

Southampton City Council

Governance Committee Progress Report

December 2015



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working world

Governance Committee
Southampton City Council
Civic Road
Southampton
SO14 7LY

3 December 2015

Dear Committee Member

Audit Progress Report

We are pleased to attach our Audit Progress Report.

The purpose of this report is to provide the Committee with an overview of the final position against the Council's 2014/15 audit plan, and our initial plans for the 2015/16 audit. This report is a key mechanism in ensuring that our audit is aligned with the Committee's service expectations.

Our audit is undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

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

Yours faithfully

Helen Thompson
Executive Director
For and behalf of Ernst & Young LLP

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ‘Statement of responsibilities of auditors and audited bodies 2015-16’. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

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

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This progress update is prepared in the context of the Statement of responsibilities. It is addressed to the Governance Committee, and is prepared for the sole use of the audited body. 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..

2014/15 audit

At the Governance Committee on 14 September 2015 we presented our audit results report for the year ended 31 March 2015. The report summarised our preliminary audit conclusion in relation to Southampton City Council's (the Council's) financial position and results of operations for the year ended 31 March 2015. We notified you that we would issue our final conclusion after the Governance Committee scheduled for 14 September 2015.

We can confirm that on 28 September 2015 we issued an unqualified opinion on the Council's financial statements and an unqualified opinion on the arrangements the Council has made for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion). We completed our work on the whole of government accounts, and had no issues to report to the National Audit Office.

At the Governance Committee on 14 December 2015 we will present our Annual Audit Letter 2014/15. This communicated our final conclusions and any key issues from our audit work in 2014/15.

We would like to take this opportunity to thank officers and Members for their assistance during the course of this work.

2015/16 audit

Fee letter

We issued our 2015/16 fee letter to the Council on 24 April 2015.

Financial Statements

We adopt a risk based approach to the audit and, as part of our ongoing continuous planning, we will continue to meet key officers regularly to ensure the 2015/16 audit runs as smoothly as possible and to identify any risks and technical accounting issues that require our consideration at the earliest opportunity.

We have agreed to attend a finance team away day in January 2016 as part of our joint working with officers to improve the accounts closedown and audit process.

Planning and interim visit

We are scheduled to complete our initial planning work, including the walkthrough of the key financial systems in December 2015/January 2016.

There are no significant matters arising from our initial planning meetings that we need to bring to your attention at this stage. We are continuing to liaise with officers on their plans in relation to the new requirements for transport infrastructure assets.

We will update the Committee when the testing of controls and early substantive testing has been completed.

Internal Audit

Internal Audit is a key part of the Council's internal control environment that we review during our assessment process. This process helps us to assess the level of risk of material errors occurring in the financial statements and informs the level of testing that we are required to complete in support of the audit opinion. We consider Internal Audit's progress with their annual audit plan and the results of their testing of financial systems and, where it is appropriate to do so, we will undertake procedures to enable us to place reliance upon this testing.

Post statements visit

We are in the process of finalising the exact dates for our audit visit, and we will have early discussions on the working papers required in support of the audit.

Our detailed audit plan, setting out the risks we have identified and the work we will undertake in response, will be presented to the Governance Committee in April 2016.

We will continue to use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular payroll and journal entries.

We will also review and report to the National Audit Office, to the extent and in the form required by them, on your whole of government accounts return.

Value for money

The NAO has consulted on a draft Auditor Guidance Note (AGN) in respect of auditors' work on value for money (VFM) arrangements. The guidance has now been issued and sets out the proposed overall approach to work on VFM arrangements which apply to audits from 2015/16 onwards.

A copy of the final AGN, and the supporting information for local government bodies, can be viewed on the NAO website: <http://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/>.

We are required to reach our statutory conclusion on arrangements to secure value for money based on the overall evaluation criterion, supported by sub-criteria as set out below.

The overall criterion for 2015/16 is:

- ▶ In all significant respects, you had proper arrangements to ensure you took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

And the sub criteria are:

- ▶ informed decision making;
- ▶ sustainable resource deployment; and
- ▶ working with partners and other third parties.

We will carry out our initial risk assessment in early 2016 and report the risks we have identified, and associated work we will carry out, to the Governance Committee in April 2016.

Local appointment of auditors

The Department of Communities and Local Government (DCLG) has announced that it has decided not to extend the existing arrangements for external audit contracts beyond the end of 2017/18. From 2018/19 onwards, local authorities will be responsible for appointing their own auditors, and directly managing the resulting contract and the relationship.

Although the new approach to local audit does not come into play until 2018/19, bodies will need to start putting in place the mechanism required to deliver this. As part of the process, bodies will need to set up auditor panels to advise on the selection, appointment and removal of external auditors, and on maintaining an independent relationship with them. These will need to be in place by early 2017, with the procurement process taking place in spring 2017 and external auditors being appointed by December 2017.

Existing external audit arrangements will remain unchanged for the 2015/16, 2016/17 and 2017/18 years.

Other issues of interest

In addition to our formal reporting and deliverables we provide practical business insights and updates on regulatory matters through our Sector Briefings.

Timetable

We set out below a timetable showing the key stages of the audit, including the value for money work, and the deliverables we will provide to you through the 2015/16 Governance Committee cycle.

Audit phase	EY Timetable	Deliverable	Reported	Status
High level planning	Ongoing	Audit Fee Letter	Issued 24 April 2015	Completed
Risk assessment and setting of scope of audit	Dec 2015 - January 2016	Audit Plan	April 2016	In progress
Testing of routine processes and controls	Feb-March 2016	Progress Report	April 2016	
Year-end audit	August- September 2016	Audit results report to those charged with governance Audit report (including our opinion on the financial statements and a conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources) Whole of Government Accounts Submission to NAO based on their group audit instructions Audit Completion certificate	August 2016	Work is planned to start during June 2016.

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