Oxfordshire County Council

Draft Audit Results Report

Year ended 31 March 2021

26 April 2023

Building a better working world

Oxfordshire County Council

Audit & Governance Committee
County Hall
New Road
Oxford OX1 1ND

26 April 2023

Dear Audit & Governance Committee Members

2020/21 Draft audit results report

We are pleased to attach our draft audit results report, summarising the status of our audit for the forthcoming meeting of the Audit & Governance Committee. We will update the Audit & Governance Committee at its meeting scheduled for 10 May 2023 on further progress to that date and explain the remaining steps to the issue of our final opinion.

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

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

We welcome the opportunity to discuss the contents of this report with you at the Audit & Governance Committee meeting on 10 May 2023.

NB This report is an update of the previous draft that you have reviewed as a Committee and therefore, unless clearly headed up as a change or update, we have included updates in green ink to make your review of the changes since the previous draft easier.

Yours faithfully

Maria Grindley
Partner
For and on behalf of Ernst & Young LLP
Encl

Contents

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

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

This report is made solely to the Audit & Governance Committee and management of Oxfordshire County Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit & Governance Committee, and management of Oxfordshire County Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit & Governance Committee and management of Oxfordshire County 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 Executive summary

Executive summary

Scope update

Changes in materiality - In our audit planning report tabled at the June 2021 Audit & Governance Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our planning materiality measure of 1.8% of gross expenditure on provision of services and performance materiality at 75% of planning materiality:

Materiality	Audit Plan	Final
Planning	£18.364 m	£19.912 m
Performance	£13.773 m	£14.934 m
Reporting	£0.918 m	£ 0.996 m

Executive summary

Scope Update

Changes to reporting timescales

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

Impact of Covid-19

- Collection Fund: Due to the impact of the Covid-19 pandemic central government have allowed district councils more time to submit their Collection Fund figures to the Authority. As a result the Collection Fund figures in the draft unaudited accounts have been updated for actuals and agreed.

Additional audit procedures as a result of Covid-19

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

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

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agree IPE to scanned documents or other system screenshots.

Changes in risk:

- We have verbally updated the Committee in relation to the national issue associated with the accounting treatment for infrastructure assets. We have updated our audit plan and included accounting for infrastructure assets as a significant risk within this report (see Section 2).

Triennial Valuation

- When the accounts were prepared, the 2019 triennial valuation informed key judgements and estimates in the 2020/21 financial statements, including the defined benefit liability derived from a roll-forward of the 2019 valuation. In March 2023 the triennial valuation as at March 2022 for Oxfordshire Pension Fund was finalised. This counts as new information available for any open accounts and therefore following the receipt of the final triennial valuation for 2022, account preparers need to consider whether there is a material difference to the information used in the roll forward and whether amendments need to be made to the 20/21 accounts under Section 3.8 of the CIPFA Code of Practice. Audit teams will also be required to consider this information when reviewing their testing of those judgments and estimates. As this is an emerging issue we are working with officers to assess the potential impact. We will provide an update at the Audit & Governance Committee meeting.

Executive summary

Status of the audit

Our audit work in respect of the Council opinion is substantially complete. We have previously reported to Committee that we experienced some delays specifically in respect of the receipt of valuation information on Property, Plant and Equipment. This initially delayed our internal specialists concluding on their work and also resulted in delays to the audit team completing their testing of valuations. In addition, as a result of our challenge on the methodology applied to valuations the Council has had to revalue 66 assets. This has extended the audit work as the team needed to re-assess and test the updated valuations. As the error will be present in the prior years the internal valuer and the finance team are re-working both the current year and prior period for these assets. As at the date of this report we have completed our review on these asset adjustments and have confirmed the adjustments have been made in line with our expectations.

Infrastructure Assets:

Following the release of the CIPFA bulletin in January 2023 management have prepared their assessment of the depreciation of infrastructure assets and have updated the disclosures and accounting policy in line with the bulletin.

The work on this area is substantially complete and subject to manager and Partner review.

Triennial Valuation:

Following the publication of the triennial valuation for March 2022 by the statutory deadline of 31 March 2023 both management and the audit team are required to complete further work to identify whether whether there is a material difference to the information used in the roll forward compared to the latest triennial valuation. We are working with officers to assess the potential impact and we will provide an update at the Committee.

Details of each outstanding item including those in relation to final conclusion, actions required to resolve and responsibility is included in Appendix D.

Given that the audit process is still ongoing, we will continue to challenge the remaining evidence provided and the final disclosures in the Narrative Report and Accounts which could influence our final audit opinion

Executive summary

Auditor responsibilities under the new Code of Audit Practice 2020

Under the Code of Audit Practice 2020 we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

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

Status of the audit – Value for Money

We have previously reported to the Committee the changes to the arrangements for our work on Value for Money (VfM) resulting from the updated NAO Code for 2020/21.

As part of our Value for Money (VFM) review for 2020/21 we identified one risk of significant weaknesses in arrangements specifically in relation to procurement. We have completed our review of the Council's approach to the risk and this is subject to final review. The Council had taken action to improve arrangements in this area and we did not identify any significant weaknesses in arrangements with regards this risk.

Our Value for Money commentary will detail the specifics of the issue raised and also our consideration of that matter and will be reported in our Auditor's Annual Report.

Further details in respect of VFM can be found at Section 5.

Executive summary

Audit differences

As at the date of this report, we are reporting two audit mis-statements greater than our reporting corrected differences threshold (performance materiality) of £14.934 m which management have agreed to amend. These two amendments are related to assets built by the County Council being recorded as negative additions as opposed to being derecognised upon transfer to Academies as well as a number of revaluations which have been identified and are now being re-worked. Please see further details in Section 4 of this report.

As a result of the revised valuations there are further adjustments to both the current year and prior year balances. We have concluded on the adjustments and the misstatements greater than £14.934m have been included in section 4 of this report.

There are currently two uncorrected mis-statement greater than our uncorrected misstatements reporting threshold of £0.996 m.

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

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result of this work.

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts (WGA) submission. This work will be completed at the end of the audit and we will provide an update on WGA at the May 2023 Audit & Governance Committee meeting.

We have no other matters to report.

Executive summary

Areas of audit focus

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

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

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

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

Control observations

During the audit, we did not identify any significant deficiencies in internal control.

However, during the audit we identified an issue in relation to journal authorisation and have made recommendations for improvement in relation to management's financial processes and controls these are also included in Section 07 of this report - Assessment of the control environment.

Independence

In our Audit Plan presented at the 2 June 2021 Audit & Governance Committee meeting we did not identify any independence issues.

Please refer to Section 9 for our update on Independence.

