

Tuesday, 18 October 2022

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AUDIT AND GOVERNANCE COMMITTEE

You are summoned to a meeting of the Audit and Governance Committee which will be held in the Council Chamber, Woodgreen, Witney OX28 1NB on **Wednesday, 26 October 2022 at 6.00 pm.**



Giles Hughes
Chief Executive

To: Members of the Audit and Governance Committee

Councillors: Alaric Smith (Chair), Ruth Smith (Vice-Chair), Luci Ashbourne, Andrew Beaney, Jill Bull, Nathalie Chapple, Owen Collins, Julian Cooper, Colin Dingwall, Jane Doughty, Gill Hill, David Jackson, Richard Langridge, Norman MacRae MBE, Michele Mead, Elizabeth Poskitt and Andrew Prosser

Recording of Proceedings – The law allows the public proceedings of Council, Cabinet, and Committee Meetings to be recorded, which includes filming as well as audio-recording. Photography is also permitted. By participating in this meeting, you are consenting to be filmed.

As a matter of courtesy, if you intend to record any part of the proceedings please let the Democratic Services officers know prior to the start of the meeting.

AGENDA

1. **Minutes of Previous Meeting (Pages 3 - 8)**
To approve the minutes of the meeting held on Thursday 30 June 2022 and Tuesday 20 September 2022.
2. **Apologies for Absence**
To receive any apologies for absence.
3. **Declarations of Interest**
To receive any declarations from Members of the Committee on any items to be considered at the meeting
4. **Participation of the Public**
To receive any submissions from members of the public, in accordance with the Council's Rules of Procedure.
5. **Auditor's Annual Report - Grant Thornton (Pages 9 - 36)**
Purpose:
Grant Thornton will present the Auditor's Annual Report.

Recommendation:
That the Committee considers the report and comments as necessary.
6. **2021/22 Value for Money Arrangements (Pages 37 - 38)**
Purpose:
The Committee receive the update from Grant Thornton.

Recommendation:
The Committee note the extension letter.
7. **Indicative Audit Plan 2021/2022 (Pages 39 - 64)**
Purpose:
The Committee is invited to consider the proposals set out in the Audit Plan 2021/22.

Recommendations:
The Committee note the contents of the report.

(END)

WEST OXFORDSHIRE DISTRICT COUNCIL

Minutes of the meeting of the **Audit and Governance Committee**

Held in the Committee Room 1 at 6.00 pm on **Thursday, 30 June 2022**

PRESENT

Councillors: Ruth Smith (Vice-Chair), Luci Ashbourne, Andrew Beaney, Jill Bull, Nathalie Chapple, Owen Collins, Colin Dingwall, Jane Doughty, Harry Eaglestone (substituting for Norman MacCrae), Gill Hill, David Jackson, Andrew Prosser and Alex Wilson (substitute).

Officers Elizabeth Griffiths, Chief Finance Officer, Lucy Cater, SWAP Internal Audit Services, Mike Butler, (Strategic Support Officer), Michele Ouzman and Anne Learmonth (Strategic Support Officers).

1 Minutes of Previous Meeting

The minutes of the meeting held on 21 April 2022 were approved and signed by the Chairman as a correct record.

2 Committee appointments and start time for civic year 2022/23

The Committee confirmed the appointment of Councillor Alaric Smith as Chair of the Committee and Councillor Ruth Smith as Vice Chair for the civic year 2022/23.

Members agreed a start time of 6pm for the Committee for civic year 2022/23.

3 Apologies for Absence

The Chair of the Council, Councillor Julian Cooper sent his apologies as he was already on Council official business elsewhere, and was therefore unable to attend.

Apologies for absence were also received from Alaric Smith, Norman MacRae Michele Mead, Elizabeth Poskitt, Richard Langridge and David Jackson.

4 Chairs Announcements

The Committee confirmed the appointment of Councillor Alaric Smith as Chair of the Committee and Councillor Ruth Smith as Vice Chair for the civic year 2022/23.

Members agreed a start time of 6pm for the Committee for civic year 2022/23.

5 Declarations of Interest

There were no declarations of interest received.

6 Participation of the Public

No public were present.

To receive any submissions from members of the public, in accordance with the Council's Rules of Procedure.

There were none.

7 Annual internal Audit Opinion 2021/22

Lucy Cater from SWAP Internal Audit Services introduced this item. In accordance with Public Sector Internal Audit Standards, the Head of Internal Audit is required to provide an annual opinion on the overall adequacy and effectiveness of the organisation's control arrangements. This is achieved through a risk-based programme of audits, agreed with management and approved, for 2021/22, by the Audit and General Purposes Committee (now Audit and

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Governance), which should provide a level of assurance across a range of Council activities. The opinion does not imply that the internal audit service has reviewed all risks and controls relating to the Council or the systems it reviews but rather an agreed sample that is reviewed on a rolling basis to ensure that all areas are covered as adequately as possible.

Councillors discussed the need for a separate Audit Committee and the relationship between this committee and the Scrutiny Committees. It was noted that there had been discussions earlier in the year about the number of and size of committees and that this would be considered as part of any further review of the Council's Constitution.

Councillors asked who decided what should be audited and whether all the work of the Council was audited every year. It was explained that normally only parts of a service would be audited but that some might be reviewed more often than others. Auditing involves sample checking. Areas of concern might be audited more often. External auditing is a different process.

There were questions around the significance of the different priorities and timescales. It was explained that there may be good reasons why some actions had not yet been taken forward and confirmed that the pandemic, and subsequent worldwide events had had significant impact on the work. Councillors agreed that training explaining the auditing process would be helpful and asked that slides be circulated separately by email.

There followed a discussion on the issues around recruitment and retention. Audit work on this had been deferred but the Committee felt that this was an area of considerable concern. It was noted that there were a number of elements contributing to retention and recruitment. The Chief Finance Officer gave some examples of recent recruitment exercises which demonstrated that it is very much an employees market. Many people want to work nearer to home or spend more time working from home although the agile working strategy recently adopted does accommodate that. Retention problems were particularly acute in the Planning Department but were being experienced across the whole Council. It is important to develop a culture which encourages retention of staff. This should also include staff wellbeing.

The Committee decided that it should flag this up as an area of concern. Internal Audit will include these areas within the HR audit for 2022/23 and once completed will present the report to a future Audit and Governance Meeting. A decision might then be made about referring the matter to Cabinet.

It was noted that work was ongoing on Emergency planning. There was no guidance on the use of the Emergency Response WhatsApp groups. Officers said that they would be following up outstanding actions and would report progress at the next meeting.

The Chief Finance Officer said that she had some concerns about processes. She emphasised the importance of ensuring that the agreed actions arising from audits are the right ones and are agreed and adopted by the service areas. She also emphasised that information is only as complete to the extent that it is provided by Service Managers. It was important to know if there were gaps.

The Committee agreed to identify three key issues:

- The recruitment and retention of staff and their wellbeing.
- The need to progress on Emergency planning
- Processes for reporting

8 Annual Governance Statement Action Plan

Mike Butler introduced this item. He explained that the AGS areas of focus, identified for 2021/2022, are:

- Risk registers
- Performance report
- Constitution and schemes of delegation
- Approval of AP expenditure against budget
- Project and programme management

A new Annual Governance Statement is being finalised and a new Action Plan would flow from that.

The Chief Finance Officer said that the fact that a policy is in place does not mean that things are happening. She was concerned that some project and programme reporting was flagged as green when she knew they shouldn't be. She emphasised the point that these reports were only as good as the information provided. There needed to be change of culture within the organisation so that service managers saw reporting problems as a good, rather than a bad thing. She wanted to record her recognition of all the good work that had gone into getting this far, especially with the development of the policy, but emphasised that a huge amount still needed to be done and on that basis, some items marked as complete should not be marked as complete and the report needed to be amended.

The Committee agreed that the report needed to be redrafted and, in particular, there needed to be more clarity around which actions were complete and which were still outstanding. Consideration also needed to be given to training service managers to better identify risk.

The Committee delegated authority to the Chief Finance Officer to allow her to review and redraft the document.

9 Corporate Risk Register Update

Mike Butler introduced this item. He said that the Committee need to assure itself that a Risk Register was in place which identified corporate strategic risk. The register had improved over the last twelve months but is still a work on process.

There was a discussion around how data was gathered on the public services provided by the Council. If that was provided by service managers was a true reflection of public opinion? It was noted that the system was not expected to pick up an individual complaint but would record areas of major concern. Customer surveys were carried out from time to time.

It was noted that in relation to the GLL contract there had been complaints about cleanliness but that these should be picked up by the service manager and dealt with as an operational service matter rather than a strategic risk. It was recognised that improved services would result in higher usage and more income. It was confirmed that the Risk and Opportunities Register should also identify opportunities but that similarly to the concern around risks not being escalated in spite of their being a policy in place that says they should be, opportunities weren't either.

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The Chief Finance Officer again emphasised that having policies in place did not ensure that procedures were being followed. She was concerned that the lack of processes meant that Senior Management might be missing important strategic risks. It needs to be a living document which is kept up to date with accurate and complete information.

The Committee noted the report.

The Meeting closed at 7.55pm

CHAIR

WEST OXFORDSHIRE DISTRICT COUNCIL

Minutes of the meeting of the
Audit and Governance Committee

Held in the Council Chamber at 6.00 pm on **Tuesday, 20 September 2022**

85 Postponement of the meeting

The meeting of the Audit and Governance Committee of 20 September 2022 did not go ahead as it was inquorate.

No meetings of the Cabinet, Council or its Committees were held during the period of public mourning for Her Majesty Queen Elizabeth II which ran from Friday 9 September to Tuesday 20 September.

The business of the meeting will be carried forward to a future meeting.

CHAIR

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Auditor's Annual Report on West Oxfordshire District Council

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We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Executive summary



Value for money arrangements and key recommendations

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), 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. We are required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit. We have not identified any significant Value for Money (VfM) weaknesses, but have identified seven opportunities for improvement which are set out in detail within our report. We have not had to apply any of our formal auditor's powers. Information on the powers we can deploy are set out at Appendix B.

Criteria	Risk assessment	Finding
Financial sustainability	Risk of significant weakness identified	No significant weaknesses in arrangements identified, but three improvement recommendations made
Governance	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but two improvement recommendations made
Improving economy, efficiency and effectiveness	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but two improvement recommendations made

	No significant weaknesses in arrangements identified.
	No significant weaknesses in arrangements identified, but improvement recommendations made.
	Significant weakness in arrangements identified and key recommendation made.

