with this review.
<u>S106 Grants (Developer Contributions)</u> OxCity is holding unspent S106 developer contributions without using them within required timescales or returning them to developers.	OxCity should: • Establish a formal process to monitor S106 developer contributions, including a central register tracking deadlines, conditions, and unspent balances. • Regular reviews and clear ownership should be introduced to ensure funds are used within required timescales or appropriately returned. • Strengthening oversight will help maintain compliance and reduce the risk of financial or reputational impacts.

Appendix D — Prior year recommendations continued

Description	Recommendation
<u>Pension Contributions & Rental Income Walkthrough Issues</u> During walkthrough procedures, we noted two control weaknesses: Pension contributions: The Council submitted an incorrect employer pension contribution rate (16.2% instead of 13.4%), resulting in overpayments. This indicates that verification checks over pension submissions were not operating effectively. Rental income: A signed rental contract could not be provided for a walkthrough sample, limiting our ability to confirm key terms and reducing assurance over the validity of income recognised. This reflects weaknesses in contract retention and documentation controls.	Management should implement validation checks to ensure pension contribution rates agree to the approved fund agreement and introduce periodic reconciliations. For rental income, fully executed contracts should be retained in a central location to support income recognition and audit evidence requirements.
<u>Governance and Authorization Controls</u> Movements in earmarked reserves were approved informally without following Constitution-mandated s151 or member-level approvals. This weakens governance compliance and increases the risk of misstatement in the Movement in Reserves Statement.	We recommend a strict adherence to approval routes, supported by a documented audit trail of all reserve movements and formalised oversight.

Appendix E – Regulatory update

Key regulatory changes

There are a number of key regulatory developments underway relating to local authority governance and the audit of the Council's financial statements. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures	Impact on Oxford City Council
English Devolution and Community Empowerment Bill	The Bill has completed all scrutiny stages in the House of Commons and is now at Committee stage (Grand Committee) in the House of Lords. The following measures therefore remain proposals until Royal Assent is granted: ▪ **Local audit system reforms:** The Bill includes provisions to reform elements of the local audit framework in England alongside support measures intended to address the audit backlog. The Bill will also enable changes to the way audit oversight and local audit responsibilities operate. Section 61 of the Bill provides for the establishment of the Local Audit Office (LAO). Legislation will set out that the main objective of the LAO is to secure the effective operation of the system of audit, with a view to meeting the needs of users of audited accounts. The LAO will appoint auditors to non-NHS bodies, determine audit fees and prepare one or more Code of Audit Practice. ▪ **Combined authorities and Combined County Authorities:** The Bill expands powers and functions of combined authorities and places combined county authorities on a clearer statutory footing. This will allow further transfer of functions from constituent councils. ▪ **Devolution of functions to "Strategic Authorities":** The Bill expands the category of Strategic Authorities and allows transfer of responsibilities from central government and councils. ▪ **Local Government Reorganisation:** The Bill supports changes to council structures to support devolution.	▪ Local audit system reforms may result in changes to audit timescales or responsibilities and there may therefore be transition risks in future years. ▪ The Bill provides that the Council must have an audit committee, and that at least one member of the committee be an independent person.
Renters Right Act	▪ The Renter's Rights Act became law on 27th October 2025. Under the Act, Councils are going to gain new powers to investigate landlords; act against rogue landlords; and ensure landlord compliance with new standards expected of them. ▪ Local housing authorities will receive £18.2 million in 2025/26 to support preparations for the implementation of the Renters' Rights Act 2025 and to build enforcement capacity. Funding will be allocated based on the number of private rented sector properties in each local area.	Enforcement guidance for local Councils has now been published. The guidance provides the critical information that enforcement officers will need to know to carry out their work in line with the new legislation. There will be a bespoke programme of training, webinars and resources through 'Operation Jigsaw', a cross-local Councils initiative; Changes will start coming into effect from 1st May 2026.