Executive summary

Areas of audit focus

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

Significant risk	Findings & conclusions
Misstatements due to fraud or error	Our work on this area is complete and we have found no indications of management override of controls.
Incorrect capitalisation of revenue expenditure	Our work on this area is complete and we have found no instances of incorrect capitalisation of revenue expenditure.
Valuation of land and buildings	Our work on valuations is now complete. We identified a number of issues with valuations during the audit. **1): Obsolescence:** As a result of issues identified by our internal valuers with the approach being adopted in respect of obsolescence we requested that a number of assets be revalued. As the error identified in respect of obsolescence in the current year would also be present in prior periods we requested that the 66 assets impacted by the error be revalued and assessed for the relevant earlier periods and be corrected via a Prior Period Adjustment. As at the date of our previous draft report we had not yet received the revised valuations. These have now been received and we have concluded on the asset valuations, the adjustments identified in excess of our tolerable error threshold are set out in section 4 of this report. **2): Care Home Valuations:** During the audit we also identified a number of errors in respect of the accounting for Care Homes. We identified inconsistencies between the source document and the valuations applied. We requested that the valuations be reviewed and re-worked. We have completed the review and agreed the final Fixed Asset Register at the conclusion of the audit included the expected adjustments. We have also ensured these adjustments have been reflected in the final accounts. As a result of the audit we have identified one adjustment in excess of our corrected reporting threshold (performance materiality) from the work completed and this is detailed at Section 4 of this report. We note that there were further adjustments as a result of the two issues outlined above but these have been corrected by management and our below our reporting threshold limit and as such are not included in section 4 of this report.

Executive summary

Areas of audit focus

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

Other area of audit focus	Findings & conclusions
Accounting for Covid-19 related Grant Expenditure	Our work on this area is complete and we did not identify any instances of incorrect treatment in respect of the accounting for Covid-19 related Grant Expenditure.
Pension liability	We have agreed the Authority's pension liability disclosures to the actuarial report with no issues. We have received the IAS19 assurance letter from the auditor of the Oxfordshire Pension Fund. The auditors highlighted in their letter to us that they had identified an error of £12.4 m in their assessment of assets i.e. assets as reported in the draft financial statements were understated. This was corrected by the Pension Fund. Oxfordshire County Council have approximately a 49% % share of the Pension Fund and so the corrected error would represent approximately £6.1 m for Oxfordshire County Council. Officers have confirmed that they will not be adjusting for the difference identified, the difference will be reported as uncorrected difference in section 4 of this report. We also used our internal EY Pension specialists to support us with an assessment of the reasonableness of the rollforward of liabilities. This is in response to the changes in ISA 540 (Accounting Estimates). Our specialists confirmed that through independent assessment they were able to conclude that the figures for the Scheme's liability for both the LGPS and the Firefighter's Pension Funds as at 31 March 2021 appear acceptable relative to the prior year. Liabilities were confirmed by EY Specialists as being within a range of <0.5%. This was well within the accepted threshold of 2%. Further work is to be completed as a result of the updated triennial valuation.
Accounting for Dedicated Schools Grant Unusable Reserve	Our work on this area is completed and we have consulted with our technical team in relation to the accounting treatment. We queried with officers their specific treatment of not allocating all of the DSG to the new Unusable Reserve. As a result of our challenge the Council have decided to update for all of the Reserve. We are still awaiting to see the final set of the financial statements to ensure that the change has been made in line with our expectations. We will provide an update at the Audit & Governance Committee meeting.
Going concern	The draft accounts included a detailed disclosure on going concern. Officers have used the assessment of the impact of Covid-19 on the Authority's finances, as reported to Cabinet, to draft the going concern disclosure note. We have scrutinised the financial assessment, cashflow, liquidity forecasts, known outcomes, sensitivities, mitigating actions and key assumptions. We have requested further information supporting their overall assessment of the Going Concern assumption. This work is substantially complete and we will provide an update on our consideration and final conclusion of this matter at the Audit & Governance Committee meeting.

02 Areas of audit focus

Significant risk

Incorrect capitalisation of revenue expenditure

What is the risk?

Under ISA240 there is also a presumed risk that revenue may be misstated due to improper recognition of revenue. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

For Oxfordshire County Council, we consider this risk to be present in:

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

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

What judgements are we focused on?

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

What did we do?

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

What are our conclusions?

Our testing is complete.

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

Capital expenditure in relation to Investment is not material, therefore we focused our testing on property, plant and equipment capital additions and also Revenue Expenditure Financed from Capital Under Statute (REFCUS) capital additions.

Our testing of capital additions is complete and we have identified one instances where expenditure had been inappropriately capitalised due to an overstated accrual. This has been reported in the audit results report as a uncorrected differences and is shown in section 4 of this report.

Significant risk

Risk of error in the valuation of land and buildings

What is the risk?

The fair value of Property, Plant and Equipment and Investment Properties represent significant balances in the Authority's accounts, totalling approximately £1.2 billion and are subject to valuation changes, impairment reviews and depreciation charges.

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

What judgements are we focused on?

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

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

What did we do?

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

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

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

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

We:

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

Significant risk (cont'd)

Risk of error in the valuation of land and buildings

What is the risk?

The fair value of Property, Plant and Equipment and Investment Properties represent significant balances in the Authority's accounts, totalling approximately £1.2 billion and are subject to valuation changes, impairment reviews and depreciation charges.

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

What did we do? - continued from previous page

As at the date of this report our work on valuations is now complete, we have:

- Tested a sample of assets revalued in year to confirm that the valuation basis is appropriate and the accounting entries are correct;
- sample tested key inputs used by the valuer(s) when producing valuations;
- Considered the results of the valuers' work;
- challenged the assumptions used by the Council's valuers by reference to external evidence and our EY valuation specialists (where necessary);
- Tested journals for the valuation adjustments to confirm that they have been accurately processed in the financial statements;
- Reviewed assets that are not subject to valuation in 2020/21 to confirm the remaining asset base is not materially misstated;
- Extended he sample of valuations considered by our EY valuation specialists concentrating on assets where we think valuations are more likely to be impacted by C-19 related market volatility;
- reviewed specifically any changes to approach to valuations as previously discussed and highlighted in 2019/20

What are our conclusions?

- As a result of issues identified by our internal valuers with the approach being adopted in respect of obsolescence we requested that a number of assets be revalued. We have now received these revised valuations and are worked through the updated revaluations. As the error identified in respect of obsolescence in he current year would also be present in prior periods we requested that the 66 assets impacted by the error be revalued and assessed for the relevant earlier periods and corrected via a Prior Period Adjustment. As at the date of our previous draft report we had not yet received the revised valuations. These have now been received and we have concluded on the asset valuations, the adjustments identified are set out in section 4 of this report.
- In addition, we also identified a number of errors in respect of the accounting for Care Homes. We identified inconsistencies between the source document and the valuations applied. We requested that the valuations be reviewed and re-worked. We have completed the review and confirmed that the final fixed asset register has been updated for the required amendments.

