

Southampton City Council

Audit results report for the year ended 31 March 2014

September 2014

Ernst & Young LLP



Building a better
working world

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Governance Committee
Southampton City Council
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04 September 2014

Dear Members

Audit results report

We are pleased to attach our audit results report for the forthcoming meeting of the Governance Committee. This report summarises our preliminary audit conclusion in relation to Southampton City Council's (the Authority's) financial position and results of operations for the year ended 31 March 2014. We will issue our final conclusion after the Governance Committee scheduled for 15 September 2014

The audit is designed to express an opinion on the 2013/14 financial statements, reach a conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources, and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on the Authority's accounting policies and judgments and significant deficiencies in internal control.

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

A copy of this report will be sent to the Audit Commission in accordance with the requirements of its Standing Guidance.

We welcome the opportunity to discuss the contents of this report with you at the Governance Committee meeting scheduled on 15 September 2014.

Yours faithfully
For and on behalf of Ernst & Young LLP

Kate Handy
Audit Director
Ernst & Young LLP
United Kingdom
Enc.

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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the accountable officer of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

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

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

1. Overview of the financial statement audit

The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Authority reports publicly on the extent to which they comply with their own code of governance, including how they have monitored and evaluated the effectiveness of their governance arrangements in the year, and on any planned changes in the coming period. The Authority is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- ▶ Forming an opinion on the financial statements;
- ▶ Forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources; and
- ▶ Undertaking any other work specified by the Audit Commission.

We also report to the National Audit Office (NAO) under its group instructions.

Summarised below are the conclusions from all elements of our work:

Financial statements

Following the performance of the procedures outlined in our Audit Plan, we anticipate issuing an unqualified opinion on the Authority's financial statements. Our main findings in relation to the areas of risk included in our Audit Plan are set out below.

Significant risks

Localisation of Business Rates: Audit findings and conclusions

- ▶ The Council's accounting for the new business rate framework, and its disclosures, are in accordance with the CIPFA Code of Accounting Practice.
- ▶ The Council's provision benchmarks on the high side within its comparator groups. We have assessed the reasonableness of its methodology, and have not judged it to be an unreasonable estimation method.

Minimum Revenue Provision: Audit findings and conclusions

- ▶ The Council has made an adjustment of £3.9m, amending the amount charged and audited in prior years.
- ▶ Having reviewed the Council's previous accounting policies and MRP statements since 2007/08, we do not agree that it has previously made an error which supports this adjustment.
- ▶ Neither has the Council correctly accounted for such an adjustment under the accounting standard IAS8, failing to justify its materiality and make a full retrospective restatement as is required.
- ▶ We bring this to your attention as an uncorrected error.

Risk of Management Override: Audit findings and conclusions

- ▶ Our work has not identified indications of management override.
-

Control themes and observations

Our audit identified the following control issues that we are bringing to your attention.

Future challenges:

- ▶ There are changes in the finance team that could impact on the preparation of the financial statements. This may present a risk, but an opportunity for a fresh perspective to the preparation of the statements.
-

Summary of audit differences

Our audit identified a number of misstatements in the accounts presented for audit, as summarised below.

-
- ▶ Uncorrected misstatements decrease useable reserves by £3.9m.
 - ▶ Management have corrected other misstatements. The most significant were two separate adjustments amounting to a gross value of £4.5m; one to correct the non-removal of internal recharges within the Comprehensive income and expenditure statement, and the other a reclassification between reserves. These adjustments have not impacted on useable reserves.
-

Economy, efficiency and effectiveness

Following the performance of the procedures outlined in our Audit Plan, we anticipate issuing an unqualified value for money conclusion.

Whole of Government accounts

We have yet to complete the work required to issue our report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts. At this stage we have no issues to report.

Audit certificate

The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit Practice have been discharged for the relevant audit year. We expect to issue the audit certificate at the same time as the audit opinion, and by 30 September 2014.

2. Scope update

Our 2013/14 audit work has been undertaken in accordance with the Audit Plan that we issued on 14 April 2014 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

Our work comprises a number of elements. In our Audit Plan, we provided you with an overview of our audit scope and approach for the audit of the financial statements, our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, and the work that we are required to perform in respect of the Whole of Government Accounts return.

We carried out our work in accordance with our Audit Plan.

3. Significant findings from the financial statement audit

In this section of our report, we outline the main findings from our audit of your financial statements, including our conclusions in relation to the areas of risk outlined in our Audit Plan.