2020/21 was an unprecedented year in which the Council operated with the majority of its staff home working whilst supporting local businesses and residents through the pandemic. The Council incurred significant cost pressures relating to COVID-19, with early forecasts initially suggesting an £650k impact for 2020/21. The Council have worked hard to manage this position, and have finished the year with a small surplus. There is evidence across the Council of where staff have **been** flexible and adapted to the challenges faced, working in different services or changing working patterns to deliver the best they could for the communities of West Oxfordshire.



Financial sustainability

The Council is operating in an increasingly uncertain financial environment, including annual funding settlements from government. West Oxfordshire, as with all councils, will need to continue to plan during ongoing uncertainty of funding in the medium term.

Despite this uncertainty, and the challenges posed by COVID-19, the Council has maintained a good financial position. The Council has put forward a series of proposals which forecast a balanced budget for the next two years.

Our audit planning identified a significant risk in relation to financial sustainability, but our work has not identified any significant weaknesses in arrangements to secure financial stability at the Council.

Further details can be seen on pages 6-13 of this report.



Governance

Our work this year has focussed on developing a detailed understanding of the governance arrangements in place at the Council and the changes instigated as a response to the pandemic.

Our work on both business as usual governance and adapted governance as a result of the pandemic has not identified any significant weaknesses in arrangements for ensuring that it makes informed decisions and properly manages its risks.

Further details can be seen on pages 14-18 of this report



Improving economy, efficiency and effectiveness

The Council has demonstrated a clear understanding of its role in securing economy, efficiency and effectiveness in its use of resources.

Our work has not identified any significant weaknesses in arrangements in relation to improving economy, efficiency and effectiveness.

Further details can be seen on pages 19-22 of this report.

Opinion on the financial statements

We have completed our audit of the Council's 2020/21 financial statements and issued an unqualified audit opinion on 5 April 2022.

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Council's financial statements give a true and fair view of the financial position of the Council and the Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements, including the Annual Governance Statement (AGS) and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed remotely during July to December 2021. Full details of our findings from the audit are detailed in our Audit Findings Report dated 16 November 2021. A small number of remaining queries took some time to resolve due to competing priorities of both officers' time and that of the audit team. We delivered an unqualified opinion on the Council's 2020/21 financial statements on 5th April 2022.

Our work did not identify any material errors or adjustments to the outturn position but did identify a material disclosure error in the classification of reserves. In addition, we also recommended a small number of adjustments to improve the presentation of the financial statements.

The draft financial statements were presented for audit in accordance with the agreed timetable and were supported by working papers of a similar quality to last year. We made two recommendations for the Council as a result of our work on the financial statements, and these are included opposite.

Issue and risk	Recommendations
Disclosures relating to both critical judgements and estimation uncertainty lack the level of detail envisaged by IAS 540 and as described in the most recent FRC thematic review	<p>Given the additional focus on accounting estimates, management should consider working more closely with experts to ensure more detailed disclosures can be provided in relation to both estimation uncertainty and critical judgements.</p> <p>Management Response</p> <p>Disclosures relating to critical judgements and estimation uncertainty were expanded in 2020/21 but will be reviewed again as part of the 2021/22 closedown process to provide more detailed disclosures where appropriate</p>
Our audit testing identified a number of assets recorded in the asset register at nil net book value. While this has no bottom line impact on the accounts, it does suggest that officers need to review the UEL and determine whether they remain appropriate for the assets that are still recorded in the asset register.	<p>Officers to review the assets held in the asset register at nil net book value.</p> <p>Management Response</p> <p>Agreed. We will review the useful economic lives of equipment assets, particularly those close to being fully depreciated to assess whether the asset life and gross value remain appropriate. Given the amounts involved are not material this does not represent a significant risk to the accounts.</p>

Commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources

All Councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:



Financial sustainability

Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).



Governance

Arrangements for ensuring that the Council makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Council makes decisions based on appropriate information.



Improving economy, efficiency and effectiveness

Arrangements for improving the way the Council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Our commentary on each of these three areas, as well as the impact of COVID-19, is set out on pages 6 to 22 Further detail on how we approached our work is included in Appendix B.

Financial sustainability



We considered how the Council:

- Responded to the financial challenges posed by the Covid-19 pandemic
- identifies all the significant financial pressures it is facing and builds these into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

As a result of the inherent uncertainty surrounding the funding of local government we identified in the audit plan a risk of significant weakness in relation to financial sustainability.

COVID-19 arrangements

COVID-19 posed a significant challenge to the Council, including to its financial sustainability, as it did to all in the local government sector. The onset of the pandemic made financial forecasting challenging as new periods of national lockdown were announced and additional tranches of government funding support were confirmed during the course of the year. The finance team carried out a full reforecasting exercise, liaising with all business managers. The emphasis for the revenue budget was to identify areas of potential savings and generate income, and create a realistic year-end outturn forecast.

Officers reported the potential impact of COVID-19 on the financial sustainability of the council in May, June and August 2020. At this stage early indications were that there would be an adverse movement of £643k when compared to the original revenue budget for 2020/21. This was largely a result of a reduction in fees and charges income due to the impact of COVID-19 and the restrictions introduced to limit the spread of the virus. Mitigating actions were taken to bring the forecast positions back in line, which included a review of staffing and recruitment activity, a review of discretionary spending and a review of reserves and provisions. We have not identified any evidence of this funding not being used for the purposes intended.

The Council maintained a good oversight of its COVID-19 related costs and income losses during the remainder of the financial year, with forecasts subject to detailed monitoring and scrutiny. The Medium-Term Financial Strategy (MTFS) was reviewed and updated during the year, and quarterly reporting against the budget to Cabinet was maintained throughout the year.

The Council's arrangements have adapted to respond to new risks it faced from 2020/21 onwards in respect of COVID-19 including:

- ICT arrangements: improved technology and cybersecurity. As more officers work from home the Council's ICT team ensured all staff had the equipment and technology they required to work from home and communicate remotely.
- Agile Working: adapted processes and culture to encourage more agile working. An agile working hub was made available on the Publica portal for all staff to access. During the peak of the pandemic staff were redeployed to support vulnerable members of the community. Options on the future use of offices in Witney have been accelerated by home-working during the COVID-19 pandemic.
- Arrangements are in place to monitor and report against various strands of COVID-19 funding, compliance and enforcement spend and various other grants are spent in line with grant conditions and requirements and ensure are appropriate and reasonable.
- Review of future use of the Council Chamber, including consideration of more multifunctional use of the asset to support hybrid meetings.
- In year savings were identified which principally related to printing, postage and consumables, and those created by the move away from paper to electronic communication and the overall impact was a reduction in overhead budget of circa £300k. This represents a 2% reduction in net revenue budget.

In 2020/21 over 1,000 vulnerable residents were contacted by elected members, and over 6,200 shielded resident were called during lockdown. The Council also developed a Community Hub team to work effectively with voluntary sector partners and volunteers.

As part of the Covid Recovery plan the Council committed funds from its 2019/20 surplus to meeting the aims of this Recovery Plan. A further six initiatives have been endorsed and will be pursued when further finance can be assembled or future opportunities arise to recognise these areas of ambition.

Financial sustainability (Cont'd)

COVID-19 arrangements (Cont'd)

At the end of quarter one, the revised forecast suggested a 2020/21 budget shortfall of £1.9m, which equated to 12% of the original budget. As the year progressed and both the impact of the pandemic and government funding support became more certain, the net position reported to members each quarter set out an improved position. In the 17 February 2021 update to Cabinet, the forecast outturn was a balanced budget for 2021/22 with no expectation of a contribution to the General Fund balance.

The most significant impact on the 2020/21 revenue budget was the loss of management fee income from leisure centres, totalling £1.1m, which was partially offset by the government's Sales, Fees and Charges compensation of £750k.

The pandemic led to an employee cost saving of £179k in relation to the environmental services contract with Ubico. This was achieved by:

- utilising fewer agency staff and a reduction of total staff across garden waste, recycling and street cleansing.
- a fuel cost saving of £103k was the result of a significant pandemic related drop in global oil prices rather than a smaller volume of fuel being consumed.
- a £52k saving in tyre costs has been rolled forward and incorporated into the 2021/22 budget along with an £81k saving in vehicle contract and repair costs as these are timing differences due to repairs and maintenance being delayed.

The impact of COVID-19 was recognised as continuing into 2021/22 and the Council put in place multiple covid recovery workstreams to support the recovery of the local economy including encouraging people back to the high street and supporting the re-opening of local businesses.

The most significant on-going risk to the financial sustainability of the Council remains the uncertainty over whether income from discretionary services will return to pre-pandemic levels.

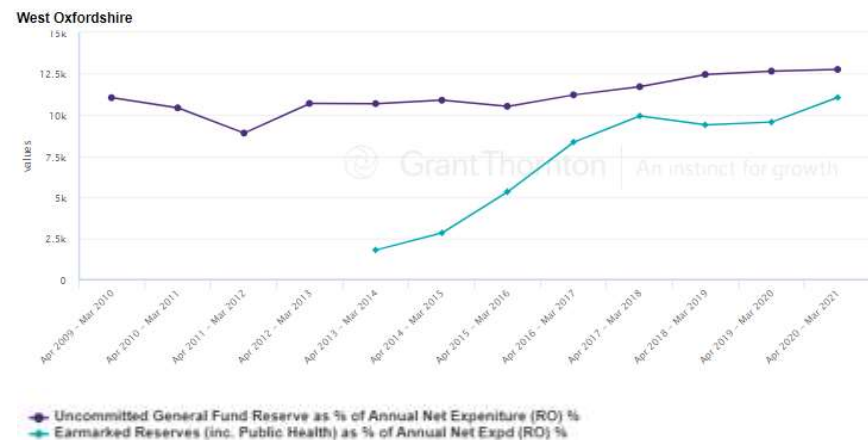
Outturn 2020/21

The Council's 2020/21 budget strategy assumed a balanced budget with a contribution from the General Fund of £1,395k. The outturn position (after transfers to earmarked reserves) was a surplus for the year of £49k. This outturn position reflects the pressures associated with the pandemic, particularly across income generating activities such as leisure services and commercial property income. During the year the Council received significant financial support from the government to fund the impact of the pandemic, which totalled £5m, of which £3.3m was applied during the year, with the balance moved to reserves. In addition to this direct support, the Council received £41.9m of Covid-19 related grants for businesses, of which £36.3m was distributed during the year.

The Council recognised that initial financial plans needed to be adapted as a result of the pandemic, undertaking extensive reforecasting across service lines, including as already noted, identifying and delivering savings of approximately £300k (2% of the net revenue budget).