Areas of Audit Focus

Significant risk- New risk

Accounting for infrastructure assets

What is the risk?

Where management incur subsequent expenditure to replace part of an asset, the CIPFA Code requires management to write out the value of the old part being replaced.

Nationally, audit firms have identified an issue with applying this accounting treatment to infrastructure assets. Across the country authorities are not keeping sufficient detailed records of infrastructure spend to allow the value of the part being replaced to be written out.

As reported in our Audit Progress Report, based on our initial review of the accounting treatment adopted by the Council in this area we were unable to gain assurance that all infrastructure assets accounted for in the financial statements continue to exist. This is because the Council is unable to show that assets, or components of assets, are derecognised from accounting records when they are replaced. Subsequent to this changes have been made to the Local Authority Accounting Code by CIPFA and DLUHC has issued a Statutory Instrument to temporarily change accounting rules in this area. A Local Authority Accounting Panel (LAAP) bulletin has also been issued by CIPFA which covers how infrastructure assets should be depreciated.

We have judged this to be a significant risk.

What judgements are we focused on?

The risk is that the gross cost and gross accumulated depreciation of the Council's infrastructure assets are materially overstated, as assets or components that have been replaced are no longer recognised. This may have no impact on the net book value if the assets were fully depreciated at the point of replacement, but if not then the net book value may also be materially misstated.

Furthermore, the Council needs to be able to demonstrate that it can associate the recorded values to specific identifiable assets; that they exist at the balance sheet date and are held at an appropriate value.

What did we do?

- We have reviewed the draft financial statements to identify prima facie whether the Council is recording disposals of infrastructure assets, or components.
- We have made enquiries to understand management's current processes, including bringing forward our knowledge from previous year's audits.
- We identified whether the process is compliant with the Code.

Significant risk

What are our provisional conclusions?

We provisionally concluded that the accounting of the Council for Infrastructure Assets was not in line with the current CIPFA Local Authority Accounting Code.

- The Council records some infrastructure asset within the fixed asset register between year of capitalisation. The Council has confirmed that there is no write out of the old historic asset upon replacement.
- This means the Council does not have sufficient records to show that all assets accounted for actually continue to exist and that the gross cost and accumulated depreciation of infrastructure assets are not materially overstated.
- The Council concluded it was impracticable for it to make a correction.

Changes have been made to the Local Authority Accounting Code by CIPFA and DLUHC has issued a Statutory Instrument to temporarily change accounting rules in this area. The Statutory Instrument and Code update temporarily resolve the derecognition and existence issues identified above, and the Council has chosen to adopt the statutory override, and amended the disclosures in its financial statements to comply with the revised requirements. We are satisfied the changes made, following further minor amendments to disclosure as a result of our work, are in line with the revised Code. A LAAP bulletin has also been issued by CIPFA which covers how infrastructure assets should be depreciated. Management produced an assessment of the approach taken by the Council to depreciating infrastructure assets against this guidance. We are satisfied that the approach taken by management is reasonable.

The Statutory Instrument and Accounting Code are only expected to provide a temporary solution to this issue, with the Code update only currently extending to 31 March 2025. We therefore recommend the Council should develop more granular accounting records and/or further supportable estimation techniques to allow for infrastructure assets and components to be derecognised when they are replaced, and to demonstrate the continued existence of assets accounted for.

This work is substantially complete and subject to final review.

Other areas of audit focus

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

What is the risk/area of focus?	What did we do?
<u>Accounting for Covid-19 related grant funding</u> The Council has received a significant level of government funding in relation to Covid-19. Whilst there is no change in the CIPFA Code or accounting standard (IFRS 15) in respect of accounting for grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment in the 2020/21 statements.	We considered the Council's judgement on material grants received in relation to whether it is acting as: • An Agent, where it has determined that it is acting as an intermediary; or • A Principal, where the Council has determined that it is acting on its own behalf. We: • Have selected a sample of Covid-19 grants received in year, for each item in our sample we have reviewed the Council's accounting treatment as agent or principal. We have sought technical support on the treatment of two grants received in year. • Agreed with the accounting treatment applied by the Council with no issues. This work complete.
<u>Valuation of defined benefit pension scheme</u> The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Oxfordshire County Council. The Council's pension liability is a material estimated balance and is required to be disclosed on the Council's balance sheet. At 31 March 2020 this totalled £824.6 million. The information disclosed is based on the IAS 19 report issued by the Pension Fund actuary to the Council. Accounting for these schemes involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on its behalf. We are required to undertake procedures on the use of the use of the actuary as management's expert and the assumptions underlying fair value estimates.	• Our testing for the defined pension liability is substantially complete. From the work completed to date we have not identified any material amendments and will provide an update at the Audit & Governance Committee meeting. • We have now received the IAS 19 Assurance Letter from the auditor of the Oxfordshire Pension Fund. The auditor of Oxfordshire Pension Fund highlighted a correct mis-statement of £12.4 m to increase the value of assets on Oxfordshire Pension Fund. Oxfordshire County Council have an approximate 49% share of the Pension Fund. This corrected mis-statement would therefore represent approximately £6.1 m for the Council. We have communicated this error to officers and officers have confirmed that they will not be making an amendment. We report this as an uncorrected mis-statement at the conclusion, see section 4 of this report. • We used our internal specialists to assess the acceptability of the Scheme's liability for disclosures as at 31 March 2021. These were independently assessed as being within an acceptable range of <0.5%. • We identified an error in the treatment of the Top Up Grant on the Firefighter's Pension Fund. Officers have corrected for this and we have confirmed that the corrected amounts are not material for the Fund and there is no impact on the prior period. • Further work is to be undertaken in relation to the updated triennial valuation.