Areas of audit risk

Localisation of Business Rates

Description	Findings & Conclusion
<p>There have been significant changes in the arrangements for business rates from April 2013. The detailed accounting arrangements are not yet clear and this therefore presents a risk in terms of the financial statements.</p> <p>One of the main changes is that individual councils now need to provide for rating appeals. This includes not only claims from 1 April 2013 but claims that relate to earlier periods. As appeals are made to the Valuation Office, councils may not be aware of the level of claims. Councils may also find it difficult to obtain sufficient information to establish a reliable estimate.</p> <p>We planned to:</p> <ul style="list-style-type: none"> ▶ review the detailed accounting for business rates to ensure the Council's accounts are materially accurate and compliant with the CIPFA Code of practice; and ▶ review the Council's provision for business rate appeals to ensure it has been calculated on a reasonable basis in line with IAS37. As part of this we will ensure the provision is supported by appropriate evidence and that the level of estimation uncertainty is adequately disclosed in the accounts. 	<ul style="list-style-type: none"> ▶ The Council's accounting for the new business rates conforms to the guidance set out in CIPFA's Code of Practice. The level of estimation uncertainty is adequately disclosed in the required disclosures to the financial statements. ▶ The Council has undertaken a method to calculate the provision that takes account of both appeals raised to date and the potential for appeals not yet lodged, as appropriate to the relevant accounting standard. ▶ In benchmarking the value of the appeal provision, the Council does compare on the higher side in our comparator groups. We have assessed whether there is a clear indication of management bias from this comparative exercise, for example, acknowledging the potential incentive to increase the provision to achieve a safety net payment in 2014/15. Specifically, we have discussed with management why they have used an assumption of 7.3% of the total rateable value in their calculation, when their underlying calculations of historic trends show 6.99%. In our judgement management have not clearly explained a rationale for this element other than a general inclination towards prudence which is not a specifically recognised accounting concept. However, they can point towards some appeal settlements made after the balance sheet date that have been higher than estimated, illustrating the inherent uncertainty of this calculation. The impact of using 6.99% as opposed to 7.3% would not be material, and therefore, we accept the calculation as materially reasonable. ▶ Our overall judgement is that although benchmarking shows the Council's provision to be on the high side, based on the information provided, the Council has not taken an unreasonable approach to this estimate.

Minimum Revenue Provision

Description	Findings & Conclusion
<p>The Council has reviewed the calculation of its Minimum Revenue Provision (MRP) in previous years. Whilst this review is not complete the Council may be looking to make an adjustment to the MRP that has been made previously.</p> <p>If the Council made the adjustment, we planned to:</p> <ul style="list-style-type: none"> ▶ Assess the Council's previous practice against its stated accounting policies, the relevant regulations and DCLG guidance; and ▶ review whether there is an error that meets the requirements of IAS8, in order to support a prior year adjustment. 	<p>Assessment of the adjustment</p> <ul style="list-style-type: none"> ▶ The Council has made an adjustment to the calculated amounts of its MRP for previous years. The amount is £3.9m, relating back to 2007/08. ▶ We reviewed the Council's accounting policies in its previous statements of account, and also MRP statements made in its annual treasury management policies. ▶ In our judgement the action the Council had taken in prior years was consistent with both, and also in compliance with the relevant regulations and guidance from the DCLG. ▶ Therefore, we do not agree with the Council's view that an adjustment is appropriate. ▶ As such, we view the £3.9m adjustment relating to prior years to be a misstatement in 2013/14. ▶ We have discussed this issue during the audit, and have provided our views to the Council on two occasions during the year, before our final conclusion

was made having received the draft financial statements. Having sought our input, we are disappointed the Council has continued to implement the adjustment.

Accounting for the adjustment

- ▶ On a further matter of principle, neither has the Council properly made a consistent case with the requirements of IAS8 in accounting for the adjustment.
- ▶ In order to make a prior year adjustment there needs to be an error that is material. The Council has not made a case that it is material, in fact only stating that according to our planning materiality communicated to you in our Audit Plan, that the item is not material.
- ▶ Furthermore, in applying IAS8 for an error, the Council should retrospectively restate its financial statements. It has not done this, but solely netted off the £3.9m from its 2013/14 MRP calculation.