Reserves

The Council has demonstrated a trend for increasing both earmarked and non-earmarked (uncommitted) reserves in recent years as set out in the table below.



Reserves totalled £118.4m on 1 April 2020, with £79.7m being earmarked and £38.7m non-earmarked. Reserves totalled £112.9m at 31 March 2021, with £66.8m being earmarked and £46.1m non-earmarked. The main elements of the non-earmarked reserves as at 31 March 2021 was £12.8m of General Fund unallocated funds and a further £19.1m of General Fund earmarked funds. The unallocated balance of £12.8m is very healthy in comparison to the Council's statistical nearest neighbours. The earmarked reserves included £7m of section 31 grants that will be applied in 2021/22 to the business rates deficit. Despite this the level of general fund balances and reserves at 31 March 2021 are considered healthy.

Financial sustainability (Cont'd)

Council Tax and Business Rates

During 2020/21 the income from liability orders related to the non-payment of Council Tax underachieved compared to budget by £110,000 due to the Magistrates' Courts being closed for the first half of the year. The Council anticipates that some of this income will be recovered in 2021/22.

The Council is a billing authority and is part of the Oxfordshire pooled business rates arrangement. During 2020/21 collection rates were significantly impacted by COVID-19. As referred to on the previous page, the government provided one-off Section 31 funding of £7m to compensate for lost business rates income due to the pandemic which has been held in earmarked reserves until repayment during 2021/22.

Budget 2021/22 and MTFs

The Council set a balanced budget for 2021/22 with no expectation of a contribution to the General Fund balance. The budget for 2021/22 and for future years was informed by a public consultation exercise concluded in January 2021.

The budget includes provision for the payment of interest on long term loans the Council expects to enter into in 2021/22 which relate to new capital spend that is funded by borrowing, refinancing of existing capital spend that was previously funded by internal borrowing, and loans to fund the investment strategy. The first tranche of which is estimated at £15m in 2021/22. This borrowing, and the repayment of it, is a key factor influencing the MTFs.

The Council's ten-year MTFs covers the period 2020/21 to 2030/31 and was refreshed at the time of setting the 2021/22 budget.

The Council has assumed a reduction to government funding in 2022/23 of £4m and recognise that using reserves is not a long-term solution to the government funding reduction. The 2021/22 budget set out how reserves will be used to fund the gap over the next eight years. The forecast funding gap in 2022/23 is £2.7m, which then reduces over subsequent years, to become a surplus of £127k in 2030/31.

The 2021/22 budget assumes:

- savings of £193k in relation to Publica Group (Support) Limited, a company owned by the Council along with Cotswold District Council, Forest of Dean District Council and Cheltenham Borough Council
- a budget rebasing (reduction) of £89k.
- ongoing income reduction from current income sources due to the pandemic totalling £1.8m.

From 2022/23 the MTFs assumes an increasing level of new income as a result of the Council's investment strategy, totalling £941k in 2022/23 and rising to £2.2m in 2025/26.

The Council recognises that this is a major area of risk in the MTFs as the income from this strategy is pivotal in extending the life of the Council's reserves and closing the gap left by the reduction in government funding. The Council should carefully monitor its investment strategy outcomes to assess whether the actual additional revenue income generated and costs incurred are consistent with those set out in the original business plan. We have made an improvement recommendation for this.

The MTFs estimates replacement government funding for of £1m in 2022/23 and then a total of £1.5m in subsequent years, but accurately estimating actual funding going forward is difficult. The implications of the annual funding settlement for the Council should be assessed with different scenarios considered along with the corresponding action and result on service provision. We have made an improvement recommendation for this.

The Council has incorporated uncertainty into its planning and based the MTFs on a mid-range scenario, having modelling three different scenarios of additional growth pressures. Some of this is being managed by planned savings. Some by a carry forward of COVID-19 funding from 2020/21.

Generally, we find the Council to be well managed financially and there is a high level of understanding of its budgetary position, budgetary pressures and any savings required. There is an established process by which the budget is reviewed regularly, and issues are reported on a timely basis to those charged with governance. We also note that the Section 151 Officer moving back to a full-time role during 2020/21 (having previously been a joint role with Cotswold District Council) providing increased senior finance capacity.

The Council have effective management of investment income and after a sharp drop in both the global Corporate Bond and Equity markets at the outset of the Covid pandemic and the lowering of the Bank of England base rate to 0.1%, investment income was expected to fall short of budget. However, an increase in market confidence later in the year recovered much of the losses on the capital value of our Pooled funds incurred early in the year and additional loans to both Cottsway and Southill Solar brought in additional interest, all crystallised in a reported position at year end which saw performance better the original budget by £117k.

Financial sustainability (Cont'd)

Capital programme

The Council has approved a ten-year capital programme which is aligned to the timescale of the MTFS. There has been a decreasing trend in capital expenditure made by the Council in prior years. The original capital expenditure budget for 2020/21 was set at £20.6m. The majority of the planned expenditure was two loans to Cottsway Housing Association of £1.5m to support the Blenheim Court Growth Deal scheme and £5.9m to support the provision of affordable housing. In addition the Council loaned £2m to Southill Solar in line with the Council's stated priority to take action locally on climate change.

£12m of the 2020/21 capital programme was due to be funded from borrowing with the balance of funding drawn from grants, external funding, earmarked reserves, capital receipts and contribution from revenue.

The capital programme budget was reforecast in year to £16.4m, with a year-end outturn position of £13.3m. The main underspends against the revised forecast were £1.3m relating to affordable housing (partnership with Haylo) and £1.4m relating to Old Court House. £3.6m of the underspend carried forward to 2021/22. Slippage was caused by economic conditions and the impact of Covid-19.

The Council's Capital Financing Requirement (CFR) is £16m but at the time the programme was approved (February 2021) the Council had no external debt, with internal borrowing having been prioritised over external borrowing. The use of borrowing against working capital has resulted in a depletion of internal cash, meaning the Council will now need to fund capital expenditure via external borrowing where external funding and grants are not available.

Planned use of external debt and the scale of the capital programme means that the Council has had to factor in interest repayments into future forecasts and increase its minimum revenue provision (MRP) which has a significant impact on the revenue budget.

Since most of these capital projects do not deliver any return, the Council must repay these loans out of cash generated by other activities. Since working capital has been exhausted, this will require an increasing focus on cashflow management.

The Council has approved an investment strategy framework which would see the Council invest £74m in order to further the Council's priorities, and to generate additional revenue to help close the budget gap and reduce the reliance on general reserves. As already noted, this is a major area of risk in the MTFS.

Bids for new investment are included in the revenue budget and there is a clear justification and rationale. The Council annual funding settlement has been adequately addressed in the financial planning with clear detail of assumptions around council tax and business rate growth based on reasonable analysis.

However the report does not provide much in the way of rationale or justification for new investments, there should be detail on justification and rationale. We have made an improvement recommendation for this.

Savings

Historically, the Council has a strong track record of meeting its financial targets, including savings. During the 2020/21 financial year, the Council undertook an extensive financial reforecasting exercise in an attempt to capture and clarify the effects of the COVID-19 pandemic.

The reforecasting has proven reasonably accurate, reflecting the understanding and control that business managers have over their revenue budgets. Forecasts were reviewed towards the end of the financial year. Savings identified were generally small legacy budget items where departments had been allocated a budget for printing or postage or other small equipment or consumables. Some of this saving has been generated by the move away from paper to electronic communication and the overall impact was a reduction in overhead budget of circa £300k. This represents a 2% reduction in net revenue budget.

Continuity between financial plans and other corporate plans

Given the impact of the pandemic, the Council has had a focus on COVID-19 recovery, and there are a number of distinct recovery streams in place that are linked to the Council Plan. These are time bounded. Initially, officers worked up 12 different projects. Each project leader presented, and then members voted on the schemes they wanted to see implemented, based on the fact that they didn't have the resources to deliver all 12 schemes. Officers were surprised that the scheme that got the greatest number of votes was in relation to climate change.

The 2021/22 budget supports the priority themes set out in the Council Plan which was approved by Council in January 2020, with the priorities being Climate Action, Healthy Towns and Villages, A vibrant District Economy, Strong Local communities, Meeting the Housing needs of our changing population and Modern Council Services and Sustainable Finance.

The Council's workforce plan (as part of 2020-24 Council Plan) aligns with financial plans set out by the Council. The workforce plan outlines the financial challenges faced by the Council and the requirement to deliver savings and efficiencies.

Financial sustainability (Cont'd)

Conclusion

We identified financial sustainability as a significant risk in planning this work. Following our review we are satisfied that the Council has appropriate arrangements in place to ensure it manages risks to its financial sustainability. We have not identified any significant weaknesses.

However, we recognise that the COVID-19 support provided by government will cease and this, combined with the need to manage more significant funding gaps in 2022/23 and 2023/24, will present a bigger challenge for the Council. This includes increased levels of savings required in these years, as well as the inevitable increased strain on services due to the cost of living crisis. Continued close in year monitoring and timely corrective action will be required to ensure savings are delivered and service redesign with partners are successfully implemented

We have identified three improvement recommendations which are set out on the following pages.



Improvement recommendations



Financial sustainability

1 Recommendation	<p>The Council should carefully monitor its investment strategy outcomes to assess whether the actual additional revenue income generated and costs incurred are consistent with those set out in the original business plan.</p>
Why/impact	<p>Generating additional income based on the investment strategy is critical to the medium to long term financial sustainability of the Council. However, the Council's future investment decisions should also be informed by the actual performance (both revenue streams and costs) of those schemes already delivered.</p>
Auditor judgement	<p>New income forecast to be generated by the investment strategy is a key assumption in the MTFS and should have regard to actual performance of earlier schemes.</p>
Summary findings	<p>The Council recognises that this is a major area of risk in the MTFS as the income from the investment strategy is pivotal in extending the life of the Council's reserves and closing the gap left by the reduction in government funding</p>
Management comment	<p>Discussions are already underway to attach appropriate nominal coding to projects in order to report ongoing on outcomes. While capital spend is currently carefully monitored, the Council recognises that more could be done to monitor revenue implications ongoing.</p>



The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendations



Financial sustainability

2 Recommendation	The implications of the reduction in the annual funding settlement for the council should be supported by scenario planning that sets out the different responses to different funding reductions on Council activity and spend.
Why/impact	The MTFS assumes some level of replacement government funding but accurately estimating actual funding going forward is difficult. The implications of the annual funding settlement for the Council should be assessed with different scenarios considered along with the corresponding action and result on service provision.
Auditor judgement	Given the uncertainty over future funding the Council should introduced scenario planning so decision makers are fully sighted on the ramifications of different funding outcomes.
Summary findings	The Council have identified that there will be a loss of government funding. The MTFS assumes a level that is far from certain and therefore planning for all eventualities is critical.
Management comment	While a level of sensitivity analysis is done on the MTFS especially acknowledging the areas of highest uncertainty and risk, these could be reported as variants for easier comparison.