Other areas of audit focus (continued)

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

What is the risk/area of focus?	What did we do?
<u>Assessment and disclosures on Going Concern</u> Covid-19 has created a number of financial pressures throughout local government, creating financial stress in either, or a combination of, increasing service demand leading to increased expenditure in specific services, and reductions in income sources. There remains a presumption that the Council will continue as a going concern for the foreseeable future. However, the Council is required to carry our a going concern assessment that is proportionate to the significant risks it faces. In light of the continued impact of Covid-19 on the Council's day to day finances, its annual budget, its cashflow and its medium term financial strategy, there is a need for the Council to ensure it's going concern assessment is thorough and appropriately comprehensive. The auditor's report in respect of going concern covers a 12-month period from the date of the audit report, therefore the Council's assessment will also need to cover this period. The Council is then required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified. In addition, the auditing standard in relation to going concern (ISA570) has been revised with effect for the 2020/21 accounts audit.	We are required to meet the requirements of the revised auditing standard on going concern (ISA 570) and consider the adequacy of the Council's going concern assessment and its disclosure in the accounts by: • Challenging management's identification of events or conditions impacting going concern. • Testing management's resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias). • Reviewing the Council's cashflow forecast covering the foreseeable future, to ensure that it has sufficient liquidity to continue to operate as a going concern. • Undertaking a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern. • Challenging the disclosure made in the accounts in respect of going concern and any material uncertainties. We discussed the detailed implications of the revised auditing standard with finance staff and noted the information provided in the committee papers, budget and the Medium Term Financial Strategy (MTFS) in support of the going concern disclosure. At the time of writing this report, we have received an updated assessment of the Council's going concern basis of preparation of accounts in order to conclude on this area following internal consultations. We are currently concluding our review in this area.
<u>Accounting for Dedicated Schools Grant (DSG)</u> There is a risk that the Council's accounting treatment of the DSG balance will not be in line with the Code, given the recent changes and new guidelines. This would specifically impact on the relevant Balance Sheet and Income and Expenditure assertions specifically Completeness, Existence/Occurrence and Measurement/Valuation.	We reviewed the workings behind DSG reserve; we have sought technical support on the Council's treatment of the DSG deficit. Our technical expert questioned the Council's treatment of the establishment of the new Unusable Reserve from a completeness perspective. Following our challenge officers have agreed to make the correction and account for the full amount within the new Unusable Reserve. We are still awaiting the final version of the Statement of Accounts to check the adjustment. We will provide an update at the Audit & Governance Committee meeting.

03 Audit report

Draft audit report

This is a draft – it will be updated and finalised at the end of the audit.

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF OXFORDSHIRE COUNTY COUNCIL

Opinion

We have audited the financial statements and the firefighters' pension fund financial statements of Oxfordshire County Council, ('the Council') for the year ended 31 March 2021 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Council Movement in Reserves Statement,
- Council Comprehensive Income and Expenditure Statement,
- Council Balance Sheet,
- Council Cash Flow Statement,
- the related notes 1 to 61,
- and include the firefighters' pension fund financial statements comprising the Fund Account, the Net Assets Statement, and the related notes.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

In our opinion the financial statements:

- give a true and fair view of the financial position of Oxfordshire County Council as at 31 March 2021 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Council's ability to continue as a going concern for a period of twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Director of Finance with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Council's ability to continue as a going concern.

Draft audit report continued

This is a draft – it will be updated and finalised at the end of the audit.

Our opinion on the financial statements

Other information
The other information comprises the information included in the Statement of Accounts 2020-21, other than the financial statements and our auditor's report thereon. The Director of Finance is responsible for the other information.
Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.
We have nothing to report in this regard.

Matters on which we report by exception
We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014
- we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have nothing to report in these respects.

Responsibility of the Director of Finance
As explained more fully in the Statement of the Director of Finance's Responsibilities set out on pages 14, the Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the Council financial statements and the firefighters pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), and for being satisfied that they give a true and fair view and for such internal control as the Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the financial statements, the Director of Finance is responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Council either intends to cease operations, or has no realistic alternative but to do so.

The authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Draft audit report continued

This is a draft – it will be updated and finalised at the end of the audit.

Our opinion on the financial statements

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Council and determined that the most significant are:

- *Local Government Act 1972,*
- *School Standards and Framework Act 1998,*
- *Education Act 2002 and school Standards and Framework Act 1998 (England),*
- *Local Government Act 2003,*
- *The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018,2020 and 2021,*
- *National Health Service Act 2006,*
- *Planning Act 2008 and the Community Infrastructure Levy Regulations 2010 (SI 2010/948),*
- *The Local Government Finance Act 2012,*
- *The Local Audit and Accountability Act 2014, and*
- *The Accounts and Audit Regulations 2015.*

In addition, the Council has to comply with laws and regulations in the areas of anti-bribery and corruption, data protection, employment Legislation, tax Legislation, general power of competence, procurement and health & safety.
We understood how Oxfordshire County Council is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, the head of internal audit and those charged with governance and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of the Council's committee minutes, through enquiry of employees to confirm Council's policies, and through the inspection of employee handbooks and other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.

We assessed the susceptibility of the Council's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures, we identified inappropriate capitalisation of revenue expenditure and management override of controls to be our fraud risks.

Draft audit report continued

This is a draft – it will be updated and finalised at the end of the audit.

Our opinion on the financial statements

To address our fraud risk of inappropriate capitalisation of revenue expenditure we tested the Council's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine.

To address our fraud risk of management override of controls, we tested specific journal entries identified by applying risk criteria to the entire population of journals. For each journal selected, we tested specific transactions back to source documentation to confirm that the journals were authorised and accounted for appropriately.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice 2020, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General in April 2021, as to whether the Oxfordshire County Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Oxfordshire County Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Oxfordshire County Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

We certify that we have completed the audit of the accounts of Oxfordshire County Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Oxfordshire County Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Maria Grindley (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Reading
Date
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04 Audit differences

Audit differences

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

Summary of adjusted differences

Known misstatements

We have identified two audit mis-statements as at the date of this report greater than our performance materiality of £14.934 m.

Through our testing of property, plant and equipment additions we identified a negative manual adjustment to the assets under construction additions balance; on enquiry of management this was the derecognition of academies that the been built by the County and then transferred to the academies on completion. The Council had recognised these costs as REFCUS Expenditure and recorded the disposal in the net cost of services, as the cost related to disposals this should have been recorded in Other Operating Expenditure. The value of this adjustment is £19.89m. The correcting adjustment is shown on the next slide.

In addition, as a result of our work on valuations the Council have revalued 66 assets across the following categories: Fire Stations, Libraries and various other categories such as offices. This revaluation exercise was as a result of our challenge on the obsolescence factor being applied by the valuer. Following discussions with the valuer a revised methodology was applied to reflect the asset lives of these assets and this resulted in a revised reduction across the 66 assets of approx. £32m. Management requested the valuations to be updated in 20/21 to correct for the errors, as the adjustment was in excess of our threshold of £14.934m the audit team requested management to revise the valuations for 18/19 and 19/20 as the error was also included in the comparative figures. The impacts in 19/20 and 20/21 were below our threshold and were corrected by management. The 18/19 adjustments were in excess of our threshold and the correcting entries are included on the next slide.