Audit Conclusion

- ▶ As we do not agree the Council has a prior period error to retrospectively adjust its financial statements, we have considered whether we judge this to be material to our opinion on your financial statements.
- ▶ Quantitatively, the £3.9m retrospective element is below our planning materiality level.
- ▶ We do not judge the item to be indicative of fraud, for example a deliberate intent to conceal a transaction, because the Council has clearly made reference to this in its narrative disclosures to the financial statements.
- ▶ We have reviewed the Council's arrangements to consider its ongoing compliance with relevant regulations, and judge that this has been appropriately considered by the Monitoring Officer and s151 officer.
- ▶ Therefore, we consider this individually to be a non-material uncorrected misstatement, which we highlight for the committee's consideration in its role in approving the financial statements.

Risk of Management Override

Description	Findings & Conclusion
<p>As identified in ISA (UK & Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>We planned to:</p> <ul style="list-style-type: none"> ▶ test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; ▶ review accounting estimates for evidence of management bias; and ▶ evaluate the business rationale for any significant unusual transactions. 	<ul style="list-style-type: none"> ▶ Some of this work is outstanding at the time of completing this report. ▶ Based on the work undertaken to date there are no indications of management override.

Other required issues to communicate.

ISA (UK&I) 260 and other ISAs specify certain other communication requirements in addition to the conclusions made on the areas of identified audit risk. We set out the relevant issues below.

Policy/practice/finding	EY comments
Provision of information to support the financial statements.	As part of our audit approach we use analytics tools to gain assurance on the total population of entries. We requested the provision of payroll information, which has not been provided. This has detrimentally impacted our audit approach. In future years, the Council needs to liaise with the payroll provider to ensure the provision of requested information is appropriately managed.
Qualitative aspects of financial reporting.	Local Government accounts are long and complex. The Council has made an attempt to 'cut the clutter' by reducing some non-statutory and non-material disclosures. There is scope for further reduction. Early in the preparation process the Council should establish its view of preparer materiality, and use this consistently across the statements to reduce any unnecessary content.

4. Economy, efficiency and effectiveness

The Code of Audit Practice 2010 sets out our responsibility to satisfy ourselves that the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Council's corporate performance management and financial management arrangements we have regard to the following criteria and areas of focus specified by the Audit Commission:

- ▶ Arrangements for securing financial resilience – whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future; and
- ▶ Arrangements for securing economy, efficiency and effectiveness – whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

The table below presents the findings of our work in response to the risk areas or areas of focus presented to you in our Audit Plan.

Risk	Impacts arrangements for securing:	Key findings:
Financial Pressures		
<p>The Council is facing financial pressures estimated at approximately £55m over the period 2014/15 to 2016/17. It reports it needs to fill this gap, through a combination of efficiency savings, income generation activities, and potentially service changes or reductions.</p> <p>The one-council transformation programme started in September 2013, to deliver and coordinate a change programme across the Council. This is one response from the LGA peer review in July 2013 for a need to take a coordinated approach across the Council to transformation, and to develop clear links to the financial planning process. We planned to focus our work on:</p> <ul style="list-style-type: none"> ▶ reviewing your 2014/15 annual budget, and medium term forecast assumptions; and ▶ understanding the new transformation programme, and assessing the extent to which it contributes to addressing the financial pressures. 	<p>Economy, efficiency and effectiveness</p> <p>Financial resilience</p>	<ul style="list-style-type: none"> ▶ The Council has put in place arrangements to achieve financial resilience. ▶ It has put in place a balanced 14/15 budget based on reasonable assumptions, and has a track record of delivering its budget and achieving identified service based savings. 2013/14 was achieved with a total reported £11.5m underspend, of which £6.2m was achieved within the portfolio services. ▶ Looking forward, the forecast underlying base challenge for the Council is a cumulative £75m budget gap up to 2017/18. This is a significant pressure and challenge for the Council. ▶ Processes are in place to address this gap, with budget amendments being brought through as identified during the 2014/15 year, with a focus on implementing those as soon as possible to maximise their effect on future periods. For example in July, savings are proposed with an annual effect of c.£8m savings for 15/16. ▶ Significantly the Council has put in place arrangements so that the savings are more clearly linked to the overall medium term aims and objectives of the Council that have been formally agreed as of July 2014. This includes the strategy to transform the delivery of the Council services. This provides the focus for the significant balance of savings to come from larger scale corporate projects that cut across how the Council undertakes its business, rather than smaller incremental reductions in the portfolio services. ▶ Although the Council has historically achieved its service-based savings, it does not yet have a track record of achieving this type of change programme. The programme is also an ongoing process, with elements continuing to be developed and delivered to an outline delivery timetable for the first tranches. As such, the scale of the savings achievable by the transformation programme are yet to be fully quantified and compared to the current overall forecast need. However, the programme has been specifically resourced, including being led by an officer

experienced in implementing change management programmes. There is provision in the financial plans to re-invest the 2013/14 savings and other funds into the programme and other infrastructural changes where these are required, for example in changing IT infrastructure, to enable differing ways of working and engagement with the public. There is a commitment to ongoing communication and progress updates with members.