The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendations



Financial sustainability

3 Recommendation	The Council should ensure continued close in year monitoring and timely corrective action will be required to ensure savings are delivered and service redesign with partners are successfully implemented.
Why/impact	The COVID-19 support provided by government will cease and this, combined with the need to manage more significant funding gaps in 2022/23 and 2023/24, will present a bigger challenge for the Council. This includes increased levels of savings required in these years, as well as the inevitable increased strain on services due to the cost of living crisis.
Auditor judgement	Increased uncertainty and the scale of funding gaps in the MTFS require close in-year monitoring to ensure planned actions to manage the gap are realised.
Summary findings	Reduced funding and increasing cost pressures mean that the Council must deliver planned savings, efficiencies and costs reductions to ensure financial sustainability.
Management comment	This is already in place.



The range of recommendations that external auditors can make is explained in Appendix B.

Governance



We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effectiveness processes and systems are in place to ensure budgetary control
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards.

COVID-19 arrangements

Following the onset of the pandemic, a mechanism was put in place to ensure that any key decisions that had to be taken had the informal approval of Cabinet members. Governance arrangements were strengthened in respect of procurement. The COVID-19 arrangements around procurement have been reviewed by Internal Audit, who reported substantial assurance in this area. The strategic risk register has also been updated to ensure Covid-related risks are recorded appropriately, mitigated and monitored.

The Council established a coordinated formal emergency response to COVID-19. A Cabinet Advisory Group (CAG) was established taking place in June 2020 to review the Council's finances during the pandemic. The group fed back to the Cabinet committee in October 2020 with details of the impact COVID-19 (included in a Recovery Plan) and a forecast of how COVID-19 impact would have on the council finance outturn, this was complemented by the Council's key corporate strategy document (The Council Plan 2020-2024). In addition, a phased approach to recovery was to enable West Oxfordshire's recovery plans to link with those of local partners, including the Local Enterprise Partnership (OxLEP) and other Oxfordshire partners who based their own recovery plans on the phased approach.

During 2020/21, the Council distributed a total of £39.5m in covid support grants. The Council's Counter Fraud Manager has overseen every part of the Business Grant distribution and is responsible for the post payment assurance work required by the government. Regular reconciliations have been submitted to the Department of Business Environment and Industrial Strategy (BEIS) and repayments made of unused grant funding where applicable.

The Council embraced the required move to remote working including remote member meetings. Such virtual meetings, we have been advised, has led to improved attendance and member engagement, given the geographical nature of West Oxfordshire.

Managing risk

Part 3 of the Council's Constitution sets out that it is the responsibility of the Audit and General Purposes Committee to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process.

There is an annual risk assessment process in place. Departmental teams work up their own annual risk registers feeding into a strategic (Corporate) risk register (CRR). The CRR incorporates some of the highest risks set out in some of the departmental risk registers, as well as including the corporate risks. The CRR is agreed by Cabinet annually. Departmental risk registers are agreed by the relevant Committee, so Cabinet is focused on the strategic risks and only the very high scoring risks from the Departmental risk registers that are included on the CRR.

Each risk is described, attached to controls, scored, RAG rated and assigned to a responsible senior officer. Risks are not mapped to corporate objectives and we have made an improvement recommendation in relation to this.

The risk registers are also reviewed annually by internal audit.

Internal controls

Internal Audit is provided by SWAP Internal Audit Services, a company that is wholly owned by various public sector bodies including the Council. The annual internal audit plan is based on the risk assessment undertaken by SWAP for the Council. The plan provides effective coverage of Council risks, including financial, HR, Revenue and Benefits and Publica. ICT audits are also included in the plan, as well as risk and performance management. There is no evidence of significant gaps in assurance, and the reporting structure and reports give a good overview of whether internal controls are working.

Governance (Cont'd)

Internal controls (cont'd)

SWAP was due to present an internal audit plan covering 2020/21 to the Audit and General Purposes Committee (AGPC) in April 2020. However, due to the COVID-19 outbreak and subsequent lockdown, this Committee was postponed. During the first quarter of 2020/21 much of internal audit focus related to COVID-19, such as supporting business grants administration and a review the request for funding from the Council's leisure services provider. Several 2019/20 audits were also finalised during this period.

A revised plan was presented to AGPC in November 2020 which noted internal audit work during quarter 2 had assisted COVID-19 recovery work as well as commencing assurance work. From quarter 3 SWAP planned to focus on key corporate risks facing the Council and providing assurance on key financial systems.

SWAP's year end update reported they had completed 94% of timetabled planned audits in 2020/21 which compares favourably against a target of 90% with the remaining 6% of work progress at year end. We note that these figures do not include audits which were referred or removed from the plan due to the impact of COVID-19, with 11 audits completed of the 33 in the original plan.

Our work found no significant gaps in assurance, and the reporting structure and reports gave a good overview of whether internal controls are working. The annual report from SWAP gave a High Reasonable Assurance opinion, with no significant risks identified, and no priority 1 actions raised.

Budget setting and monitoring

The Council produce a cash flow forecast at the start of the year to determine the maximum period for which funds may be lent out and/or to identify times at which amounts will need to be borrowed and how much will need to be borrowed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. The forecast is then updated monthly. Limits on long-term investments are set by reference to the Council's MTFs and cash flow forecast. The Council manage their liquidity risk by ensuring it has adequate short term cash resources, borrowing arrangements, overdrafts, or standby facilities in place. It also utilises cash flow forecasting to give as accurate a picture as possible of daily cash balances.

The Council make several references to plans to manage financial risks in the medium and longer term, as well as the short term. The Council MTFs sets out the specific financial challenges facing the Council over the next four years and how it plans to meet them. The Council also recognise that it is more important than ever to have a long-term Council Plan and Budget given the uncertainty caused by COVID-19. Bridging the funding gap presents a substantial financial risk and will require continuing rigorous review of all areas of the Council's budget.

The Council invests in infrastructure and assets through its Capital Programme to support and promote growth and generate income from key funding streams such as Business Rates, Council Tax and rental income.

The investments the Council is planning are not just to relieve short-term pressures by generating additional sources of income, but to have an environmental, social and economic impact for residents and visitors, and to support economic growth and recovery.

The Council closely monitors its finances with routine reports being reviewed by members on a quarterly basis and remedial action being taken whenever required to offset emerging budget pressures. All savings proposals are regularly reviewed for deliverability and risk assessed by officers throughout the year. The Council also undertake regular reviews of its balance sheet risks and takes appropriate action as necessary.

Strategic directors are responsible for their budgets. Departmental managers provide advice, guidance and challenge to their strategic directors. Their performance reviews are based on this role, not necessarily on achieving budget. Budget holders are expected to understand their budget within the wider context of the Council as a whole and recognise where savings they identify would help the Council achieve its targets (even if that's in another directorate). Budget holders are required to evidence their growth requirements – evidence of how any previous growth has been spent, evidence the cost driver(s) behind that spend and produce the data to support that. Consequently, budget holders are not simply asked to make requests for additional budget, but to set those requests within the context of their own management accounts information.

Consequently there is formal and reasonably sophisticated accountability for budgets, and an understanding of the wider implications of financial performance is a key objective for senior managers and budget holders.

The Council has a Performance Management Framework in place to ensure the Council's progress relating to the six priorities in the Council Plan is measured, monitored and managed. Within the Performance Management Framework there is a section on data quality. This sets out how all Council services will be required to adhere to data quality standards to ensure that reliable information is produced. The data quality standards cover six key areas of: accuracy, validity, consistency, timeliness, relevance and completeness.

There is adequate internal and external engagement in relation to budget setting. Consultation was held with residents, businesses and Town and Parish Councils. Consultation also took place with management from Publica and Ubico, and the Council Overview and Scrutiny Committee

Governance (Cont'd)

Budgetary control

The budget and service performance is reviewed quarterly by Cabinet. The accompanying reports and information supporting the budget identify issues as they arise which will impact the expected outturn. There is a good analysis of risks posed to the achievement of the budget within these reports. Forecasts are subject to a high level of challenge and scrutiny, from Cabinet. The outturn report also identifies reasons for variances.

Financial reporting to Cabinet was strengthened during the year by the new Section 151 Officer, and we have been advised that members have provided positive feedback on the improved format, and feel they have a greater understanding of the Council's financial position. An honest dialogue is encouraged between officers and members, and this has developed in particular during COVID-19, as members have sought to engage more with communities about what is important, and this has given the Council a good understanding of what is happening within the district.

The Budget Report 2020/21, outturn reports and the MTFs do not indicate or discuss alternative proposals or scenarios. It would be helpful for the Council to evidence and discuss alternative proposals and scenarios prior to the budget being agreed. We have made an improvement recommendation in relation to this.

Treasury management

The Council's Treasury Management Strategy is to invest its surplus cash in short-term unsecured bank deposits, short term deposits with HM Treasury's Debt Management Office, instant access accounts with UK banks and money market funds. The annual Treasury Management report is reported to the Finance and Management Overview and Scrutiny committee. Included are reports on investments, externally managed funds and the Council's compliance with prudential indicators.

Leadership and committee effectiveness

The Council's Executive is the Cabinet which is supported by an appropriate committee structure. Senior officers attend the Cabinet and Committees to present reports and are open to questions during Committee meetings.

The Council's Annual Governance Statement (AGS) is compliant with the CIPFA code. An appropriate level of care is taken to ensure the Council's policies and procedures comply with all relevant codes and legislative frameworks.

The Audit and General Purposes Committee demonstrates appropriate challenge of financial and non-financial items. The Committee contains members with financial knowledge to provide appropriate challenge on these items.

Major decisions are made at Cabinet. These are discussed at an Executive level prior to the presentation to Cabinet. The Council requires minuted approval of the Cabinet decisions. The Council Cabinet has appropriate arrangements to monitor and ensure appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests) are in place and are regularly reviewed.