Audit differences

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

Summary of adjusted differences

Corrected misstatements 31 March 2019(Currency'000)	Effect on the Prior period:		Net assets (Decrease)/Increase			
	OCI Debit/(Credit)	Comprehensive Income and Expenditure Statement Debit/(Credit)	Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non-current Debit/ (Credit)
Errors						
Known differences:						
▸ Prior period restatements of PPE due to error in obsolescence factor.	17,650	2,577		(20,227)		

Corrected misstatements 31 March 2021 (Currency'000)	Effect on the Current period:		Net assets (Decrease)/Increase			
	OCI Debit/(Credit)	Comprehensive Income and Expenditure Statement Debit/(Credit)	Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non-current Debit/ (Credit)
Errors						
Known differences:						
▸ Reclassification of disposal costs from Net Cost of Services to Other Operating Expenditure.						
▸ Children's Services- Net Cost of Services		(19,890)				
▸ Other Operating Expenditure		19,890				

Audit differences

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

Summary of unadjusted differences

As at the date of this report there are two unadjusted mis-statement above our reporting threshold of £0.996 m which we need to bring to the attention of the Audit & Governance Committee.

We identified an error of £1.6 m with respect to an accrual included in Property, Plant & Equipment. The accrual was for LED lighting where we were unable to verify the exact value and amount allocated against this accrual.
The pension fund auditors highlighted in their letter to us that they had identified an error of £12.4 m in their assessment of assets i.e. assets as reported in the draft financial statements were understated. This was corrected by the Pension Fund. Oxfordshire County Council have approximately a 49% % share of the Pension Fund and so the corrected error would represent approximately £6.1 m for Oxfordshire County Council.

In line with our overall approach to unadjusted differences we will request specific representations from management in the Letter of Representation to be signed at the end of the audit.

Uncorrected misstatements 31 March 2021 (Currency'000)	Effect on the Current period:		Net assets (Decrease)/Increase			
	OCI Debit/(Credit)	Comprehensive Income and Expenditure Statement Debit/(Credit)	Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non-current Debit/ (Credit)
Errors						
Known differences:						
Overstated LED lighting accrual						
▸ Property, plant and equipment		(1,643)				
▸ Capital creditors		1,643				
Understatement of pension assets identified in the pension fund audit						
▸ Pension liability						6,100
▸ Other comprehensive income	(6,100)					

05 Value for money

Value for money

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

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

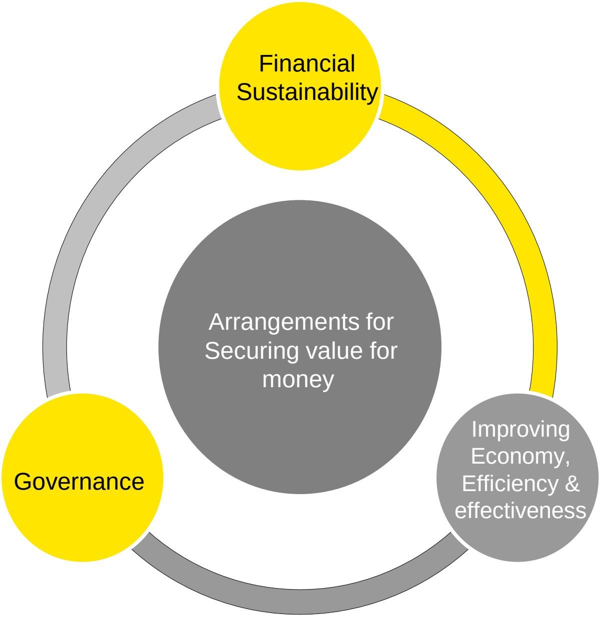
As part of the material published with its financial statements, the **Council** is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the **Council** tailors the content to reflect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

Risk assessment

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

We are finalising our VFM conclusion and commentary in respect of the one identified risk of significant weakness in arrangements in respect of a specific procurement exercise. We have substantially completed our work which is subject to final review and will be reported in our Auditor's Annual Report. The Council had taken action to improve arrangements in this area and we did not identify any significant weaknesses in arrangements with regards this risk.

We have not identified any other risks of weakness in arrangements that we need to bring to the attention of the Audit & Governance Committee.



06 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement
We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2020/21 with the audited financial statements We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance. Financial information in the Statement of Accounts 2020/21 and published with the financial statements was consistent with the audited financial statements. We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

Whole of Government Accounts
Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office. We are yet to commence our work in this area – we will do so and report any matters arising to the Audit & Governance Committee.

Other reporting issues

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). As at the date of this report, we have not identified any issues which required us to issue a report in the public interest.

Other matters

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

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

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

07 Assessment of control environment

Assessment of control environment

Financial controls

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Authority have put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

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

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware but we do raise one recommendation in respect of journal authorisation as can be seen on the next slide.

The table below provides an overview of the 'high' 'moderate' and 'low' rated observations we have from the 2020/21 audit (including IT controls). We will discuss with management and follow up as part of 2021/22 audit..

	High	Moderate	Low	Total
New points raised in FY20/21	0	0	1	1
Total open points as at 31 March 2021	**0**	**0**	**1**	**1**

Key:

- (Green) A weakness which does not seriously detract from the internal control framework. If required, action should be taken within 6-12 months.
- (Yellow) Matters and/or issues are considered to be of major importance to maintenance of internal control, good corporate governance or best practice for processes. Action should be taken within six months.
- (Red) Matters and/or issues are considered to be fundamental to the mitigation of material risk, maintenance of internal control or good corporate governance. Action should be taken either immediately or within three months.

The matters reported on the next slide are limited to those that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you.

Assessment of Control Environment

Area	Journals	Rating	Low

Observation

We note that there is no 'official' authorisation process in place when processing journals therefore a team member could post an erroneous/fraudulent journal which may not be identified.

As a mitigating factor, we are aware that budget holders perform a review of their budgets on a regular basis however no evidence is kept on file of this review so there is no way to confirm that they have completed it.

We recommend that OCC implement a journal approval process to reduce likelihood of inaccurate or inappropriate journals being processed to implement best practice guidance.

In addition we recommend that OCC put in place procedures to evidence the review the budget holders complete to enhance this control and in order to demonstrate it operates effectively.

Management comment

Reliance on internal audit

Whilst we do not rely on the work of your internal auditors, we have reviewed Internal Audit reports issued to management covering the period up until March 21. This is to ensure that any financial statement risks identified are considered in determining the extent of our audit procedures.

08 Data analytics

Management Override of Controls

What is the risk?

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

What judgements are we focused on?

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

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

What did we do?

