

Oxfordshire County Council & Oxfordshire Pension Fund

Annual Audit Letter for the year
ended 31 March 2020

February 2021

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letters.

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Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk).

This 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 (updated April 2018)' issued by 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 statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities / Terms and Conditions of Engagement. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



Section 1

Executive Summary

Executive Summary

We are required to issue an annual audit letter to Oxfordshire County Council (the Council) following completion of our audit procedures for the year ended 31 March 2020. Covid-19 had an impact on a number of aspects of our 2019/20 audit. We set out these key impacts below.

Area of impact	Commentary
Impact on the delivery of the audit	
▶ Changes to reporting timescales	As a result of Covid-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities. We worked with the Council to deliver our audit in line with the revised reporting timescale.
Impact on our risk assessment	
▶ Valuation of Property Plant and Equipment	The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Council's external valuer. We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of property, plant and equipment.
▶ Disclosures on Going Concern	Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Council would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Council's actual year end financial position and performance.
▶ Events after the balance sheet date	We identified an increased risk that further events after the balance sheet date concerning the current Covid-19 pandemic will need to be disclosed. The amount of detail required in the disclosure needed to reflect the specific circumstances of the Council.
Impact on the scope of our audit	
▶ 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: <ul style="list-style-type: none">• Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and• Agreed IPE to scanned documents or other system screenshots.
▶ Consultation requirements	Additional EY consultation requirements concerning the impact on auditor reports. The changes to audit risks and audit approach changed the level of work we needed to perform.

Executive Summary (cont'd)

The tables below set out the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's:	
▶ Financial statements	On 30 November 2020 we issued unqualified opinions. The financial statements give a true and fair view of the financial position of the Council and the Pension Fund as at 31 March 2020 and of its expenditure and income for the year then ended.
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Statement of Accounts.
▶ Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
Reports by exception:	
▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Executive Summary (cont'd)

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We have substantially completed the work required by the NAO. There have been some national technical issues identified with the new NAO WGA tool and as a result there has been an extension to the submission deadline to 26 February 2021.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	We presented our Audit Results Reports on the Council and the Pension Fund to the Audit & Governance Committee on 11 November 2020.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	We will issue our audit completion certificate as soon as we have submitted the WGA. We are required to give an opinion on the consistency of the financial statements of the pension fund included in the Pension Fund Annual Report of Oxfordshire County Council. The Local Government Pension Scheme Regulations require authorities to publish the Pension Fund Annual Report by 1 December 2020. On 2 December 2020 we issued an opinion that stated the Pension Fund Annual Report was consistent with the audited Pension Fund financial statements.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Janet Dawson
Partner
For and on behalf of Ernst & Young LLP

Section 2

Purpose and Responsibilities



Purpose

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2019/20 Audit Results Report to the 11 November 2020 Audit & Governance Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities

Responsibilities of the Appointed Auditor

Our 2019/20 audit work was undertaken in accordance with the Audit Plan that we presented on 27 May 2020 and the subsequent scope updates communicated through the initial audit results report we presented on 22 July 2020 and the later updated presented on 11 November 2020. Our audit was conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors, we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 2019/20 financial statements; and
 - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
 - ▶ Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
 - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. We have substantially completed the WGA review and will submit in line with the revised NAO timetable.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Section 3

Financial Statement Audit



Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council and Pension Fund Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office and issued an unqualified audit report on 30 November 2020.

Our detailed findings were reported to the 11 November 2020 Audit & Governance Committee. The key issues identified as part of our audit were as follows.

Significant risks	Conclusion
Misstatements due to fraud or error	We did not identify any matters to report to the Audit & Governance Committee.
Incorrect capitalisation of revenue expenditure	We did not identify any matters to report to the Audit & Governance Committee.
Valuation of land and buildings	We determined that the valuation was materially stated but we did report a potential difference of £9.5m overstatement in the valuation of assets. We have recommended that the Council consider the issues we reported as part of the 2020/21 valuation process.
Incorrect classification of the dedicated schools grant (DSG) deficit	The Council has classified the DSG deficit in line with accounting requirements. Like other councils with a DSG deficit, the Council has a deficit recovery plan which aims to manage the deficit position.

Other audit risks on the Council audit

Pension liability - The Council's pension liabilities were appropriately disclosed in the accounts. The Council did not amend the liability for the impact of two national issues (McCloud and Goodwin) on the basis that the estimated difference was not material in 2019/20.