- ▶ Officers are of the view that the transformation change is unlikely to achieve the full requirement, and challenges to the type and extent of current service spend will still be required to bridge the gap. These are ongoing processes that the Council is continuing with.
 - ▶ The development of the transformation programme will require the continuing commitment of both officers and members. The transformation programme and its resultant savings is likely to remain a focus of our work in future years.
-

5. Control themes and observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

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

5.1 Current year observations

We have no issues to report.

5.2 Status of previous year’s recommendations

There were no significant items in either our Annual Reports Report for 2012/13, or in our communications to management.

5.3 Challenges for the coming year

Description	Impact
<p>The Council is experiencing significant changes in senior positions within the Finance team.</p>	<p>The changes impact on the management team involved in the financial reporting processes. This may present a risk, but it also brings opportunities for a fresh perspective and ideas to the preparation process which may benefit the Council. For example, the Council takes a complex and time consuming approach to producing its financial statements, with multiple iterations using excel spreadsheets to provide the trail from the financial ledger to the draft statements. DCLG are currently consulting on the intent to bring forward the deadlines to produce the financial statements. This could be a significant challenge to the Council using its current methodology, but new perspectives may assist the efficiency of this process.</p>

6. Status of our work

6.1 Financial statement audit

Our audit work in respect of our opinion on the Council's financial statements is substantially complete. The following items relating to the completion of our audit procedures were outstanding at the date of this report.

Item	Actions to resolve	Responsibility
Substantive transaction testing for: ▶ Accuracy of recorded income and expenditure payments ▶ Year-end adjustment journals	▶ Completion of audit testing	EY
Consistency review of unusable reserves	▶ Completion of audit testing	EY
Payroll analytical review procedures	▶ Completion of audit testing	EY
Letter of representation	▶ To be discussed at Governance Committee on 15 September 2014.	Management and Governance Committee
Final financial statements	▶ Incorporation of EY review comments on disclosure notes ▶ Finalisation by management of disclosures ▶ Approval by the Governance Committee ▶ Accounts re-certified by CFO	Management, Governance Committee and EY
Whole of Government Accounts	▶ Review of consistency to the final audited financial statements ▶ Processing of any adjustments	▶ EY ▶ Management

On the basis of our work performed to date, we anticipate issuing an unqualified auditor's report in respect of the Council's financial statements. However, until we have completed our outstanding procedures, it is possible that further matters requiring amendment may arise.

6.2 Economy, efficiency and effectiveness

Our work in respect of our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is complete.

We expect to present an unqualified value for money conclusion in regard to the Authority's arrangements to ensure economy, efficiency and effectiveness in its use of resources.

6.3 Objections

As at the date of this report we have received no objections to the 2013/14 accounts from members of the public.

7. Fees update

A breakdown of our agreed fee is shown below.

	Proposed final fee 2013/14 £	Planned fee 2013/14 £	Scale fee 2013/14 £
Total Audit Fee – Code work	tbc	189,216	189,261
Certification of claims and returns	*	29,036	29,036
Non-audit work (provide details)	0	0	0

We are unable to confirm the audit fee at the time of drafting this report. Our work has been impacted by the non-delivery of the payroll information, and we have undertaken more work than expected on the significant risk for the minimum revenue provision. However, some of this may be offset by other efficiencies on the audit. We are unable to quantify the impact at this time, but will provide an update at the committee.

Fees for the auditor's consideration of correspondence from the public and formal objections are charged in addition to the scale fee.

**Our fee for certification of grants and claims is yet to be finalised for 2013/14 and will be reported to those charged with governance within the Annual Certification Report for 2013/14. The Audit Commission have adjusted the scale fee for 2013/14, previously reported in our audit plan at £35,800*

8. Summary of audit differences

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

There were some misstatements identified in the course of our audit that have been corrected by management. At the time of writing this report the most significant were two separate errors with a gross value of £4.5m; one impacting the Comprehensive income & expenditure statement where internal charging had not been removed, and the other a reclassification between reserves. Neither impact the usable reserves available to the Council.

A number of amendments to the various disclosure notes to the statements have also been made.