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

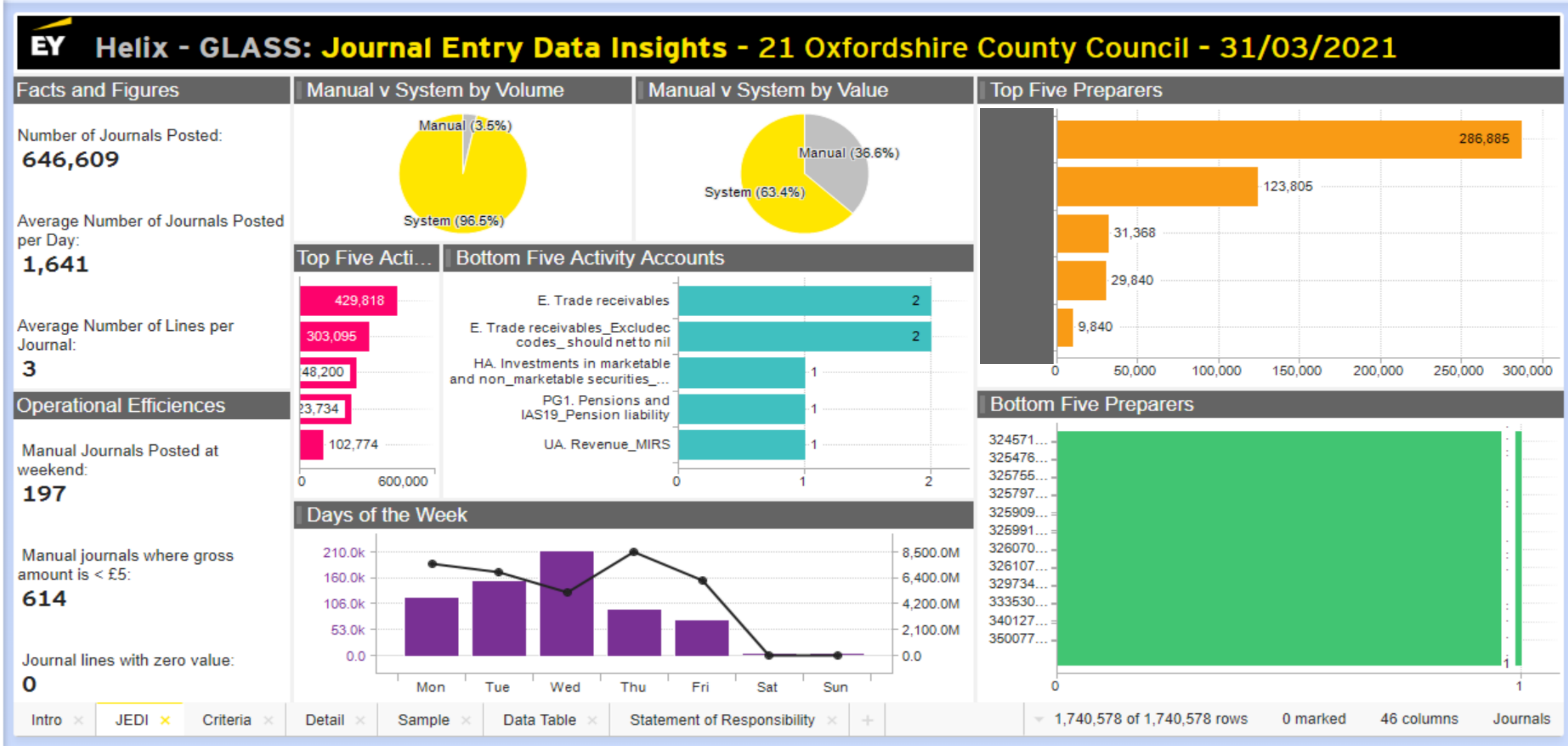
We then performed tests on the journals identified to determine if they were appropriate and reasonable.

What are our conclusions?

Our journal entry testing is complete. We have not identified any issues which we need to bring to the attention of the Audit & Governance Committee.

Journal Entry Data Insights

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



Relationships, services and related threats and safeguards

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

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

Services provided by Ernst & Young

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

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

We confirm that we will be undertaking non-audit work in respect of Teacher’s Pension certification for 2020-21. This work does not impact in any way on the work undertaken on the main audit. The fee for this work is approximately £13.5 k.

Confirmation and analysis of Audit fees

We confirm there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 02 June 2021.

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

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you and your Audit & Governance Committee consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit & Governance Committee on 10 May 2023.

We confirm we plan to undertake non-audit work outside of the Statement of responsibilities of auditors and audited bodies as issued by the Public Sector Audit Appointments Ltd . We will apply the necessary safeguards in our completion of this work.

Description	Final Fee 2020/21 £	Planned Fee 2020/21 £	Final Fee 2019/20 £
Total Audit Fee – Code work	Note***	145,200***	105,868*
Other Objection – 2015/16	-	-	27,225
Other Objection – 2016/17	-	-	19,998
Total Audit Fees	**Note*** **	**145,200*** **	**144,391**
Non-audit work (Teacher's Pensions Certification)	TBC**	13,500	13,000
Total non-audit services	**TBC** **	**13,500**	**13,000**
Total fees	**Note*** **	**Note*** **	**157,391**

All fees exclude VAT

(*) The 19/20 Code work includes an additional fee of £21,200, which relates to additional work reviewing McCloud/GMP where we used EY Pensions specialists; IFRS 9 (Financial Instruments) material adjustment which required additional technical support, & extended income and expenditure testing. We have discussed the variation with officers, but are awaiting approval from PSAA.

(**) The 19/20 work on the Teacher's Pension certification has been completed. For 20/21 the planned fee represents the base fee, i.e. not including any extended testing.

(***) The scale fee for 20/21 is set by PSAA as indicative and does not reflect the actual costs of undertaking the audit, to address all risks identified and to meet current regulatory standards. We set out the key areas of focus of our work on pages 7-15. In our planning report, we included an estimate of the fee of £145,200 to reflect those underlying costs. We have also incurred additional costs in addressing the increased risks associated with C 19, including asset valuations and the impact on the going concern assessment. We will discuss and agree a fee with management and PSAA, and communicate progress to the Audit & Governance Committee.

Other communications

EY Transparency Report 2020
Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 October 2022: EY UK Transparency Report 2022 | EY UK

10 Appendices

Appendix A

Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- Existence: An asset, liability and equity interest exists at a given date
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

Appendix A

Balance sheet category	Audit Approach in current year	Audit Approach in prior year	Explanation for change
Trade receivables	We tested controls over all relevant assertions with limited substantive testing performed in accordance with auditing standards	We tested controls over all relevant assertions with limited substantive testing performed in accordance with auditing standards	No change
Trade payables	We tested controls over all relevant assertions with limited substantive testing performed in accordance with auditing standards	We tested controls over all relevant assertions with limited substantive testing performed in accordance with auditing standards	No change
Investments	Substantively tested all assertions	Substantively tested all assertions	No change
Tangible fixed assets	Substantively tested all assertions	Substantively tested all assertions	No change
Cash	We tested controls over all relevant assertions with limited substantive testing performed in accordance with auditing standards	We tested controls over all relevant assertions with limited substantive testing performed in accordance with auditing standards	No change
Borrowing	Substantively tested all assertions	Substantively tested all assertions	No change
Capital grants receipts in advance	Substantively tested all assertions	Substantively tested all assertions	No change
Pensions liability	Substantively tested all assertions	Substantively tested all assertions	No change

