

Southampton City  
Council  
Audit results report  
Year ended 31 March 2019

September 2019

19 September 2019



Dear Governance Committee Members

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 the audit of Southampton City Council for 2018/19. We will issue our final report following the Governance Committee meeting scheduled for 30 September 2019.

We have substantially completed our audit of Southampton City Council for the year ended 31 March 2019.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at section 3. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources

This report is intended solely for the use of the Governance Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Governance Committee meeting on 30 September 2019.

Yours faithfully

A handwritten signature in black ink that reads "Helen Rowan". The signature is fluid and cursive.

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

# Contents



Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psa.co.uk](http://www.psa.co.uk)). This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

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

This Audit 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.





# 01 Executive Summary

# Executive Summary

## Scope update

In our audit planning report tabled at the 11 February 2019 Governance Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

- Changes in materiality: We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our materiality measure of 1.8% of gross expenditure on provision of services, we have updated our overall materiality assessment to £11.78m (audit planning report – £11.55m). This results in updated performance materiality, at 75% of overall materiality, of £8.84m, and an updated threshold for reporting misstatements of £0.589m.

A summary of our approach to the audit of the balance sheet including any changes to that approach from the prior year audit is included in Appendix A.

## Status of the audit

We have substantially completed our audit of Southampton City Council's financial statements for the year ended 31 March 2019 and have performed the procedures outlined in our audit planning report. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise:

- Property, Plant and Equipment, including additions – see section 2 for status update
- Income and Expenditure – samples selected, bulk of evidence has been provided with remainder being collated, and testing is in progress
- Payroll – work is well progressed, residual documentation is in progress
- Capital grants receipts in advance – work is ongoing
- Disclosures – work is substantially complete, residual documentation is in progress
- Journal Entry testing – work is ongoing
- General audit procedures – work is ongoing

## Executive Summary

### Status of the audit (continued)

The following are also outstanding or are to be completed as part of the conclusion of the audit:

- completion of our audit conclusion procedures
- review of the final version of the financial statements
- completion of subsequent events review
- receipt of the signed management representation letter
- completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission

We do not expect to issue the audit certificate at the same time as the audit opinion as we will not complete work on the Authority's WGA submission prior to 30 September 2019. We have notified the NAO of the delay to our WGA work. The audit certificate will be issued once this work is complete.

### Audit differences

We identified one unadjusted audit difference in the draft financial statements which management has chosen not to adjust. This is in relation to the assumptions used by the actuary of Hampshire Pension Fund to determine their estimate of the Council's defined benefit pension liability. We ask that a rationale as to why it is not corrected be approved by the Governance Committee and included in the Letter of Representation. The aggregated impact of unadjusted audit differences is £2.6m. We agree with management's assessment that the impact is not material.

One adjusted audit difference exceeding our performance materiality is noted in section 4, in relation to property, plant and equipment not subject to revaluation in 2018/19. The value of this adjustment is £46.4m. A small number of other disclosure errors have been identified as a result of our work to date, and have been corrected.

As our audit work is ongoing at the time of writing this report, further adjusted and unadjusted misstatements may be identified. We will update the Governance Committee at the meeting on 30 September 2019 if we identify any issues from the work that remains outstanding at the time of writing this report.

# Executive Summary

## Areas of audit focus

Our audit planning report identified key areas of focus for our audit of Southampton City Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Areas of Audit Focus" section of this report. The areas of focus were as follows:

- Risk of fraud in revenue and expenditure recognition: inappropriate capitalisation of revenue expenditure - no issues have been identified from our work to address this risk at the time of writing this report.
- Misstatements due to fraud or error - no issues have been identified from our work to address this risk at the time of writing this report.
- Valuation of Land and Buildings and Investment Property - our work to date has identified one audit difference above our reporting threshold, with a value of £46.4m. This has been adjusted by management.
- PFI accounting - no issues have been identified from our work to address this risk at the time of writing this report.
- Pension Liability Valuation - our work identified one audit difference, with a value of £2.6m, which is judgmental in nature and has not been adjusted by management.
- New Accounting Standards - no issues have been identified from our work to address this risk.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Governance Committee.

## Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.

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

There are no matters we wish to report.

# Executive Summary

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## Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. We identified one significant risk to our value for money conclusion, in relation to arrangements around contracting and procurement, following on from the issues which gave rise to the qualification of our value for money conclusion in 2017/18.