Conclusion

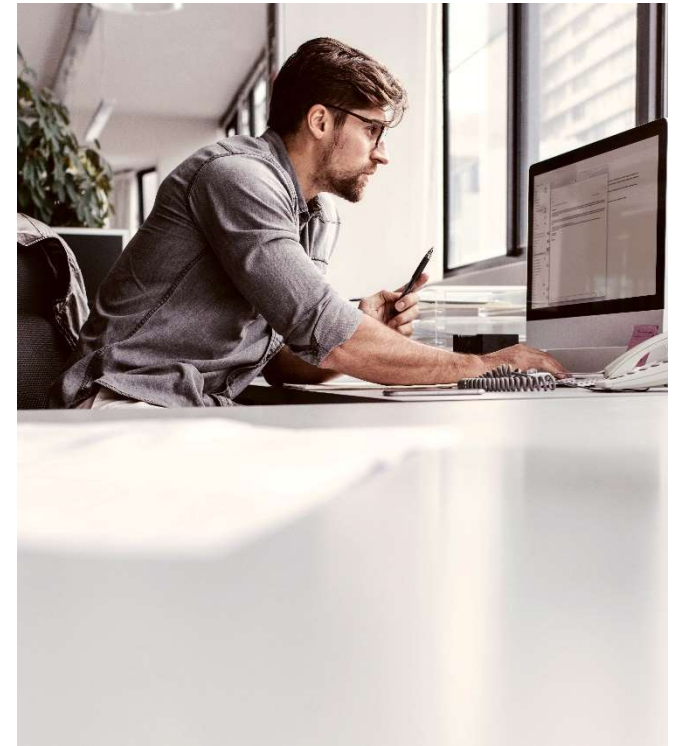
Overall, we found no evidence of significant weaknesses in the Council's arrangements for ensuring that it makes informed decisions and properly manages its risks. We have made two improvement recommendations which are set out on the following pages.

Improvement recommendations

Governance

4 Recommendation	The Council should consider mapping risks to corporate objectives.
Why/impact	For each risk reported to Cabinet (or equivalent), relevant key controls and sources of assurance should be set out and RAG-rated? Adequate evidence that risks are mapped to corporate objectives and allocated to a named senior officer should be detailed.
Auditor judgement	Each risk should be mapped to corporate objectives and this detail included in risk register.
Summary findings	Each risk is described, attached to controls, scored, RAG rated and assigned to a responsible senior officer. Risks are coded, however not mapped to corporate objectives.
Management comment	Risks escalated to the Corporate Risk Register have been identified as strategic and may impact or be related to multiple objectives by their very nature. Some consideration will be given to mapping to test whether it is practical and useful. This recommendation may more closely align with the identification and escalation of strategic opportunities.

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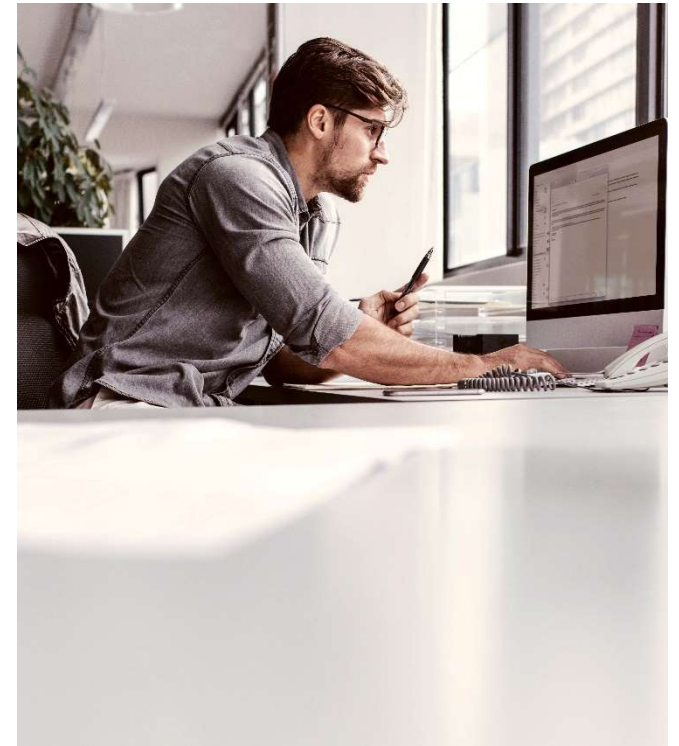
The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendations

Governance

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5 Recommendation	The Council should consider how it can improve the evidence relating to discussing alternative proposals and scenarios for budget changes prior to the budget being agreed.
Why/impact	Evidence of alternative proposals and scenarios being considered before the final version of the budget is agreed and approved should be evidenced and details of discussion included in minutes.
Auditor judgement	Evidence of discussion of alternative proposals should be included.
Summary findings	A review of the Budget Report 202021, Outturn reports and MTFP does not indicate or discuss alternative proposals or scenarios.
Management comment	The final budget proposals submitted to Council are considered optimal as requests for growth and discussion of underlying initiatives have already gone through Scrutiny committee and Cabinet review. The outturn is a factual report on the closing position of the accounts. Consideration will be given to presenting more scenarios through the MTFs as this forecast may be the appropriate place to evaluate alternative proposals and scenarios.



The range of recommendations that external auditors can make is explained in Appendix B.

Improving economy, efficiency and effectiveness



We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve
- ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

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COVID-19 arrangements

As a result of the lockdown restrictions announced on the 16th March 2020, the Council moved to ensure that all but a handful of essential staff were able to work from home. This has continued throughout the pandemic, with no significant impact identified on productivity. Following the introduction of regulations to hold formal meetings via remote attendance, committee meetings moved to video conferencing. In the intervening period, some decisions had to be taken by the Chief Executive under delegated powers.

The strategic risk register has also been updated to ensure Covid-related risks are recorded appropriately, mitigated and monitored. A register of Covid-19 risks was managed by Publica on behalf of the Councils with a review of this register undertaken on a weekly basis.

Effective relationships were formed with existing partners and wider relationships developed. Decision making was more streamlined, and the better use of technology meant that issues were resolved quickly. The Council have reflected back on the first 12 months of the pandemic and have used the response to date and progress made as a platform upon which to identify the issues that need to be focused on going forward. Existing plans have been adapted and discussed with a wide range of partners and challenges have been identified to guide the recovery.

Performance management and benchmarking

The Council's Joint Performance and Finance Report demonstrates a robust and detailed reporting mechanism on financial and operational performance, and is good practice. This report includes functionality which makes it interactive and enables performance to be assessed at a Council-wide level and also at a service area level.

The report also benchmarks Council performance against comparator groups and identifies areas for improvement. The performance reporting of the Council operates within a Performance Management Framework to ensure data quality when using this information to assess the Council's performance.

The four-year Council Plan sets out strategic priorities for the period. The Annual Statement and Council Plan are focused on service delivery, and there is a regular high level review of service delivery. The Council's MTFS is over a 10 year period evidencing the body is focusing on longer-term options. The MTFS highlights there are no plans for reductions in services.

Regular reviewing and monitoring of the Council Plan, is achieved using a quarterly report for performance. The is effective use of a Performance Management framework and performance reporting arrangements. The work of partnerships falls within this framework.

Each performance measure is benchmarked against Cotswold and Forest of Dean District Councils, and this data shows areas which hit target and compare against other organisations. The observation analysis for each KPI identifies areas of improvement.

We have undertaken our own benchmarking using 2019/20 Revenue Outturn (RO) data comparing the Council to its ten statistical neighbours. The Council benchmarks very high in terms of its unit costs for the following service blocks: Highways and Transport Services, Environmental and Regulatory Services, and Central Services. The Council should review to determine if there is potential for efficiencies within these service blocks, or they are comfortable with the comparative unit costs due to variations in statistical nearest neighbours' priorities. We have made an improvement recommendation on this.

Improving economy, efficiency and effectiveness

Performance management and benchmarking (cont'd)

This benchmarking highlights that unallocated reserves have remained stable, there has been a steady decrease in total borrowing, and a decrease in both interest payable and in capital expenditure.

When considering the CIPFA Financial Resilience Index to assess how the Council compares to its statistical nearest neighbours in relation to 2021/22 actuals, the Council generally compares favourably and demonstrates comparatively lower risk, including the reserves sustainability measure. The main outlier is the council tax requirement/net revenue expenditure, with the Council having one of the lowest ratios (38.9%) compared to the benchmark group.

Significant partnerships

The Council have a significant partnership with Publica Group (Support) Ltd, a council owned employment company which delivers shared services between Cotswold, West Oxfordshire, and Forest of Dean District Councils and Cheltenham Borough Council. During the course of the year there was a re-set in the relationship between the Council and Publica, and the Council now has a much greater understanding of its role as a shareholder and in managing the Council's interests. Publica retains the confidence of Council officers and members, and working together, saw a responsive redeployment of resources during COVID-19 lockdowns, particularly in relation to grant payments to businesses.

Ubico Ltd, provides waste and recycling, grounds maintenance and street cleaning services on behalf of the Council. The Environmental Services Innovation Programme (ESIP) sets out how the Council will work with Unico Ltd to deliver new, more efficient and modern services. ESIP is also expected to improve transparency on how Ubico operates including reporting finance and performance information; opening shareholders events to all Council members; and how risks are managed, and the recruitment of independent non-executive directors, including an independent chair. As previously noted, the pandemic led to an employee cost saving of £179k in relation to the environmental services contract with Ubico.

Our review found evidence that strategies developed at a partnership level are translated into meaningful actions to be delivered, for example West Oxfordshire Community Safety Partnership (WOCSP) brings together local organisations with a shared goal of creating safer communities in which to live, work and visit. The approach is informed by strategic priorities in the Police and Crime Plan for Thames Valley. Part of the output of this partnership is the Strategic Intelligence Assessment for Oxfordshire which highlights crime data and comparisons with similar areas.

The community safety plan includes data which identifies the issue, the need, activity required, outcome, impact and by who. For example the issue of Domestic Abuse, highlighting more victims will be able to get help, and the impact being a greater number of people being able to access services within West Oxfordshire.

The work of partnerships is fed back to and overseen by the Cabinet in order to maintain overall decision-making responsibility for matters affecting the body. This is done via ad hoc reports to the Council, regarding partnerships, but also by reviewing and monitoring of the Council Plan.

The Council had a shared management arrangement with Cotswold District Council, including shared Section 151 and Monitoring Officer roles. During 2020/21 both councils agreed to change these arrangements and create separate roles for these statutory officers, reflecting a recognition of the need to provide greater capacity for each council. The Council's Section 151 Officer commenced their role in June 2020.