Appendix B

Summary of communications

Date	Nature	Summary
13 January 2021	Meeting	The partner in charge of the engagement and other senior members of the audit team, met with the Audit & Governance Committee to understand the latest issues impacting Oxfordshire County Council.
2 March 2021	Meeting	The partner in charge of the engagement, along with other senior members of the audit team, met with the management team to discuss any issues carried forward from the 2019/20 audit and to understand the latest business operating environment.
Mar-April 2021	Meeting	The audit team continued to liaise with the core finance team to conclude on a number of outstanding and ongoing areas of the audit.
26 May 2021	Report	The draft audit plan, including confirmation of independence, was issued to the Audit & Governance Committee.
02 June 2021	Meeting	The partner in charge of the engagement, accompanied by other senior members of the audit team, delivered a presentation to the Audit & Governance Committee on the role of external audit and also on the role of an effective Audit Committee. This was designed to support new members on the Audit & Governance Committee.
02 June 2021	Meeting	The partner in charge of the engagement, accompanied by other senior members of the audit team, met with the Audit & Governance Committee and senior members of the management team to discuss the draft audit plan for 2020/21.
Jun-July 2021	Meeting	The audit team continued to liaise with the core finance team to conclude on a number of outstanding and ongoing areas of the audit. Meetings were held twice per week to facilitate quicker resolution of issues.
12 July 2021	Report	The draft audit results report, including confirmation of independence, was issued to the Audit & Governance Committee.
21 July 2021	Meeting	The partner in charge of the engagement, accompanied by other senior members of the audit team, met with the Audit & Governance Committee and senior members of the management team to discuss the draft audit results report.
19 August 2021	Meeting	The partner in charge of the engagement, along with other senior members of the audit team, met with the management team to understand the latest business operating environment as well as to discuss the status of the audit, key findings and also the steps required to conclude the audit
3 September 2021	Report	The draft audit results report, including confirmation of independence, was issued to the Audit & Governance Committee.
15 September 2021	Meeting	The partner in charge of the engagement, accompanied by other senior members of the audit team, met with the Audit & Governance Committee and senior members of the management team to discuss the draft audit results report.

In addition to the above specific meetings and letters the audit team met with the management team multiple times throughout the audit to discuss audit findings.

We have not set out specific meetings throughout 2022 and into 2023 where we have met many times as the two teams have worked to bring the audit to completion.

Appendix B

Summary of communications- continued

Date	Nature	Summary
17th November 2021	Meeting	The partner in charge of the engagement, accompanied by other senior members of the audit team, met with the Audit & Governance Committee and senior members of the management team to discuss the audit update paper.
11th May 2022	Meeting	The partner in charge of the engagement, accompanied by other senior members of the audit team, met with the Audit & Governance Committee and to discuss the national infrastructure issue.
20th July 2022	Meeting	The senior management of the audit team presented a verbal update to the Audit & Governance Committee in relation to work performed on the revised valuations.
21st September 2022	Meeting	The partner in charge of the engagement, accompanied by other senior members of the audit team, met with the Audit & Governance Committee and gave a verbal update on the progress of the accounts and the national infrastructure issue.
23rd November 2022	Meeting	The senior management of the audit team presented a verbal update to the Audit & Governance Committee in relation to the national infrastructure issue.
15th March 2023	Meeting	The partner in charge of the engagement, accompanied by other senior members of the audit team, met with the Audit & Governance Committee and gave a verbal update on the progress of the accounts and the national infrastructure issue.
27th March 2023	Report	The draft audit results report, including confirmation of independence, was issued to the Audit & Governance Committee.

In addition to the above specific meetings and letters the audit team met with the management team multiple times throughout the audit to discuss audit findings.

Appendix C

Required communications with the Audit & Governance Committee

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

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the Audit & Governance Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Draft Audit planning report presented at the 2 June Audit & Governance Committee
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	Draft Audit planning report presented at the 2 June Audit & Governance Committee
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 ▸ Significant matters, if any, arising from the audit that were discussed with management ▸ Written representations that we are seeking ▸ Expected modifications to the audit report ▸ Other matters if any, significant to the oversight of the financial reporting process	Draft Audit planning report presented at the 2 June Audit & Governance Committee

Appendix C

Required communications	What is reported?	Our Reporting to you When and where
	▸ About the directors' explanation in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate (in accordance with Code provision 31), and their statements: i. In the financial statements, as to whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, including any related disclosures identifying any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements (in accordance with Code provision 30); and ii. In the annual report as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of the assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions (in accordance with Code provision 31); ▸ Any other matters identified in the course of the audit that we believe will be relevant to the board or the Audit & Governance Committee in the context of fulfilling their responsibilities referred to above.	
Public Interest Entities	For the audits of financial statements of public interest entities our written communications to the Audit & Governance Committee include: ▸ A declaration of independence ▸ The identity of each key audit partner ▸ The use of non-member firms or external specialists and confirmation of their independence ▸ The nature and frequency of communications ▸ A description of the scope and timing of the audit ▸ Which categories of the balance sheet have been tested substantively or controls based and explanations for significant changes to the prior year, including first year audits ▸ Materiality ▸ Any going concern issues identified ▸ Any significant deficiencies in internal control identified and whether they have been resolved by management	Draft Audit planning report presented at the 2 June Audit & Governance Committee and Draft Audit results reports presented at the 21 July, 17 November 2021 & 10 May 2023 Audit & Governance Committee meetings

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		Our Reporting to you
Required communications	**What is reported?**	**When and where**
	▸ Subject to compliance with regulations, any actual or suspected non-compliance with laws and regulations identified relevant to the Audit & Governance Committee ▸ Subject to compliance with regulations, any suspicions that irregularities, including fraud with regard to the financial statements, may occur or have occurred, and the implications thereof ▸ The valuation methods used and any changes to these including first year audits ▸ The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework ▸ The identification of any non-EY component teams used in the group audit ▸ The completeness of documentation and explanations received ▸ Any significant difficulties encountered in the course of the audit ▸ Any significant matters discussed with management ▸ Any other matters considered significant	
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	Draft Audit results report presented at the 21 July, 17 November 2021 & 10 May 2023 Audit & Governance Committee meetings
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Material misstatements corrected by management	Draft Audit results report presented at the 21 July, 17 November 2021 & 10 May 2023 Audit & Governance Committee meetings
Subsequent events	▸ Enquiry of the Audit & Governance Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	Draft Audit results report presented at the 21 July, 17 November 2021 & 10 May 2023 Audit & Governance Committee meetings