We have reviewed the improvements in arrangements in this area in 2018/19, relying principally on work undertaken by internal audit, and have concluded that sufficient improvements have been made to mean that our conclusion for 2018/19 will be unmodified. We therefore have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.

## Other reporting issues

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

We will perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission following the completion of the financial statements audit and provide an update to the Committee on the outcome of this work. This does not affect our ability to sign the audit opinion on your financial statements following the Committee on 30 September 2019.

We have no other matters to report.

## Independence

Please refer to Section 9 for our update on Independence. We have no independence issues to report.





## 02 Areas of Audit Focus

## Significant risk

### Risk of fraud in revenue and expenditure recognition – inappropriate capitalisation of revenue expenditure

#### What is the risk?

Under ISA (UK) 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We assessed that the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure, leading to overstatement of Property, Plant and Equipment (PPE) and/or Investment Property (IP) in the Balance Sheet, and understatement of expenditure in the Comprehensive Income and Expenditure Statement.

The value of PPE additions in 2018/19 was £77m, and the value of IP additions was £7.1m.

#### What judgements are we focused on?

Our work has focussed on any judgements exercised in determining whether expenditure is capital in nature, and therefore appropriate to be capitalised rather than charged to the Comprehensive Income and Expenditure Statement.

#### What did we do?

Our approach focused on:

- We selected a sample of additions, using lowered testing thresholds, to test and confirm the item was appropriate to capitalise through agreement to evidence such as invoices and capital expenditure authorisations.
- When performing journals testing, we challenged entries that could be indicative of inappropriate capitalisation, such as any significant journals transferring expenditure from non-capital codes to PPE/IP additions or from revenue to capital codes on the general ledger at the end of the year.

#### What are our conclusions?

Our sample testing of additions did not identify any issues with the appropriateness of capitalisation of expenditure.

Our documentation of our work on journals is ongoing at the time of writing this report. We will provide an update to the Governance Committee on 30 September 2019.



## Significant risk

### Misstatements due to fraud or error

#### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We identify and respond to this fraud risk on every audit engagement.

#### What judgements are we focused on?

Our assessment of risk led us to create a series of criteria for the testing of journals, focusing specifically on areas that could be open to management manipulation. We have also focused specifically on capitalisation of expenditure as a potential area of manipulation, which is recorded as a separately identified significant risk on the previous page of this report.

Our work on estimates focussed on PPE and Investment Property valuation, IAS19 pension estimates, and PFI valuation, which we have identified as areas of higher inherent risk. Our findings on these areas are set out on the subsequent pages in this section of our report.

#### What did we do?

Our approach focused on:

- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.
- Assessing accounting estimates for evidence of management bias.
- Evaluating the business rationale for significant unusual transactions.

Further to this, we have:

- Inquired of management about risks of fraud and the controls put in place to address those risks, as well as gaining an understanding of the oversight given by those charged with governance of management's processes over fraud.
- Considered the effectiveness of management's controls designed to address the risk of fraud.

#### What are our conclusions?

Our work in relation to this risk is ongoing at the time of writing this report. To date:

- We have not identified any evidence of material management override.
- We have not identified any instances of inappropriate judgements being applied or other management bias both in relation to accounting estimates and other balances and transactions.
- We have not identified any other transactions which appeared unusual or outside the Authority's normal course of business

We will provide an update at the meeting of the Governance Committee on 30 September 2019.





## Areas of Audit Focus

### Other areas of audit focus

#### Valuation of Land and Buildings and Investment Property

##### What is the risk?

The fair value of Property, Plant and Equipment (PPE) and Investment Property (IP) represent significant balances in the Authority's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

The net book value of PPE in the draft accounts at 31/03/2019 was £1.37bn, and the value of IP was £135m.

##### What did we do?

We:

- Considered the work performed by the Authority's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Tested on a sample basis the accuracy of information used by the valuer in performing their valuations (for example floor plans to support valuations based on price per square metre) and challenged the valuer's key assumptions.
- Considered the annual cycle of valuations to ensure that assets have been valued within a suitable rolling programme as required by the Code for PPE, and annually for Investment Property.
- Reviewed assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated.
- Confirmed that accounting entries have been correctly processed in the financial statements.

##### What are our conclusions?

We have substantially completed our programme of work on PPE and IP valuations. No issues have been identified from our consideration of the work of the valuer, review of the annual cycle of valuations, or review of accounting entries.