Procurement of services

Every contract entered into by the Council shall comply with all relevant statutory provisions including codes and statutory guidance e.g. Local Government Transparency Code and the Council's Constitution including these Contract Rules, the Council's Financial Rules and Scheme of Delegation and the Authority's strategic objectives, Procurement Strategy, Procurement Code (which includes template documentation) and Climate Emergency policies. The policy of the Council, and the objective of these Contract Rules, is to ensure that all works, goods and services are obtained with probity and propriety to ensure the proper expenditure of public funds; are appropriate for the purpose for which they are obtained and ensure Best Value for Money. Currently an out of date procurement strategy is in place, we found also no information available regarding significant contracts, including their timing for renewal, or financial procedures, although there is a spreadsheet detailing significant purchases. This is evidence of a potential lack of transparency. The Council should consider the creation of a procurement strategy, along with publication of major contracts in place and financial procedures. We have made an improvement recommendation for this.

Conclusion

Overall, we found no evidence of any significant weaknesses in the Council's arrangements in relation to improving economy, efficiency and effectiveness. We have made two improvement recommendations which are set out on the following pages.

Improvement recommendations



Improving economy, efficiency and effectiveness

6 Recommendation	The Council should consider the creation of a procurement strategy, along with publication of major contracts in place and financial procedures.
Why/impact	The body should have an up to date agreed procurement strategy which is complimented by evidence of the body operating a fair procurement exercise for a significant contract, and to also have a clear timeline of contract renewal dates to support procurement planning.
Auditor judgement	Potential lack of transparency and planning.
Summary findings	There is no procurement strategy in place. There is also no information available regarding significant contracts, or financial procedures, although there is a spreadsheet detailing significant purchases.
Management comment	The procurement strategy is being further developed to improve information on contracts, including renewal dates.



The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendations



Improving economy, efficiency and effectiveness

7 Recommendation	To undertake a review of 2020/21 Revenue Outturn data to understand variances in unit costs with statistical neighbours.
Why/impact	To identify why the Council, for some service blocks, has very high comparative unit costs, to determine if there is any potential for savings and efficiencies beyond those already planned.
Auditor judgement	To ensure that the Council has considered all potential for additional savings and efficiencies, given the ongoing and significant financial challenges over the medium-term.
Summary findings	Our analysis of 2020/21 RO data has highlighted variances in unit costs between the Council and its nearest statistical neighbours. It will be important for the Council to understand the reasons for these variances.
Management comment	We will look into this.

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The range of recommendations that external auditors can make is explained in Appendix B.

Opinion on the financial statements



Audit opinion on the financial statements

We gave an unqualified opinion on the 2020/21 financial statements on 5 April 2022

Page 31 Audit Findings Report

More detailed findings can be found in our Audit Findings Report, which was published and reported to the Council's Audit and General Purposes Committee on 16 November 2021.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

These instructions have yet to be issued and as such we cannot complete this work or formally certify the closure of the audit.

Preparation of the accounts

The Council provided draft accounts in line with the national deadline and provided a reasonable set of working papers to support it.

Issues arising from the accounts:

The key issues were:

- We identified no material errors or adjustments to the outturn position but did identify a material disclosure error in the classification of reserves.
- In addition, we also recommended some adjustment to improve the presentation of the financial statements.
- We raised two recommendations for officers to consider in the preparation of the 2021/22 financial statements.

Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation.



Appendices

Appendix A - Responsibilities of the Council



Role of the Chief Financial Officer (or equivalent):

- Preparation of the statement of accounts
- Assessing the Council's ability to continue to operate as a going concern

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Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

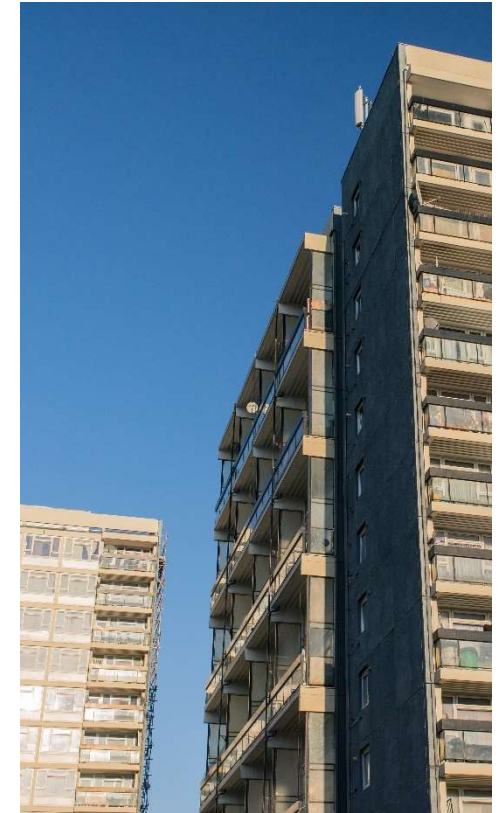
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare the 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. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council 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.



Appendix B - An explanatory note on recommendations

A range of different recommendations can be raised by the Council's auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Page 34 Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Council to discuss and respond publicly to the report.	No	n/a
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	No	n/a
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	Yes	Financial Sustainability (pp 11-13) Governance (pp 17 & 18) 3Es (pp 21 & 22)

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Your ref: VfMextension/Sept22

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28 September 2022

2021/22 VFM arrangements

Dear Alaric

The original expectation under the approach to VFM arrangements work set out in the 2020 Code of Audit Practice was that auditors would follow an annual cycle of work, with more timely reporting on VFM arrangements, including issuing their commentary on VFM arrangements for local government by 30 September each year at the latest.

Given that we only finalised our 2020/21 VFM Auditors Annual Report for West Oxfordshire District Council in August 2022 we are proposing to delay the commencement of our 2021/22 VFM review until later in 2022. The National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we now expect to publish our 2021/22 Auditor's Annual Report, including our commentary on arrangements to secure value for money no later than February 2023.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully



Peter Barber

Director

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West Oxfordshire District Council indicative Audit Plan

Year ending 31 March 2022

West Oxfordshire District Council
22 September 2022

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Significant improvements from the Financial Reporting Council's (FRC) quality inspection

On 29 October, the FRC published its annual report setting out the findings of its review of the work of local auditors. The report summarises the results of the FRC's inspections of twenty audit files for the last financial year. A link to the report is here: [FRC AQR Major Local Audits October 2021](#)

Grant Thornton are one of seven firms which currently delivers local audit work. Of our 330 local government and NHS audits, 87 are currently defined as 'major audits' which fall within the scope of the AQR. This year, the FRC looked at nine of our audits.

Our file review results

The FRC reviewed nine of our audits this year. It graded six files (67%) as 'Good' and requiring no more than limited improvements. No files were graded as requiring significant improvement, representing an impressive year-on-year improvement. The FRC described the improvement in our audit quality as an 'encouraging response by the firm to the quality findings reported in the prior year.' Our Value for Money work continues to be delivered to a high standard, with all of the files reviewed requiring no more than limited improvement. We welcome the FRC findings and conclusions which demonstrate the impressive improvement we have made in audit quality over the past year.

The FRC also identified a number of good practices including effective challenge of management's valuer, use of an auditor's expert to assist with the audit of a highly specialised property valuation, and the extent and timing of involvement by the audit partner on the VFM conclusion.

Our results over the past three years are shown in the table below:

Grade	Number 2018/19	Number 2019/20	Number 2020/21
Good with limited improvements (Grade 1 or 2)	1	1	6
Improvements required (Grade 3)	2	5	3
Significant improvements required (Grade 4)	1	0	0
Total	4	6	9

Our continued commitment to Audit quality and continuous improvement

Our work over the past year has been undertaken during the backdrop of COVID, when the public sector has faced the huge challenge of providing essential services and helping safeguard the public during the pandemic. Our NHS bodies in particular have been at the forefront of the public health crisis. As auditors we have had to show compassion to NHS staff deeply affected by the crisis, whilst staying focused on the principles of good governance and financial management, things which are more important than ever. We are very proud of the way we have worked effectively with audited bodies, demonstrating empathy in our work whilst still upholding the highest audit quality.

Significant improvements from the Financial Reporting Council's (FRC) quality inspection (cont.)

Over the coming year we will make further investments in audit quality including strengthening our quality and technical support functions, and increasing the level of training, support and guidance for our audit teams. We will address the specific improvement recommendations raised by the FRC, including:

- Enhanced training for local auditors on key assumptions within property valuations, and how to demonstrate an increased level of challenge
- Formalising our arrangements for the consideration of complex technical issues by Partner Panels.

As part of our enhanced Value for Money programme, we will focus on identifying the scope for better use of public money, as well as highlighting weaknesses in governance or financial stewardship where we see them.

Conclusion

Local audit plays a critical role in the way public sector audits an society interact, and it depends on the trust and confidence of all those who rely on it. As a firm we're proud to be doing our part to promote good governance, effective stewardship and appropriate use of public funds.

Key matters

Factors

Council developments

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. The last report on the financial performance of the Council was taken to Cabinet in July 2022. This showed that overall the Council had underspent compared to budget by £458k, with an overall outturn position after transfers to earmarked reserves of £4,592. This is largely due to revised garden waste income post budget setting, as well as high performance of planning application and investment property income in excess of budget.

The Council has developed a Year Medium Term Financial Strategy for the General Fund which was updated for Cabinet in February 2022. This shows that the Council will come under increasing financial pressure in the next few years and will need to draw on reserves. There is still a strong reserve position predicted in the short term however with the Council holding £12.813m in the General Fund as at 2021/22 and forecasting reserve balances of £11.698m by the end of 2024/25.

Recovery from Covid 19 pandemic

The Council continues to operate in a post Covid-19 environment which includes additional challenges such as bringing services back to pre pandemic efficiency, and staff shortages.

In 2020/21 and 2021/22 Central Government provided funding to the Council in recognition of both the impact of the Covid-19 pandemic on the Council's finances and in recognition of the additional duties the Council took on in response to the pandemic. For 2021/22 the Council received additional grant funding of £2.716m to cover lost income and additional service provision. We will review the accounting for these grants as part of our 2021/22 audit work.

Financial Statements

We have progressed our detailed planning for 2021/22 and are intending to carry out the fieldwork audit starting on October. We have started discussions with your Executive team, including holding initial discussions around key areas, such as the valuation of property, plant and equipment and the Council's key financial estimates.

Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further on page 20 of this plan is based on our current assessment of the work required to discharge our responsibilities. These indicative fees are currently being discussed with the Chief Finance Officer.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.
- We will continue to provide you with sector updates via our Audit and General Purposes Committee updates.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of West Oxfordshire District Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of West Oxfordshire District Council. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council [and group]'s financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and General Purposes Committee); and we consider whether there are sufficient arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Audit and General Purposes Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls;
- Revenue and expenditure recognition (rebutted);
- Valuation of land and buildings
- Valuation of investment properties; and
- Valuation of the net pension fund liability

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £0.930m (PY £1m) for the Council, which equates to 1.9% of your gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.045m (PY £0.050m).