Going concern - The Council has assessed the impact of Covid-19 on its income, expenditure, cash and reserves position into 2020/21 and 2021/22 and made an appropriate disclosure in the statements.

Carillion - The Council had adequately reflected the outcome of the Carillion case within the 2019/20 financial statements.

Financial Statement Audit (cont'd)

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	<p>We determined planning materiality to be £18.4m (2018/19: £19.2m), which is 1.8% of gross expenditure reported in the accounts adjusted for revaluation losses, but including pension interest costs, payments of precepts and investment property running costs.</p> <p>We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p> <p>The planning materiality figure for the Pension Fund was £23.6m (2018/19: £25.1m). This represented 1% of Assets.</p>
Reporting threshold	<p>We communicated to the Audit and Governance Committee that we would report to them all audit differences in excess of £920k (2018/19: £960k).</p> <p>The equivalent reporting figure for the Pension Fund was £1.18m (2018/19: £1.26m)</p>

Materiality	OCC	OPF
Planning	£18.4m	£23.6m
Performance	£13.8m	£17.7m
Reporting	£0.9m	£1.18m

Financial Statement Audit (cont'd)

Key Issues

Pension Fund

Significant risks	Conclusion
Risk of Management Override: Posting of investment journals	We did not identify any matters to report to the Audit & Governance Committee.
Valuation of investments	<p>Covid-19 had an impact on the valuation of some investments. The Fund reclassified its pooled property investments from level 2 (where some relevant, reliable market evidence would be available) to level 3 (where such information was more difficult to obtain).</p> <p>The information that the Fund used to support the valuation of the pooled property included valuation reports where the valuer had included a material uncertainty caveat on valuations at 31 March 2020 because of the impact of Covid-19. This required more review by the audit team, but we concluded that we did not need to modify the Pension Fund audit opinion.</p>

Other audit risks on the Pension Fund audit

Going concern – the Pension Fund has assessed the impact of Covid-19 on its cash and asset position into 2020/21 and 2021/22 and made an appropriate disclosure in the statements.

Transfer of assets to the Brunel Partnership – we found no issues around the completeness of asset transfer.

Valuation of level 2 investments – we found no issues arising from the valuation of level 2 assets. We note that pooled property funds had been appropriately reclassified from level 2 to level 3.

Section 4

Value for Money



Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources. This is known as our value for money conclusion.

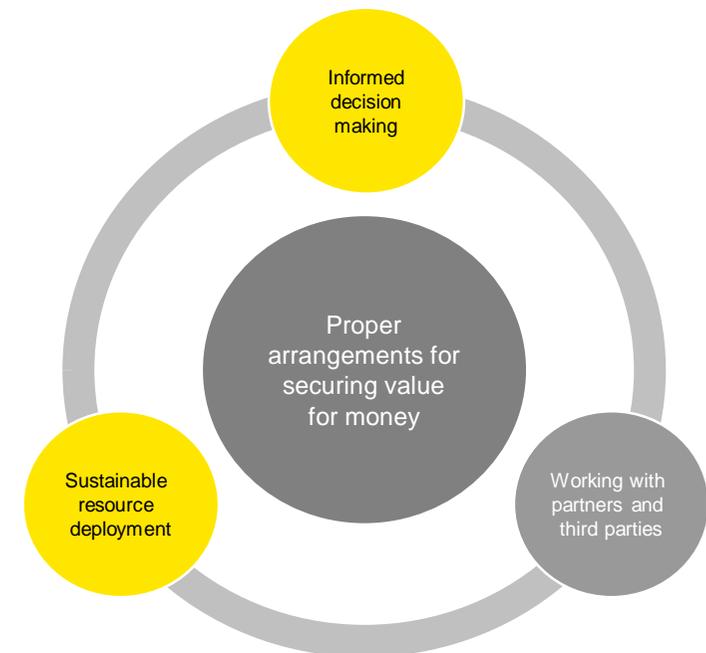
Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

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

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider NHS bodies' response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion.

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We therefore issued an unqualified value for money conclusion on 30 November 2020



A photograph of a business meeting in progress. Several people are gathered around a large wooden conference table, looking at documents. A woman with blonde hair is leaning forward, resting her chin on her hand, appearing thoughtful. A man in a blue shirt and red tie is standing in the background. The scene is brightly lit, suggesting a modern office environment.

Section 5

Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

We are required to perform the procedures specified by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes.