We are awaiting an assessment from our internal valuations specialists with regard to the valuation of the Authority's investment property asset at West Quay, in relation to the subjective evaluation of tenants and leases factored into the valuation. We will provide a further update on this at the meeting of the Governance Committee on 30 September 2019. No other issues have been identified from our sample test of valuations.

Our work to review assets not revalued in 2018/19 has identified a £53.1m understatement of the value of PPE. The main categories of assets impacted are schools and car parks, which were understated by £46.4m. These have been adjusted in the final version of the financial statements. We are satisfied that the PPE balance is materially correct following this adjustment. This is also reported in section 4.



## Areas of Audit Focus

### Other areas of audit focus

#### PFI accounting

##### What is the risk?

The Authority has two PFI arrangements which are material to our audit. PFI accounting is a complex area, and a detailed review of these arrangements was undertaken by our internal specialist in 2017/18. We will review the accounting entries and disclosures in relation to PFI in detail in 2018/19, with a focus on the correction of the non-material audit differences identified in 2017/18, any significant changes since the specialist's review.

The total finance lease liability for PFIs was £54m at 31/03/2019, and the value of PFI assets was £66m.

##### What did we do?

We:

- Reviewed assurances brought forward from prior years regarding the appropriateness of the PFI financial models.
- Reviewed the PFI financial models for any significant changes.
- Ensured the PFI accounting models had been updated for any service or other agreed variations and confirmed consistency of current year models with prior year brought forward assurances.
- Agreed outputs of the models to the accounts, and reviewed the completeness and accuracy of disclosures; and
- Reviewed the correction of non-material audit differences identified in 2017/18 which were expected to be corrected this year.

##### What are our conclusions?

We have reviewed brought forward assurances, reviewed the PFI models for significant changes, and ensured appropriateness of any updates and consistency of current year models with the prior year. We have also agreed the outputs of the models to the accounts and reviewed the correction of non-material audit differences identified in 2017/18,

No issues with PFI accounting have been identified from this work.





## Areas of Audit Focus

### Other areas of audit focus

#### Pension Liability Valuation

##### What is the risk?

The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council. The Authority's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Authority's balance sheet. The information disclosed is based on the IAS 19 report issued to the Authority by the actuary to the County Council.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

The net pension liability in the draft accounts at 31 March 2019 was £445m.

##### What did we do?

We:

- Liaised with the auditors of Hampshire County Council Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Southampton City Council.
- Assessed the work of the Pension Fund actuary (Aon Hewitt) including the assumptions they used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all local government sector auditors, and considering any relevant reviews by the EY actuarial team.
- Reviewed and tested the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19.

##### What are our conclusions?

We have substantially completed our programme of work on the pension liability valuation.

As a result of this work, we have identified one unadjusted audit difference, arising from a review of the assumptions used by the pension fund actuary. Specifically, the actuary did not make an allowance for Guaranteed Minimum Pension in their assumptions, on the basis that this would not be material. We agree with this assessment with regard to materiality, but as the potential impact is assessed through our work as being £2.6m, and this is above our reporting threshold, we are required to bring it to your attention. This is also reported in section 4 and has been included in the Letter of Representation.

In addition, we have reviewed the revised IAS19 report and related updates to the financial statements arising from the McCloud/Sargeant case, which has been treated as an adjusting post balance sheet event in the final version of the accounts. No issues have been identified from this work.



## Areas of Audit Focus

### Other areas of audit focus

#### New Accounting Standards

##### What is the risk?

IFRS 9 (Financial Instruments) and IFRS 15 (Revenue from contracts) apply from 1 April 2018.

IFRS 9 will change:

- How financial assets are classified and measured;
- How the impairment of financial assets are calculated; and
- The disclosure requirements for financial instruments.

There are transitional arrangements within the standard; and the 2018/19 CIPFA Code of Practice on Local Authority Accounting provides guidance on the application of IFRS 9.

The key requirements of IFRS 15 cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations. The 2018/19 CIPFA Code of practice on local authority accounting provides guidance on the application of IFRS 15. The impact on local authority accounting is likely to be limited as large revenue streams like council tax, non domestic rates and government grants will be outside the scope of IFRS 15. However where that standard is relevant, the recognition of revenue will change and new disclosure requirements introduced.