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Appendix E — Regulatory update continued

Key regulatory changes continued

Name	Summary of key measures	Impact on Oxford City Council
Public Office (Accountability) Bill	The Public Office (Accountability) Bill aims to impose a duty on public authorities and public officials to "at all times act with candour, transparency and frankness in their dealings with inquiries and investigations." Breach of the duty would be a criminal liability. The Bill is expected to apply not only to both core public bodies delivering public services but also private bodies delivering public functions such as those on a government contract. The Bill also proposes: ▪ A new statutory duty on public authorities to promote and take steps to maintain high standards of ethical conduct, as defined by the Seven Principles of Public Life, or "Nolan Principles"; ▪ Reforms that will make it easier to prosecute misconduct in public office; and ▪ An offence of misleading the public.	▪ While the Bill continues to make its way through the House of Commons Committee processes, the Council should ensure that training and support for Councillors is enhanced to take account of greater expectations in relation to local government standards.
Fair Funding Review	▪ On 20 November 2025, the government announced a multi-year Local Government Finance Settlement in a decade, together with the Fair Funding Review . Key measures include: ▪ There will be a single settlement for 2026/27 to 2028/29 ▪ The government plans to use up to date English Indices of Multiple Deprivation, together with up-to-date services cost and demand data to calculate individual council allocations for 2026/27 to 2028/29; and ▪ The Children and Young People's Services formula will use the latest index of deprivation affecting children. The new indices are expected to lead to greater transparency and a reduced reliance on competitive bidding for funds. The Government also announced it will simplify 33 funding streams, worth almost £47 billion over three years.	Using new indices will result in some Councils seeing increases in their allocations, whilst others see decreases. The government has, however, set out transitional arrangements to help with managing change: ▪ A Recovery Grant funding guarantee to upper tier authorities in receipt of Recovery Grant; ▪ Funding floors and phasing in of new allocations across the multi-year settlement; and ▪ Additional money in the national settlement for children's social care and a new ring-fenced combined Homelessness, Rough Sleeping and Domestic Abuse grant over three years. .

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Appendix E — Regulatory update continued

Other reporting

There are a number of key publications from the National Audit Office and other sources that have an impact on the Council. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key messages	Impact on Oxford City Council
Local government finance report 2026 to 2027	The 2026-27 Local Government Finance Report introduces a multi-year settlement covering 2026/27 to 2028/29 and implements the Fair Funding Review 2.0. Updated distribution formulas will reallocate resources between councils, reflecting more recent demographic and deprivation data. The report confirms the continuation of council tax referendum principles and introduces significant changes to Special Educational Needs and Disabilities (SEND) funding, including the extension of the statutory override for DSG deficits to 2027/28 and a government-funded write-off of approximately 90% of historical DSG deficits. These policy changes represent one of the most substantial re-baselining exercises in recent years.	▪ Councils must re-model their Medium-Term Financial Plans (MTFPs) to account for formula redistribution effects and redesigned SEND funding arrangements. The ongoing restrictions on council tax increases will continue to limit local financial flexibility. For many authorities, particularly those with substantial DSG deficits, the reforms will have material implications for reserves management and financial stability.
Exceptional Financial Support for local authorities for 2025-26	Exceptional Financial Support (EFS) remains a mechanism for councils facing acute short-term financial pressures. For 2025-26, thirty authorities received in-principal approval for EFS, allowing them to treat certain revenue costs as capital expenditure through capitalisation directions. The government has removed the additional 1% borrowing premium previously applied and has imposed conditions including enhanced assurance reviews and restrictions on community-asset disposals. The NAO notes that, although EFS can prevent immediate failure, it shifts the burden to future years through increased borrowing.	▪ For the sector, the continuation of EFS signals sustained financial fragility. Authorities using EFS must demonstrate credible, independently-scrutinised recovery and savings plans, along with significant improvements in governance, financial management, and internal controls. ▪ Councils should expect intensive oversight and stringent follow-up from central government when accessing this mechanism.
Local audit reform: Government response to the consultation to overhaul local audit in England	The government response sets out a comprehensive overhaul of the local audit system in England. Central to the reforms is the creation of the Local Audit Office (LAO), which will assume responsibility for appointing auditors, preparing Codes of Audit Practice, enforcing quality standards, and overseeing audit delivery. A phased transition plan will move existing responsibilities from Public Sector Audit Appointments (PSAA) and other bodies to the NAO between 2026 and 2027, with the aim of stabilising the system, addressing audit backlogs, and restoring confidence in the timeliness and quality of local audit.	▪ For councils, the reforms will lead to more prescriptive expectations around audit readiness, governance, documentation quality, and responsiveness. Authorities should anticipate tighter reporting deadlines and increased scrutiny of working papers, internal controls, and VFM arrangements.