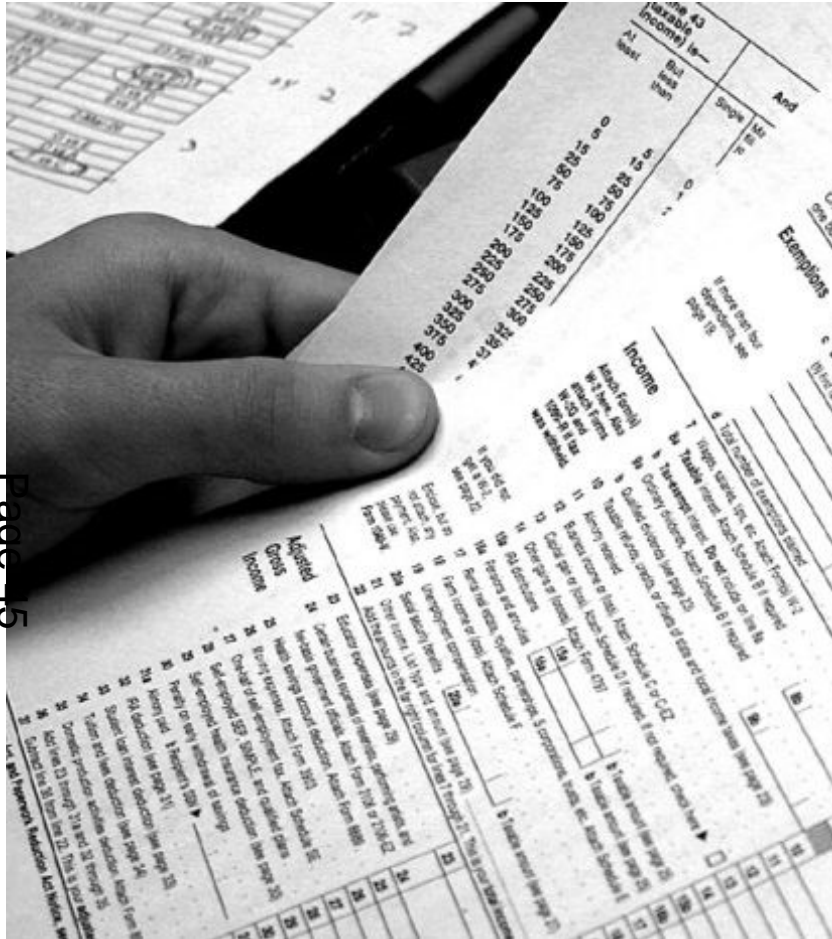
Value for Money (VFM) arrangements

Our risk assessment regarding your arrangements to secure value for money remains in progress, however, based on our VFM planning work to date we have identified the following risk of significant weakness:

- Financial Sustainability - Whilst the Council has a good record of delivering to budget, there remains a financial challenge over the medium term in relation to revenue funding. Due to the inherent uncertainty, we have concluded that there is a significant risk of weakness in arrangements for delivering financial sustainability.

Once our VFM planning work is complete we will revisit the risks in this area and update the Audit and General Purposes Committee in our Audit Findings Report should the risks change.

Introduction and headlines cont.



Audit logistics

We anticipate commencing our 2021/22 post-statements audit in October 2022. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our indicative fee at this stage of the audit is £63,628 (more detail is provided on pages 20 & 21), subject to the Council delivering a good set of financial statements and working papers. These indicative fees are currently being discussed with the Chief Finance Officer.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements..

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including West Oxfordshire District Council mean that all forms of fraud are seen as unacceptable. 	No specific work is planned as the presumed risk has been rebutted.
The expenditure cycle includes fraudulent transactions (rebutted)	<p>Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states:</p> <p>"As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition". Public sector auditors therefore need to consider whether they have any significant concerns about fraudulent financial reporting of expenditure which would need to be treated as a significant risk for the audit.</p> <p>We have rebutted this presumed risk for West Oxfordshire District Council because:</p> <ul style="list-style-type: none"> • expenditure is well controlled and the Council has a strong control environment; and • the Council has clear and transparent reporting of its financial plans and financial position to the Council. <p>We therefore do not consider this to be a significant risk for West Oxfordshire District Council.</p>	No specific work is planned as the presumed risk has been rebutted.

Significant risks identified (continued)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals; • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.
Valuation of land and buildings	<p>Revaluation of property, plant and equipment should be performed with sufficient regularity to ensure that carrying amounts are not materially different from those that would be determined at the end of the reporting period. The Council revalues its land and buildings on a rolling basis to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets) at the financial statements date.</p> <p>This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluate the competence, capabilities and objectivity of the valuation expert; • write to the valuer to confirm the basis on which the valuation was carried out; • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Council's valuer's report and the assumptions that underpin the valuation; • test revaluations made during the year to see if they had been input correctly into the Council's asset register; and • evaluate the assumptions made by the valuer for those assets revalued at 31 March 2022. For the assets not formally revalued in year we will assess how management has satisfied themselves that these assets are not materially different to the current value at the year end.

Significant risks identified (continued)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of investment properties	<p>The Council revalues its investment properties annually. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>We therefore identified valuation of investment properties, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluate the competence, capabilities and objectivity of the valuation expert; • write to the valuer to confirm the basis on which the valuation was carried out; • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Council's valuer's report and the assumptions that underpin the valuation; • test revaluations made during the year to see if they had been input correctly into the Council's asset register; and • evaluate the assumptions made by the valuer for those assets revalued at 31 March 2022.
Valuation of the pension fund net liability	<p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtain assurances from the auditor of the Oxfordshire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

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Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit and General Purposes Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2022.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings, and investment properties,
- Depreciation,
- Year end provisions and accruals,
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities, and
- Fair value estimates

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

How management understands the degree of estimation uncertainty related to each accounting estimate; and

How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainty is unresolved.

Planning enquiries

As part of our planning risk assessment procedures we have made enquiries of management and the responses will be shared with Those Charged with Governance alongside this Audit Plan.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540_Revised-December-2018_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.

We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.

We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.

We consider our other duties under legislation and the Code, as and when required, including:

- giving electors the opportunity to raise questions about your 2021/22 financial statements, consider and decide upon any objections received in relation to the 2021/22 financial statements;
- issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
- application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
- issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Materiality

The concept of materiality

Materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

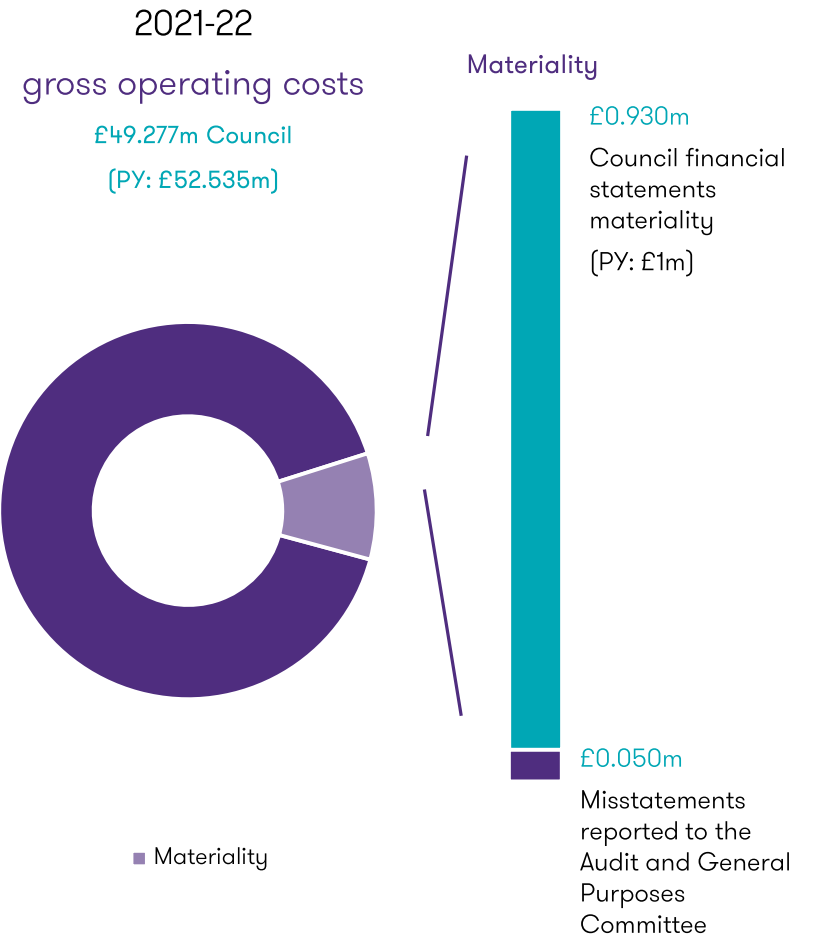
We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £0.930m (PY 1m) for the Council, which equates to 1.9% of your draft gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £5,000 for Senior Officer Remuneration.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit and General Purposes Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and General Purposes Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.045m (PY £0.050m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and General Purposes Committee to assist it in fulfilling its governance responsibilities.



IT audit strategy

In accordance with ISA (UK) 315, we are required to obtain an understanding of the information systems relevant to financial reporting to identify and assess the risks of material misstatement. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design of ITGCs related to security management; technology acquisition, development and maintenance; and technology infrastructure. Based on the level of assurance required for each IT system the assessment may focus on evaluating key risk areas ('streamlined assessment') or be more in depth ('detailed assessment').

We plan to rely on the operation of application controls whether automated / IT dependent and will therefore carry out an extended IT General Controls assessment on the IT systems that support the operation of those controls. This is to gain assurance that the relevant controls have **been operating** effectively throughout the period.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
Agresso	Financial reporting	<ul style="list-style-type: none"> Streamlined ITGC design assessment Design Effectiveness for areas of significant risk detailed on pages 8-10
Civica	Revenues (Council tax and business rates) and housing benefits	<ul style="list-style-type: none"> Streamlined ITGC design assessment We will gain an understanding of the Business Processes for this audit areas

Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office (NAO) issued updated guidance for auditors in April 2020. The Code requires auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

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We have not identified any risks of significant weaknesses from our initial planning work. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's annual report.



Risks of significant VFM weaknesses

As part of our planning work to date, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

Risks of significant weakness

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money.

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Risk title: Financial Sustainability

Risk description: Whilst the Council has a good record of delivering to budget, there remains a financial challenge over the medium term in relation to revenue funding. Due to the inherent uncertainty, we have concluded that there is a significant risk of weakness in arrangements for delivering financial sustainability.