##### What did we do?

We assessed the Authority's implementation arrangements and accounting for both standards in 2018/19.

Specifically, for IFRS 9, we:

- Considered the classification and valuation of financial instruments.
- Reviewed the implementation of the new expected credit loss (ECL) model impairment calculations for assets.
- Checked additional disclosure requirements for compliance with the CIPFA Code.

##### What are our conclusions?

The Authority was able to demonstrate that implementation of IFRS 15 had no material impact on its financial reporting arrangements.

For IFRS 9 we are satisfied that:

- Required changes to the classification and accounting for financial instruments were made correctly.
- An ECL model has been used to determine potential impairments or provisions necessary for financial assets.
- CIPFA Code disclosure requirements have been met.



## Areas of Audit Focus



### Other matters

The Code requires the Authority to make preparations for the implementation of another new accounting standard for 2020/21, namely IFRS 16 – Leases. There is an inherent risk in relation to implementing new accounting standards and carrying out a sufficient assessment and evaluation.

IFRS 16 replaces IAS 17 Leases and its related interpretations. It will apply to the 2020/21 financial statements. The changes introduced by the standard will have substantial practical implications for local authorities that currently have material operating leases, and are also likely to have an effect on the capital financing arrangements of the authority.

We will consider the Authority's implementation plan and preparedness for IFRS 16 as part of next year's audit and report to the Governance Committee if we have any concerns in this regard.

In addition, changes have been made to the CIPFA/LAASAC Code for 2019/20, as noted below:

- The revised IASB Conceptual Framework for Financial Reporting (Conceptual Framework), the main elements being (2019/20 Code Cpt 2.1 refers);
  - new definitions of assets, liabilities, income and expenses
  - updates for the inclusion of the recognition process and criteria and new provisions on de-recognition
  - enhanced guidance on measurement bases
- Guidance in the treatment of the Apprenticeship Levy (2019/20 Code Cpt 2.11 refers)
- Updated guidance on IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation & LOBOs (2019/20 Code Cpt 2.11 refers)
- Clarifications for the disclosure requirements with respect to interests in entities within the scope of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (2019/20 Code Cpt 9 refers).



# 03 Audit Report



# Audit Report

## Draft audit report

### Our draft opinion on the financial statements

#### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTHAMPTON CITY COUNCIL

##### Opinion

We have audited the financial statements of Southampton City Council for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The financial statements comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet, Cash Flow Statement, the related notes 1 to 40 and Expenditure and Funding Analysis, the Collection Fund and the related notes 1 to 4, the Housing Revenue Account, Movement on the HRA Statement and the related notes 1 to 5.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial position of Southampton City Council as at 31 March 2019 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

##### Basis for opinion

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

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

##### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Section 151 Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Section 151 Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.





# Audit Report

## Draft audit report

### Our draft opinion on the financial statements

#### Other information

The other information comprises the information included in the 2018/19 Financial Statements set out on pages 3 to 21 and 110 to 124, other than the financial statements and our auditor's report thereon. The Section 151 Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

#### Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General in November 2017, we are satisfied that, in all significant respects, Southampton City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

#### Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Authority;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.



# Audit Report

## Draft audit report

### Our draft opinion on the financial statements

#### Responsibility of the Section 151 Officer

As explained more fully in the Statement of Responsibilities set out on page 22, the Section 151 Officer is responsible for the preparation of the Financial Statements, which includes 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 2018/19, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Section 151 Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

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

#### Auditor's responsibilities for the audit of the financial statements

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether Southampton City Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Southampton City Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.



# Audit Report

## Draft audit report

### Our draft opinion on the financial statements

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

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

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion. Until we have completed these procedures we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

### Use of our report

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

Helen Thompson (Key Audit Partner)  
Ernst & Young LLP (Local Auditor)  
Southampton



# 04 Audit Differences





## Audit Differences

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

### Summary of adjusted differences

We highlight the following misstatements greater than £8.84m identified during the course of our audit to date which have been amended in the final version of the financial statements:

- Our work to review assets not revalued in 2018/19 has identified a £53.1m understatement of the value of Property, Plant and Equipment. The main categories of assets impacted are schools and car parks, which were understated by £46.4m. These two categories of asset have been adjusted in the final version of the financial statements. We are satisfied that the PPE balance is materially correct following this adjustment.

### Summary of unadjusted differences

We report to you any uncorrected misstatements greater than our nominal value of £0.589m.