Other reporting continued

Name	Summary of key messages	Impact on Oxford City Council
Local Government Financial Sustainability	The National Audit Office most recently reported on the context of local government finances in February 2024, which included their consideration of service and financial pressures. They concluded that although total local government funding has risen modestly in recent years, it has not kept pace with population growth, rising service demand, or the increasing complexity and cost of supporting people with high needs. Real-terms funding per person fell between 2015-16 and 2023-24, while demand for essential services such as adult social care, children's social care, SEND provision and homelessness continued to escalate. The NAO highlights growing evidence of strain across services, including delays in Education, Health and Care Plans and a sharp rise in families housed in temporary accommodation for longer than legally permitted. Repeated delays to long-promised funding reforms mean councils continue to rely on short-term, stop-gap measures. Exceptional Financial Support has become increasingly common, but while it prevents immediate failure, it also shifts financial risk into future years, reflecting underlying structural weaknesses in the local government finance system	▪ The report signals deepening financial fragility across the sector, with many councils facing heightened risk of issuing Section 114 notices unless systemic pressures are addressed. Rising demand and cost escalation in statutory services are absorbing an ever-greater share of local authority budgets, reducing the capacity to invest in preventative activity and long-term service improvement. The NAO warns that widespread reliance on temporary fixes—including Exceptional Financial Support—creates additional future liabilities and limits councils' ability to plan sustainably. Without coordinated, cross-government reform of funding, accountability and service oversight frameworks, councils will remain locked in reactive financial management, with growing consequences for service quality, citizen outcomes and long-term financial resilience.
Unlocking land for housing	The National Audit Office reported in February 2026 that the government aims to deliver 1.5 million new homes by July 2029. To support this ambition, various land-unlocking programmes have been introduced to address constraints such as inadequate infrastructure, land assembly challenges, and site viability issues. Since 2016, £10.5 billion has been allocated across 768 projects, with £8.4 billion committed and £5.7 billion spent. Although these programmes collectively predict enabling around 713,000 homes, the NAO highlights that only a small proportion—around 33,300 homes—can currently be evidenced as completed, pointing to gaps in monitoring and programme assurance. Additionally, the creation of the National Housing Delivery Fund and a new National Housing Bank from April 2026 signals a shift toward a more consolidated and strategic funding model.	▪ The sector will experience increased expectations to produce detailed and evidence-based infrastructure planning to secure funding from the new mechanisms. Councils will be required to strengthen the robustness of business cases, improve monitoring of actual housing delivery, and anticipate tighter central-government scrutiny of riskier or larger projects. The shift to a single-gateway funding structure will also compel councils to maintain well-developed pipelines to access multi-year support.

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Appendix E — Regulatory update continued

Other reporting continued

Name	Summary of key messages	Impact on Oxford City Council
Improving local areas through developer funding	The NAO identifies developer contributions—primarily Section 106 agreements and the Community Infrastructure Levy (CIL)—as essential tools for funding local infrastructure and affordable housing. However, the report finds significant variation across councils in both the application and governance of these mechanisms. Negotiated viability assessments often reduce the contributions developers agree to provide, while only around half of planning authorities have formally adopted CIL. Developer contributions account for roughly 44% of affordable housing delivery nationally, yet over 17,000 S106-linked affordable homes with planning consent lacked a housing association buyer at the time of review, indicating a delivery bottleneck. The government is providing additional planning capacity funding and establishing a Section 106 Affordable Homes Clearing Service to support councils in unlocking stalled developments.	▪ For councils, strengthening internal governance and transparency around developer contributions will be increasingly important. Authorities will need improved planning capacity, including specialist viability expertise, to mitigate risks of reduced contributions and ensure developer obligations are properly monitored. With the proposed Infrastructure Levy no longer being taken forward, councils must optimise and professionalise the existing S106 and CIL frameworks.

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Appendix F — Required communications with the Audit Committee

We have detailed the communications that we must provide to the audit committee.