We are in the process of concluding our work on the WGA consolidation pack. There have been some technical issues with the new submission tool and as a result the NAO have extended the deadline to 26 February 2021.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

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

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Other Reporting Issues (cont'd)

Objections Received

We did not receive any objections to the 2019/20 financial statements from members of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit & Governance Committee on 24 November 2020. 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 regulatory and professional requirements.

Control Themes and Observations

As part of our work, 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 identified during our audit.

We have adopted a mainly substantive audit approach. We tested the operation of controls in respect of Accounts Payable, Accounts Receivable and Cash.

Our audit did not identify any controls issues to bring to the attention of the Audit & Governance Committee.

Section 6

Focused on your future



Focused on your future

The NAO has a new Code of Audit Practice for 2020/21. The impact on the Council is summarised in the table below.

Council responsibilities for value for money

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

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

Auditor responsibilities under the new Code

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

The specified reporting criteria are:

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

Continued

Focused on your future

Reporting on VFM

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

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

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
IFRS 16 Leases	<p>It was proposed that IFRS 16 (Leases) would be applicable for local authority accounts from the 2021/22 financial year, deferred a year due to the impact of Covid-19.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>However in response to the ongoing pandemic and its pressures on council finance teams, CIPFA announced that the implementation will be deferred until the 2022-23 financial year.</p> <p>CIPFA has indicated that the deferral is limited to one year only and that there is no intention to grant any further extensions based on a lack of preparedness.</p>	<p>There are transitional arrangements within the standard and It is assumed this will be reflected in the 2021/22 Accounting Code of Practice for Local Authorities when published. CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.</p>



Section 7

Audit Fees

Audit Fees

Our base fee for 2019/20 is in line with the scale fee set by the PSAA / as agreed with your in our Engagement Letter and reported in our 11 November 2020 Audit Results Report.

Description	Final Fee 2019/20 £	Scale Fee 2019/20 £	Final Fee 2018/19 £
Total Audit Fee - Code work (NB scale fee = planned fee for 2019/20)	84,668	84,668	84,668
Changes in work required to address professional and regulatory requirements and scope associated with risk (Note 1)	39,332		
Revised Proposed Scale Fee	124,000		
Scale fee variation			12,453
Additional specific one-off work required for Covid-19 considerations (£3,750) including additional work in relation to Going Concern (£5,950) (see Note 2)	9,700		
Additional work required for significant risk on PPE valuation (£7,300) , and IAS 19 Pension Liability (£4,200) (see Note 3)	11,500		
Total Audit Fee	145,200		

Note 1

For 2019/20 the scale fee has been re-assessed to take into account the risk profile of the Council and the increase in regulatory standards.

This additional fee has not been agreed but has been highlighted to Management and is subject to review and approval by the PSAA Ltd.

Note 2

We have quantified the additional work we have undertaken during 2019/20 as a result of Covid19, going concern and resulting consultation processes, and we will discuss these with the Director of Finance (Section 151 Officer). We will be seeking PSAA approval.

Note 3

We have quantified the additional work completed during 2019/20 we have undertaken for significant risk on PPE valuation and IAS 19 Liability Valuation and we will discuss these with the Director of Finance (Section 151 Officer). We will be seeking PSAA approval.

Audit Fees (contd.)

	Final fee 2019/20	Planned fee 2019/20	Final Fee 2018/19
	£	£	£
Scale Fee - Code work	18,563	18,563	18,563
Changes in work required to address professional and regulatory requirements and scope associated with risk (Note 1)	41,097		
Revised proposed scale fee	59,660		
Scale fee variation (note 2)			
IAS 19 Assurance Work (as included in the audit planning document)	5,500	5,500	5,500
Triennial Review procedures (as required in year of actuarial revaluation)	3,555	1,500	-
Delays in the audit	1,010		
Impact of COVID-19: significant risks and extra work on valuation of assets	4,785	-	
Going concern and disclosures including EY consultations	5,767	-	-
Total scale and additional fees	80,277	25,563	24,063

Note 1

For 2019/20 the scale fee has been re-assessed to take into account the risk profile of the Fund and the increase in regulatory standards. This additional fee has not been agreed but has been highlighted to Management and is subject to review and approval by PSAA Ltd.

Note 2

We have quantified the additional work we have undertaken during 2019/20 as a result of Covid19, going concern and resulting consultation processes, and the extra work needed on asset valuation and associated significant risks. We will discuss these with the Director of Finance (Section 151 Officer), and will be seeking PSAA approval. NB the IAS19 work does not require PSAA approval.

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