There is one uncorrected misstatement to bring to your attention relating to the IAS 19 defined benefit pension liability. Guaranteed Minimum Pension (GMP) is a portion of pension that was accrued by individuals who were contracted out of the State Second Pension prior to 6 April 1997. All public service schemes, including the Local Government Pension Scheme were contracted out. The Authority's actuary, Aon Hewitt, has not estimated the potential IAS 19 accounting liability of full GMP indexation (and equalisation) for members in its valuation of the defined benefit pension liability for the Authority. We have estimated the impact of this, on a judgemental basis, to be an understatement of the pension liability of approximately £2.6m.

As noted above, £6.7m of the total £53.1m understatement of Property, Plant and Equipment has not been adjusted, but we are satisfied that the balances in the audited financial statements are materially correct following the adjustment made.

As our audit work is ongoing at the time of writing this report, further adjusted and unadjusted misstatements may be identified. We will provide an update at the Governance Committee meeting on 30 September 2019.





05

## Value for Money Risks



## Background

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

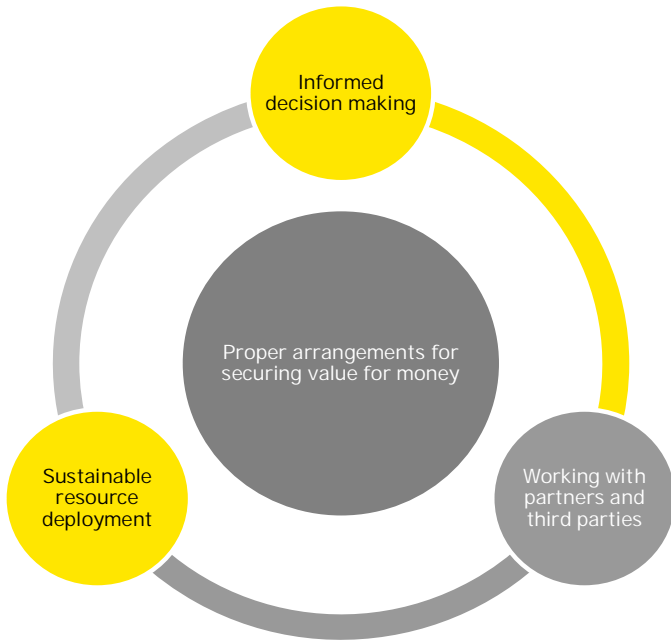
For 2018/19 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

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

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

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.



## Overall conclusion

We identified one significant risk around these arrangements, in relation to contracting and procurement processes and compliance, following on from the issues which gave rise to the qualification of our 2017/18 value for money conclusion. The table below presents our findings in response to the risk in our audit planning report and any other significant weaknesses or issues we want to bring to your attention.

We expect having no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.



## Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The section below presents the findings of our work in response to the risks area in our audit planning report. No further risks were identified during the course of our audit.

### What is the significant value for money risk?

Compliance with both procurement and contracting policies as part of a sound system of internal control.

Our value for money conclusion in 2017/18 was qualified “except for” as a result of the identification of significant levels of non-compliance with the Authority’s procurement rules. As the process of addressing the underlying issues has been ongoing through 2018/19, we consider that this remains an area of risk for our value for money conclusion this year. We will therefore seek to evaluate the strength and effectiveness of the measures the Authority has put in place through our value for money work in 2018/19.

### What arrangements did the risk affect?

Informed decision making

### What did we do?

Our work focussed on seeking assurance that the measures which have been introduced and reinforced in response to the adverse findings reported in 2017/18 are robust, and that effective controls are now in place to prevent, detect and correct non compliance. We have liaised with Internal Audit to ensure we have taken into account the findings of their follow up work in this area.



## Value for Money Risks

### What are our findings?

Progress has been made in strengthening the Authority's arrangements with regard to procurement and contracting in 2018/19.

New controls have been created within the Authority's Agresso financial system to help ensure that all spend under £100k is notified to the sub-£100k procurement team, is linked to an approved contract where relevant, and that all related contracts are included within the Authority's contracts register.

A number of key forms and templates required for the procurement process have been significantly simplified, to help ensure timely completion of procurement processes.

The issues with regard to three specific contracts identified through the work of Internal Audit in 2017/18 have been addressed and the related spend is now compliant with the Authority's procurement rules. There has been a further general improvement in compliance levels as reported to the Governance Committee during 2018/19.