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the audit 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 ▪ The planned use of internal audit ▪ 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- 29 April 2026
Significant findings from the audit	▪ 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 ▪ Other significant matters, if any, arising from the audit that were discussed, or subject to correspondence with management ▪ Circumstances that affect the form and content of our auditor's report ▪ Other matters if any, significant to the oversight of the financial reporting process	Audit results report- December 2026

Appendix F — Required communications with the Audit Committee continued

		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: ▪ Whether the events or conditions constitute a material uncertainty related to going concern ▪ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▪ The appropriateness of related disclosures in the financial statements	Audit results report- December 2026
Misstatements	▪ A request that any uncorrected misstatement be corrected ▪ Material misstatements corrected by management ▪ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▪ The effect of uncorrected misstatements related to prior periods	Audit results report- December 2026

Fraud	▪ Enquiries of the audit 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
	▪ Unless all of those charged with governance are involved in managing the entity, unless prohibited by law or regulation any identified or suspected fraud involving:
	  ▪ Management;
	  ▪ Employees who have significant roles in internal control; or
	  ▪ Others, when the identified or suspected fraud is other than clearly inconsequential.
	▪ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected
	▪ Matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud
	▪ Any other matters related to fraud, relevant to Audit Committee responsibility
		Audit results report- December 2026

Appendix F — Required communications with the Audit Committee continued

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Related parties	Significant matters arising during the audit in connection with the entity's related parties	Audit results report- December 2026
Independence	Communication of the relevant ethical requirements, including those related to independence, that we apply for the audit engagement, including any independence requirements specific to audits of financial statements of the entity. Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, integrity, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▪ 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 ▪ Breaches of IESBA Code of Ethics, local independence regulations or professional standards (for breaches of the FRC Ethical Standard, include details of the breach and its significance) Communication whenever significant judgements are made about threats to integrity, objectivity and independence and the appropriateness of safeguards put in place. Communication of relevant information to those charged with governance, to enable them to provide concurrence on the non-audit services being provided. For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2024: ▪ Relationships (including the provision of non-audit services) that may bear on EY's integrity, objectivity and independence; this is required to have regard of the relationships between EY, 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. ▪ Related safeguards ▪ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees	Audit planning report- 29 April 2026 And Audit results report- December 2026

Appendix F — Required communications with the Audit Committee continued

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
	▪ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit ▪ 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 ▪ Details of any breaches of the requirements in this Ethical Standard, and of any safeguards applied and actions taken by the firm to address any threats to independence ▪ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard ▪ The audit committee should also be provided an opportunity to discuss matters affecting auditor independence	
External confirmations	▪ Management's refusal for us to request confirmations ▪ Inability to obtain relevant and reliable audit evidence from other procedures	Audit results report- December 2026
Consideration of laws and regulations	▪ 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 ▪ Enquiry of the audit 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 committee may be aware of	Audit results report- December 2026
Internal controls	▪ Significant deficiencies in internal controls identified during the audit	Management letter/Audit results report- December 2026
Group audits	▪ An overview of the work to be performed at the components and the nature of the group audit team's planned involvement in the work to be performed by component teams ▪ Instances when the group audit team's review of the work of a component team gave rise to a concern about the quality of that team's work, and how the group audit team addressed the concern ▪ Any limitations on the ability to obtain sufficient appropriate audit evidence in support of the group audit opinion, for example, where the group audit team's access to people or information may have been restricted	Audit planning report- 29 April 2026 And Audit results report- December 2026

Appendix F — Required communications with the Audit Committee continued

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
	▪ Fraud or suspected fraud involving group management, component management, employees who have significant roles in the group's system of internal control or others when the fraud has the potential for having a "more than inconsequential" effect ▪ Significant deficiencies identified in the group's system of internal control	
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report- December 2026
System of quality management	How the system of quality management (SQM) supports the consistent performance of a quality audit	Audit results report- December 2026
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report- December 2026
Auditors report	▪ Key audit matters that we will include in our auditor's report ▪ Any circumstances identified that affect the form and content of our auditor's report	Audit results report- December 2026

Appendix G — Additional audit information

Objective of our audit

In addition to the key areas of audit focus outlined within the plan, 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.

Other required procedures during the course of the audit

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

Purpose and evaluation of materiality

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

Materiality determines:

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

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

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UKC-038208 (UK) 03/25. Creative UK.
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