Our 2021/22 VFM planning work has not been concluded at the time of drafting this audit plan and therefore we will keep our risk assessment open and provide an update as to any further risks identified once our work has concluded.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

Audit logistics and team

Planning and risk assessment

Interim audit
August 2022

Audit and
General Purposes
Committee
20 September 2022

Audit Plan

Year end audit
October to November 2022

Audit and
General Purposes
Committee
TBC

Audit Findings
Report/Draft
Auditor's Annual
Report

TBC

Audit Opinion &
Auditor's Annual
Report

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Peter Barber, Key Audit Partner

Peter is responsible for the overall delivery of the audit. He will meet regularly with senior management of the Council and will attend Audit and General Purposes Committee meetings.



Meriel Clementson, Manager

Meriel's role will be to manage the delivery of a high quality audit, meeting the highest professional standards. She will also oversee the delivery and quality of work produced by the audit team and draft reports for the Committee.



Allison Thomas, Audit Incharge

Allison is responsible for the on-site delivery of the audit work. She assigns activities across the team and ensures it is completed satisfactorily.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees

In 2017, PSAA awarded a contract of audit for West Oxfordshire District Council to begin with effect from 2018/19. The fee agreed in the contract was £35,527 which was uplifted to £38,527 for 2021/22. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2021/22 audit.

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as detailed on page 11 in relation to the updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting.

The pandemic has led to considerable changes to how we all work and how we have carried out our audits over the last two years. Many local government bodies are exploring new ways of working to support its officers, through use of remote and hybrid working environments. We see the positive benefits this can bring to entities, and their workforce, both in providing more flexibility and reducing its environmental impact.

Whilst there are many efficiencies to remote working, having the ability to work together with officers face to face in conducting our audit work provides many advantages to the timely progression of the audit; both in minimising inefficiencies in gathering audit evidence, and in discussing key issues with officers and resolving and concluding outstanding queries.

With Covid restrictions now lifted, we have considered our on-site working arrangements. We have been discussing this with PSAA and propose that where local government bodies continue to have a preference to undertake audits remotely, either fully or in part, that audit fees could be uplifted to reflect the inefficiencies that this would cause. For West Oxfordshire, we estimate this uplift to be in the region of £5,000.

These indicative fees are currently being discussed with the Chief Finance Officer. Our proposed work and fee for 2021/22, as set out below, is detailed overleaf.

	Final Fee 2020/21	Proposed fee 2021/22
West Oxfordshire District Council Audit	£35,527	£38,527
Additional fees at the planning stage	£22,750	£25,101
Total audit fees (excluding VAT)	£58,277	£63,628

Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of financial statements, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

Scale fee published by PSAA	£38,527
<i>Ongoing increases to scale fee</i>	
Increased challenge	£3,125
PPE Valuation	£688
Pensions IAS19	£688
Additional VFM	£9,000
Impact of ISA540	£2,100
Journals / Grants testing	£3,000
Local risk factors	£1,500
Remote working	£5,000
Total audit fees (excluding VAT)	£63,628

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

In this context, we disclose to you that during the early part of the 2019/20 financial year, the previous audit manager, applied for a job with Publica. Following the application process, she was successful and has now take up her new role. The role involves completion of accounting transactions and the preparation of the financial statements for West Oxfordshire District Council. As a result this has required us to put certain safeguards in place to ensure that we can continue with the audit appointment and comply with the ethical standards as a firm.

The safeguard has been agreed by our ethics function and is such that the audit with effect from 2020/21 has been conducted with a new engagement lead from the South West Office, but then with the remainder of the audit team being sourced from our Midlands Public Sector Team.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

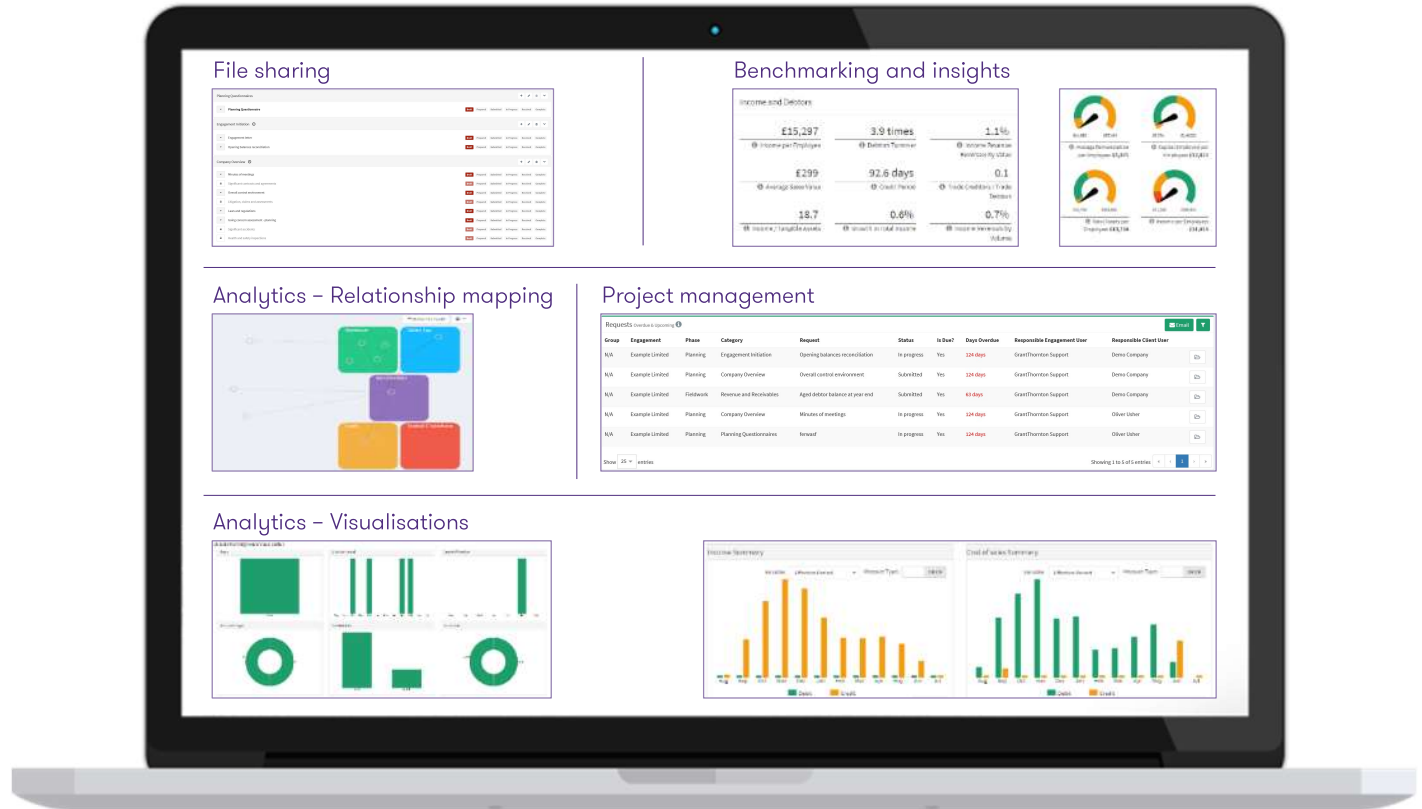
Other services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. We have not identified any other services.

Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:

Function	Benefits for you
Data extraction	Providing us with your financial information is made easier
File sharing	An easy-to-use, ISO 27001 certified, purpose-built file sharing tool
Project management	Effective management and oversight of requests and responsibilities
Data analytics	Enhanced assurance from access to complete data populations



Grant Thornton's Analytics solution is supported by Inflo Software technology

Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:



Data extraction

- Real-time access to data
- Easy step-by-step guides to support you upload your data



File sharing

- Task-based ISO 27001 certified file sharing space, ensuring requests for each task are easy to follow
- Ability to communicate in the tool, ensuring all team members have visibility on discussions about your audit, reducing duplication of work



Project management

- Facilitates oversight of requests
- Access to a live request list at all times



Data analytics

- Relationship mapping, allowing understanding of whole cycles to be obtained quickly
- Visualisation of transactions, allowing easy identification of trends and anomalies

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How will analytics add value to your audit?

Analytics will add value to your audit in a number of ways. We see the key benefits of extensive use of data analytics within the audit process to be the following:

Improved fraud procedures using powerful anomaly detection

Being able to analyse every accounting transaction across your business enhances our fraud procedures. We can immediately identify high risk transactions, focusing our work on these to provide greater assurance to you, and other stakeholders.

Examples of anomaly detection include analysis of user activity, which may highlight inappropriate access permissions, and reviewing seldom used accounts, which could identify efficiencies through reducing unnecessary codes and therefore unnecessary internal maintenance.

Another product of this is identification of issues that are not specific to individual postings, such as training requirements being identified for members of staff with high error rates, or who are relying on use of suspense accounts.

More time for you to perform the day job

Providing all this additional value does not require additional input from you or your team. In fact, less of your time is required to prepare information for the audit and to provide supporting information to us.

Complete extracts from your general ledger will be obtained from the data provided to us and requests will therefore be reduced.

We provide transparent project management, allowing us to seamlessly collaborate with each other to complete the audit on time and around other commitments.

We will both have access to a dashboard which provides a real-time overview of audit progress, down to individual information items we need from each other. Tasks can easily be allocated across your team to ensure roles and responsibilities are well defined.

Using filters, you and your team will quickly be able to identify actions required, meaning any delays can be flagged earlier in the process. Accessible through any browser, the audit status is always available on any device providing you with the information to work flexibly around your other commitments.

Appendix 1: Progress against prior year audit recommendations

We identified the following issues in our 2020/21 audit of the Council's financial statements, which resulted in 2 recommendations being reported in our 2020/21 Audit Findings Report. In the following table we set out progress against each of our prior year recommendations.

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Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
In progress	Disclosures relating to both critical judgements and estimation uncertainty lack the level of detail envisioned by IAS 540 and as described in the most recent FRC thematic review. The audit team recommended that management should consider working closely with experts to ensure more detailed disclosures can be provided in relation to both estimation uncertainty and critical judgements.	Disclosures were expanded in 2020/21 and reviewed again for 2021/22. We will review updates to disclosures during our audit fieldwork procedures in October to November.
In progress	Our audit testing identified a number of assets recorded in the asset register at nil net book value. While this has no bottom line impact in the accounts, it does suggest that officers need to review the UEL and determine whether they remain appropriate for the assets that are still recorded in the asset register.	Management agreed to review the UEL for the 2021-22 year. We will review updates to disclosures during our audit fieldwork procedures in October to November.



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