We acknowledge that there is further work to be done to improve compliance levels further, and processes are yet to be designed and implemented to ensure compliance for spend which comes through the Authority's feeder systems rather than directly through Agresso. However, this spend comprises a relatively small percentage of the Authority's overall expenditure.

We will continue to review reporting to the Governance Committee on this issue in future, and the findings of a further follow-up review by Internal Audit planned for 2019/20. However, we are satisfied that sufficient improvements to arrangements have been made in 2018/19 for our value for money conclusion to be unmodified.





## 06 Other reporting issues



## Other reporting issues

### Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the 2018/19 Financial Statements with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the 2018/19 Financial Statements and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

### Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We do not plan to complete the procedures required by the National Audit Office (NAO) on the WGA submission until after issuing our audit opinion, We have notified the NAO of the delay to our WGA work. The audit certificate will be issued once this work is complete. We will provide a further update to the Governance Committee when this work is completed.

## Other reporting issues

### Other powers and duties

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

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

### Other matters

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

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

We have no other matters to report at the time of writing this report. We will provide a further update if required at the meeting of the Governance Committee on 30 September 2019.



07

## Assessment of Control Environment



# Assessment of Control Environment

## Financial controls

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

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have not tested the operation of controls.

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

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.





# 08 Data Analytics





# Use of Data Analytics in the Audit

## Data analytics – Income & expenditure testing, payroll testing and journals

### Analytics Driven Audit

#### Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2018/19, our use of these analysers in the Authority's audit included selecting samples for general income and expenditure testing, testing payroll costs, and identifying and focusing our journals testing on those entries we deemed to have the highest inherent risk to the audit.

We captured the data through our formal data requests and the data transfer took place on a secured EY website. The transfer methodology is in line with our EY data protection policies, which are designed to protect the confidentiality, integrity and availability of business and personal information.

#### Journal Entry Analysis

We obtained downloads of all of the Authority's financial ledger transactions posted in the year. We performed completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then reviewed and sorted transactions, allowing us to more effectively identify and test journals that we considered to be higher risk, as identified in our audit planning report.

#### Payroll Analysis

We also used our analysers in our payroll testing. We obtained all payroll transactions posted in the year from the General Ledger and performed procedures to understand the data and identify unusual items. We also reconciled the GL amount to the payroll subledger. We then analysed the data against a number of specifically designed procedures.



09

# Independence

## Confirmation



We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 31 January 2019.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. 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 which you should review, as well as us. It is important that you and your Governance Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Governance Committee on 30 September 2019.

# Independence



## Relationships, services and related threats and safeguards



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

There are no relationships from 01 April 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

### Services provided by Ernst & Young

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2019 in line with the disclosures set out in FRC Ethical Standard and in statute.

We confirm that none of the services recorded has been provided on a contingent fee basis.

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

# Independence

## Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2019.

We confirm that we have not undertaken non-audit work outside the NAO Code requirements in 2018/19.

	Final Fee 2018/19	Planned Fee 2018/19	Scale Fee 2018/19	Final Fee 2017/18
	£	£	£	£
Total Audit Fee – Code work (note 1)	TBC	109,891	109,891	154,362
Non-audit work: Housing Benefit subsidy claim certification (note 2)	N/A	N/A	N/A	19,524

All fees exclude VAT

Note 1: As our audit is ongoing at the time of writing this report, issues may arise which could lead to additional fee being sought. The only such matter identified to date is as follows:

As we are no longer the reporting accountant for the Council's housing benefit subsidy claim, we needed to undertake work as part of the financial statements audit which we would previously have performed as part of certifying the housing benefit claim and used for both engagements. This work would previously have been covered by the fee for the housing benefit certification. As such, we are proposing an additional fee of £382 for this work. The proposed additional fee remains subject to agreement with management and PSAA.

Note 2: The Authority has appointed a new reporting accountant for the 2018/19 housing benefit subsidy claim.





# 10 Appendices

## Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit. The audit approach to all material balance sheet items is shown.