Appendix C

Required communications	What is reported?	Our Reporting to you When and where
Fraud	▶ Enquiries of the Audit & Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to Audit & Governance Committee responsibility.	Draft Audit results report presented at the 21 July, 17 November 2021 & 10 May 2023 Audit & Governance Committee meetings
Related parties	Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity	Draft Audit results report presented at the 21 July, 17 November 2021 & 10 May 2023 Audit & Governance Committee meetings
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, 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	Draft Audit planning report presented at the 2 June Audit & Governance Committee and Draft Audit results report presented at the 21 July, 17 November 2021 & 10 May 2023 Audit & Governance Committee meetings

Appendix C

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
	Communications whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place. For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019: ▸ Relationships between EY, the company and senior management, its affiliates and its connected parties ▸ Services provided by EY that may reasonably bear on the auditors' objectivity and independence ▸ Related safeguards ▸ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees ▸ 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 ▸ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard ▸ The Audit & Governance 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.	Draft Audit results report presented at the 21 July, 17 November 2021 & 10 May 2023 Audit & Governance Committee meetings
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 & Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit & Governance Committee may be aware of	Draft Audit results report presented at the 21 July, 17 November 2021 & 10 May 2023 Audit & Governance Committee meetings

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		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Significant deficiencies in internal controls identified during the audit	▸ Significant deficiencies in internal controls identified during the audit.	Draft Audit results report presented at the 21 July 2021, 17 November 2021 & 10 May 2023 Audit & Governance Committee meetings
Written representations we are requesting from management and/or those charged with governance	▸ Written representations we are requesting from management and/or those charged with governance	Draft Audit results report presented at the 21 July, 17 November 2021 & 10 May 2023 Audit & Governance Committee meetings
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	▸ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Draft Audit results report presented at the 21 July, 17 November 2021 & 10 May 2023 Audit & Governance Committee meetings
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	Draft Audit results report presented at the 21 July, 17 November 2021 & 10 May 2023 Audit & Governance Committee meetings

Appendix D

Outstanding matters

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

Item	Actions to resolve	Responsibility
Final Accounts	Review of the Final Accounts and associated support for disclosures Incorporation of EY review comments on disclosure notes	EY and management
Going concern review and disclosures	EY central review process and finalisation of disclosures and opinion wording	EY and management
Management representation letter	Receipt of signed management representation letter	Management and Audit & Governance Committee
Subsequent events review	Completion of subsequent events procedures to the date of signing the audit report	EY and management
Infrastructure Assets	Final manager and partner review of the work performed.	EY
Value for Money Conclusion	EY to conclude on Value for Money conclusion and report back findings in Auditor's Annual Report	EY and management
Pension Liability	Following the publication of the triennial valuation for March 2022 by the statutory deadline of 31 March 2023 both management and the audit team are required to complete further work to identify whether whether there is a material difference to the information used in the roll forward compared to the latest triennial valuation	EY and management

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

Management representation letter

Management Rep Letter

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

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

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

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

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

A. Financial Statements and Financial Records

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

Management representation letter

Management Rep Letter (cont.)

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

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

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
    - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
    - Additional information that you have requested from us for the purpose of the audit; and
    - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the council financial statements, including those related to the COVID-19 pandemic.
3. We have made available to you all minutes of the meetings of the Council and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the 15 September 2021.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the council financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

Management representation letter

Management Rep Letter (cont.)

C. Information Provided and Completeness of Information and Transactions (cont'd)

7. **From the date of our last management representation letter dated 29 November 2020 through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants) , to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.**

D. Liabilities and Contingencies

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

E. Going Concern

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

F. Subsequent Events

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

G. Other information

1. We acknowledge our responsibility for the preparation of the other information.

H. Ownership of Assets

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

I. Reserves

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

J. Use of the Work of a Specialist – Pensions, Property, Plant and Equipment and Provisions

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

Management representation letter

Management Rep Letter (cont.)

K. Estimates – Pensions, Property, Plant and Equipment and Provisions

1. We **We confirm that the significant judgments made in making these accounting estimates have taken into account all relevant information and the effects of the COVID-19 pandemic of which we are aware.**
2. **We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making these accounting estimates.**
3. **We confirm that the significant assumptions used in making these accounting estimates appropriately reflect our intent and ability to carry out** ***[describe the specific courses of action]*** **on behalf of the entity.**
4. We confirm that the disclosures made in the council financial statements with respect to the accounting estimate(s) are complete and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 for the Council.
5. **We confirm that appropriate specialized skills or expertise has been applied in making these accounting estimates.**
6. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the council financial statements due to subsequent events, including due to the COVID-19 pandemic.

L. Retirement benefits

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

Yours faithfully,

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Lorna Baxter - Director of Finance

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Councillor Roz Smith - Chair of the Audit & Governance Committee

Appendix F

Progress report on implementation of IFRS 16 Leases

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

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

IFRS 16 theme	Summary of key measures
Data collection	Management should have: ▸ Put in place a robust process to identify all arrangements that convey the right to control the use of an identified asset for a period of time. The adequacy of this process should be discussed with auditors. ▸ Classified all such leases into low value; short-term; peppercorn; portfolio and individual leases ▸ Identified, collected, logged and checked all significant data points that affect lease accounting including: the term of the lease; reasonably certain judgements on extension or termination; dates of rent reviews; variable payments; grandfathered decisions; non-lease components; and discount rate to be applied.
Policy Choices	The council need to agree on certain policy choices. In particular: ▸ Will [the council adopt a portfolio approach? ▸ Has the low value threshold been set and agreed with auditors? ▸ Which asset classes, if any, are management adopting the practical expedient in relation to non-lease components? ▸ What is managements policy in relation to discount rates to be used?
Code adaptations for the public sector	Finance teams should understand the Code adaptations for the public sector. The Code contains general adaptations, (e.g. the definition of a lease); transitional interpretations (e.g. no restatement of prior periods) and adaptations that apply post transition (e.g. use of short-term lease exemption).
Transitional accounting arrangements	Finance teams should understand the accounting required on first implementation of IFRS 16. The main impact is on former operating leases where the authority is lessee. However, there can be implications for some finance leases where the Council is lessee; and potentially for sub-leases, where the Council is a lessor, that were operating leases under the old standard.
Ongoing accounting arrangements	Finance teams need to develop models to be able to properly account for initial recognition and subsequent measurement of right of use assets and associated liabilities. This is more complex than the previous standard due to more regular remeasurements and possible modifications after certain trigger events.
Remeasurements and modifications	Finance teams need to familiarise themselves with when the 'remeasurement' or 'modification' of a lease is required and what to do under each circumstance. A modification can lead to an additional lease being recognised. It is also important to know when remeasurements require a new discount rate is to be applied to the lease.

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