In addition we highlight the following misstatements which were not corrected by management:

Balance Sheet and Comprehensive Income and Expenditure Statement

	General Fund	Capital Adjustment Account (unusable reserves)	Income	Expenses
Uncorrected misstatements	Debit/ (Credit)	Debit/ (Credit)	Debit/ (Credit) Current period	Debit/ (Credit) Current period
Judgemental misstatements:				
▶ Minimum Revenue Provision	3,900,000	(3,900,000)	0	0
Balance sheet totals	3,900,000	(3,900,000)		
Income effect of uncorrected misstatements	0	0	0	0

There are no amounts that we identified that are individually, or in aggregate, material to the presentation and disclosures of the financial statements for the year ended 31 March 2014.

9. Independence confirmation: update

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 14 April 2014. We complied with the Auditing Practice's Board's Ethical Standards for Auditors and the requirements of the Standing Guidance and in our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Governance Committee on 15 September.

Appendix A Required communications with the Governance Committee

There are certain communications that we must provide to the Governance Committee. These are detailed here:

Required communication	Reference
Terms of engagement	The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies.
Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.	Audit Plan
Significant findings from the audit <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit results report
Misstatements <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	Audit results report
Fraud <ul style="list-style-type: none"> ▶ Enquiries of the Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	Enquiry made of the Committee chair in March 2014. Response received 02/09/2014
Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	No issues arising to report.
External confirmations <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	No issues arising to report.

Required communication	Reference
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Governance committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Governance committee may be aware of 	<ul style="list-style-type: none"> ▶ No issues arising to report. ▶ Enquiry made of the Committee chair in March 2014. Response received 02/09/2014
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	<p>Audit Plan and update in section 9 of this report</p>
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	<p>No issues arising to report.</p>
<p>Significant deficiencies in internal controls identified during the audit</p>	<p>No issues arising to report.</p>
<p>Fee reporting</p> <ul style="list-style-type: none"> ▶ Final, planned and scale fee broken down into the headings of Code audit work; certification of claims and returns; and any non-audit work (or a statement to confirm that no non-audit work has been undertaken for the body). 	<p>Audit Plan and Audit results report</p>

Appendix B Letter of representation

[To be prepared on the entity's letterhead]

[Date]

Ernst & Young
Wessex House,
19 Threefield Lane,
Southampton SO14 3QB

This representation letter is provided in connection with your audit of the financial statements of Southampton City Council ("the Council") for the year ended 31 March 2014. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of Southampton City Council as of 31 March 2014 and of its expenditure and income for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

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

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

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations (England) 2011 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.
2. We acknowledge, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, and of its expenditure and income of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. We believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 that are free from material misstatement, whether due to fraud or error.

We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences

identified by and brought to the attention from the auditor because [*specify reasons for not correcting misstatement, including if relevant "We do not agree that items [specify items in question] constitute differences because [specify reasons for disagreement."*]

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have disclosed to you all significant facts relating to any frauds, suspected frauds or allegations of fraud known to us that may have affected the Council (regardless of the source or form and including, without limitation, allegations by "whistle-blowers"), whether involving management or employees who have significant roles in internal control. Similarly, we have disclosed to you our knowledge of frauds or suspected frauds affecting the entity involving others where the fraud could have a material effect on the financial statements. We have also disclosed to you all information in relation to any allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators or others, that could affect the financial statements.

C. Compliance with Laws and Regulations

1. We have disclosed to you all known actual or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement.
 - Additional information that you have requested from us for the purpose of the audit and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council, and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: [*list date*].
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

5. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

E. Liabilities and Contingencies

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

F. Subsequent Events

1. Other than described in Note 7 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Accounting Estimates

1. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
2. For accounting estimates recognised or disclosed in the financial statements:
 - We believe the measurement processes, including related assumptions and models, we used in determining accounting estimates is appropriate and the application of these processes is consistent.
 - The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.
 - The assumptions we used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
 - No subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

H. Retirement benefits

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

I. Comparative information – corresponding financial information

1. prior year adjustments have been included in the financial statements to implement the revised IAS19 in accordance with the CIPFA/LASAAC Code of Practice on Local

Authority Accounting in the United Kingdom 2013/14.

The comparative amounts have been correctly restated to reflect the above matter(s) and appropriate note disclosure of this restatement has also been included in the current year's financial statements.

J. Use of the Work of an Expert

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

Yours Faithfully,

Chief Finance Officer

I confirm that this letter has been discussed and agreed at the Governance Committee on 15 September 2014

Chairman of Governance Committee

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