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

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

## Appendix A

Balance sheet category	Audit Approach in current year	Audit Approach in prior year	Explanation for change
Property, Plant and Equipment	Substantively test all relevant assertions	Substantively tested all relevant assertions	No change in audit approach from prior year
Heritage Assets			
Investment Property			
Intangible Assets			
Long Term Investments			
Short Term Investments			
Short Term Debtors			
Cash & Cash Equivalents			
Short Term Borrowing			
Short Term Creditors			
Provisions (short and long term)			
Long Term Creditors			
Deferred Liabilities			
Capital Grants and Contributions Receipts in Advance			
Long Term Borrowing			
Pension Fund Liability			
Usable Reserves			
Unusable reserves			

## Appendix B

# Summary of communications

Date	Nature	Summary
06/11/2018	Meeting	The partner in charge of the engagement, along with the audit manager, met with the Section 151 Officer to discuss current issues at the Authority to inform our continuous audit planning.
24/01/2019	Meeting	The partner in charge of the engagement, along with the audit manager, met with the Section 151 Officer and Chief Executive to review our draft audit planning report and to discuss current issues at the Authority to inform our continuous audit planning.
11/02/2019	Report	The audit planning report, including confirmation of independence, was presented to the Governance Committee.
21/03/2019	Meeting	The partner in charge of the engagement, along with the audit manager, met with the Section 151 Officer to discuss current issues at the Authority to inform our continuous audit planning, and progress on the audit to the interim stage.
15/04/2019	Report	A progress report, confirming work performed to the interim stage of the audit, was presented to the Governance Committee.
10/06/2019	Meeting	The partner in charge of the engagement, along with the audit manager, met with the Section 151 Officer to discuss current issues at the Authority to inform our continuous audit planning, and progress on the audit to the year-end stage.
09/07/2019	Meeting	The partner in charge of the engagement, along with the audit manager, met with the Section 151 Officer to discuss progress on the audit to the year-end stage, and the need to reschedule completion of the audit.
29/07/2019	Report	A verbal report, explaining the rescheduling of the completion of the audit, was presented to the Governance Committee.
30/09/2019	Report	The audit results report, including confirmation of independence, was presented to the Governance Committee.





In addition to the above specific meetings, the audit team met with the management team multiple times throughout the audit to discuss audit progress and findings. This included regular catch-up calls in August and September to update on the rescheduled audit.







## Appendix C

# Required communications with the Governance Committee

There are certain communications that we must provide to the audit committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

 Our Reporting to you		
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Governance Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report – February 2019
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report – February 2019
Significant findings from the audit	<ul style="list-style-type: none"> <li>• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>• Significant difficulties, if any, encountered during the audit</li> <li>• Significant matters, if any, arising from the audit that were discussed with management</li> <li>• Written representations that we are seeking</li> <li>• Expected modifications to the audit report</li> <li>• Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit results report – September 2019

# Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Major Local Audits	<p>For the audits of financial statements of public interest entities/major local audits our written communications to the Governance Committee include:</p> <ul style="list-style-type: none"> <li>• A declaration of independence</li> <li>• The identity of each key audit partner</li> <li>• The use of non-member firms or external specialists and confirmation of their independence</li> <li>• The nature and frequency of communications</li> <li>• A description of the scope and timing of the audit</li> <li>• Which categories of the balance sheet have been tested substantively or controls based and explanations for significant changes to the prior year, including first year audits</li> <li>• Materiality</li> <li>• Any going concern issues identified</li> <li>• Any significant deficiencies in internal control identified and whether they have been resolved by management</li> <li>• Subject to compliance with regulations, any actual or suspected non-compliance with laws and regulations identified relevant to the Governance Committee</li> <li>• Subject to compliance with regulations, any suspicions that irregularities, including fraud with regard to the financial statements, may occur or have occurred, and the implications thereof</li> <li>• The valuation methods used and any changes to these including first year audits</li> <li>• The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework</li> <li>• The completeness of documentation and explanations received</li> <li>• Any significant difficulties encountered in the course of the audit</li> <li>• Any significant matters discussed with management</li> <li>• Any other matters considered significant</li> </ul>	<p>Audit Planning Report – February 2019</p> <p>Audit Results Report – September 2019</p>

# Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<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"> <li>• Whether the events or conditions constitute a material uncertainty</li> <li>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>• The adequacy of related disclosures in the financial statements</li> </ul>	No conditions or events were identified, either individually or together to raise any doubt about Southampton City Council's ability to continue for the 12 months from the date of our report
Misstatements	<ul style="list-style-type: none"> <li>• Uncorrected misstatements and their effect on our audit opinion</li> <li>• The effect of uncorrected misstatements related to prior periods</li> <li>• A request that any uncorrected misstatement be corrected</li> <li>• Material misstatements corrected by management</li> </ul>	Audit Results Report – September 2019
Subsequent events	<ul style="list-style-type: none"> <li>• Enquiry of the Governance Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	Audit Results Report – September 2019
Fraud	<ul style="list-style-type: none"> <li>• Enquiries of the Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority</li> <li>• Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>• Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ol> </li> <li>• The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>• Any other matters related to fraud, relevant to Governance Committee responsibility.</li> </ul>	Audit Results Report – September 2019

# Appendix C





		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>• Non-disclosure by management</li> <li>• Inappropriate authorisation and approval of transactions</li> <li>• Disagreement over disclosures</li> <li>• Non-compliance with laws and regulations</li> <li>• Difficulty in identifying the party that ultimately controls the Authority</li> </ul>	Audit Results Report – September 2019
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, 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"> <li>• The principal threats</li> <li>• Safeguards adopted and their effectiveness</li> <li>• An overall assessment of threats and safeguards</li> <li>• Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2016:</p> <ul style="list-style-type: none"> <li>• Relationships between EY, the company and senior management, its affiliates and its connected parties</li> <li>• Services provided by EY that may reasonably bear on the auditors' objectivity and independence</li> <li>• Related safeguards</li> <li>• Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees</li> <li>• A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit</li> </ul>	<p>Audit Planning Report – September 2019</p> <p>Audit Results Report – September 2019</p>



## Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
	<ul style="list-style-type: none"> <li>• Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy</li> <li>• Details of any contingent fee arrangements for non-audit services</li> <li>• Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard</li> <li>• The Governance Committee should also be provided an opportunity to discuss matters affecting auditor independence</li> </ul>	
External confirmations	<ul style="list-style-type: none"> <li>• Management's refusal for us to request confirmations</li> <li>• Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	We have received all requested confirmations
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>• Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>• 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.</li> </ul>	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>• Significant deficiencies in internal controls identified during the audit.</li> </ul>	Audit Results Report – September 2019

## Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> <li>Written representations we are requesting from management and/or those charged with governance</li> </ul>	Audit Results Report – September 2019
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	Audit Results Report – September 2019
Auditors report	<ul style="list-style-type: none"> <li>Any circumstances identified that affect the form and content of our auditor’s report</li> </ul>	Audit Results Report – September 2019
Fee Reporting	<ul style="list-style-type: none"> <li>Breakdown of fee information when the audit planning report is agreed</li> <li>Breakdown of fee information at the completion of the audit</li> <li>Any non-audit work</li> </ul>	Audit Planning Report – February 2019 Audit Results Report – September 2019

# Management representation letter

## Management Representation Letter

Ernst & Young LLP

Wessex House  
19 Threefield Lane  
Southampton  
Hampshire  
SO14 3QB

This letter of representations is provided in connection with your audit of the financial statements of Southampton City Council ("the Council") for the year ended 31 March 2019. 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 2019 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

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 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

2. We acknowledge, as members of management of the Council, 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, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19. 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. As members of management of the Council, 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 2018/19, that are free from material misstatement, whether due to fraud or error.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because [\[specify reasons for not correcting misstatement\]](#).

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

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

## Management representation letter

4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including, without limitation, allegations by “whistleblowers”) including non-compliance matters:
  - involving financial statements;
  - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council’s financial statements;
  - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council’s activities, its ability to continue to operate, or to avoid material penalties;
  - involving management, or employees who have significant roles in internal controls, or others; or
  - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

### C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council and the Cabinet held through the year to the most recent meeting on the following date: 18 September 2019.
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 believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.



# Management representation letter

## D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the 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 in the financial statements all guarantees that we have given to third parties.

## E. Subsequent Events

1. Other than described in 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.

## F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Preface, Narrative Report and Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

## G. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of property, plant and equipment and the IAS19 pension fund liability, and have adequately considered the qualifications of the specialists 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 specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

## H. Estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
2. We confirm that the significant assumptions used in making the valuation of property, plant and equipment, IAS19 pension liability, and PFI valuation estimates appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

## I. 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.

## Management representation letter

I confirm that this letter has been discussed and agreed by the Authority on 30 September 2019

Name: John Harrison

Position: Section 151 Officer

Name: Councillor Eamonn Keogh

Position: Chairman of the Governance Committee

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ED None

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