

# Governance Committee

## ADDITIONAL INFORMATION

Monday, 24th July, 2017  
at 5.00 pm

### ADDITIONAL INFORMATION RELATED TO THE LISTED REPORTS

#### Contacts

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# ADDITIONAL INFORMATION

## 10 EXTERNAL AUDIT - AUDIT RESULTS REPORT (Pages 1 - 46)

- External Auditors Report
- Appendix A to the External Auditor Report

Friday, 14 July 2017

SERVICE DIRECTOR, LEGAL AND GOVERNANCE

Southampton City Council  
Audit results report

Year ended 31 March 2017

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Agenda Item 10



Private and Confidential

21 July 2017

Dear Governance Committee Members

We have substantially completed our audit of Southampton City Council for the year ended 31 March 2017.

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 that appears in Section 3 before the deadline of 31 July 2017. 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 look forward to discussing with you any aspects of this report or any other issues arising from our work.

Yours faithfully

Helen Thompson  
Executive Director

For and on behalf of Ernst & Young LLP  
United Kingdom

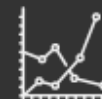
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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website ([www.PSAA.co.uk](http://www.PSAA.co.uk)).

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 (updated September 2015)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Governance Committee, other members of the Authority and management of Southampton City Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Governance Committee, other members of the Authority and management of Southampton City Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Governance Committee, other members of the Authority and management of Southampton City Council for this report or for the opinions we have formed. It should not be provided to any third-party without obtaining our written consent.



01

# Executive Summary



## Executive summary

### Overview of the audit

### Scope and materiality

In our Audit Plan presented to the February 2017 Governance Committee meeting, we gave you an overview of how we intended to carry out our responsibilities as your auditor. We carried out our audit in accordance with this plan.

We planned our procedures using a materiality of £13.7 million. We reassessed this using the actual year-end figures, which have decreased this amount to £12.6 million. The threshold for reporting audit differences has decreased from £682,000 to £634,000. The basis of our assessment of materiality has remained consistent with our Audit Plan at 2 % of gross revenue expenditure.

Pages

### Status of the audit

We have substantially completed our audit of Southampton City Council's financial statements for the year ended 31 March 2017 and have performed the procedures outlined in our Audit plan. 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:

- completion of our work on the Expenditure and Funding Analysis;
- completion of our audit procedures on discrete elements of debtors and creditors;
- completion of our detailed review in certain areas of work and our final review and sign off;
- review of the final version of the financial statements;
- completion of subsequent events review;
- receipt of the signed management representation letter; and
- completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission.



## Executive Summary

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### Executive summary (continued)

#### Status of the audit (continued)

Subject to completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission we will issue the audit certificate at the same time as the audit opinion.

#### Objections

We have received no objections to the 2016/17 accounts from members of the public.

#### Audit differences

We identified one unadjusted audit difference in the draft financial statements which management has chosen not to adjust. We ask that it be corrected or a rationale as to why it is not corrected be considered by the Governance Committee and included in the Letter of Representation. We agree with management's assessment that the impact of this unadjusted audit difference is not material.

We have also identified a number of audit differences which have been adjusted by management. Details can be found in Section 4 Audit Differences.





## Executive Summary

### Executive summary (continued)

#### Areas of audit focus

Our Audit Plan identified key areas of focus for our audit of Southampton City Council's financial statements. This report sets out our observations and conclusions. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

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; and
- 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.

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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. In our Audit Plan we identified the following significant risk:

- Sustainable resource deployment - the Council's ability to deliver the savings required to support the sustainable delivery of services.

On completion of our work, we have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.



## Executive Summary

### Executive summary (continued)

#### Other reporting issues

We have reviewed 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 have yet to complete the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission.

We have no other matters to report.

#### Control observations

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.

During the audit we identified observations and/or improvement recommendations for management's financial processes and controls. We have provided details in Section 7.

We would like to take this opportunity to thank management and the staff at Southampton City Council for their assistance over the period of the audit.

#### Independence

Please refer to Appendix B for our update on Independence. There are no issues that we need to report.

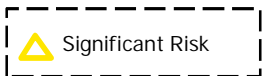


# 02 Areas of Audit Focus



## Audit issues and approach: Risk of management override

### Management override



#### What is the risk?

As identified in ISA (UK and Ireland) 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 did we do?

- We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.
- We reviewed accounting estimates for evidence of management bias.
- We evaluated the business rationale for significant unusual transactions.
- We evaluated the appropriateness of accounting policies against Code guidance and for changes from the prior period.

#### What are our conclusions?

We have not identified any evidence of management override. We did not identify any errors in the financial statements or indications of fraud. We did not identify any inappropriate journal entries (or other adjustments) that impacted on the financial statements.

We did identify two material journals entered onto the ledger as part of the closedown process that did not feed through into the financial statements or associated working papers. Both were entered in good faith, were not indicative of fraud and did not impact any part of the financial statements. One was unnecessary and was entered based on historic practice. The other was intended to replace a manual adjustment, which was ultimately reinstated. We have included these in our control environment observations in Section 7. We mitigated the risk of other similar journals leading to an error in the financial statements by testing all other material year end journals. We have no further issues to report.

We have not identified any instances of inappropriate judgements being applied in making estimates. We gave specific consideration to the calculation of Minimum Revenue Provision.


We did not identify any transactions during our audit which appeared unusual or outside the Council's normal course of business.

We did not identify any inappropriate changes to accounting policies or deviations from Code guidance.



# Audit issues and approach: PARIS adult social care system

## Paris adult social care system

 Other non-significant Risk

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### What is the risk?

In our 2015/16 Audit Results Report we reported our findings in respect of the Paris adult social care system. We supported Internal Audit's findings and highlighted:

- weaknesses in the invoicing process; and
- the absence of a formal reconciliation between Paris and the main accounting system.

In 2016/17, the Council has undertaken a review of the processes and controls in this system. A paper was taken to the November 2016 Governance Committee, reporting the issues identified and recommendations made to resolve them.

### What did we do?

We completed our walkthrough of the Paris system, to ensure we fully understand the improvements made by management.

We reviewed further work performed by Internal Audit on the implementation of recommendations from their original report.

We tested the formal reconciliation between PARIS and the main accounting system, Agresso.

We tested the appropriateness of adult social care payments to prime supporting documentation to confirm their validity.

### What are our conclusions?

We completed our walkthrough of the system and reviewed the work completed by internal audit during our interim visit. The EY audit manager met with the SIAP (Southern Internal Audit Partnership) audit manager on the 15 June 2017 to ensure we were fully briefed on the output of their Direct Payments report and management's response to it.

We were provided with management's year end reconciliation between purchase orders raised on the general ledger Agresso and interventions (or care packages) on PARIS. There were reconciling items of £1,305,277 (a total of 1222 orders), with more orders showing in Agresso than in PARIS. Management performed a review of these reconciling items earlier in the year and are confident that the reconciling items are caused primarily by timing differences between the two system reports meaning they are not directly comparable. We would recommend that management refine the methodology in future years.

We tested adult social care payments recorded in the financial statements to prime supporting documentation. In our sample, we detected two overpayments relating to direct payments. We extrapolated the value of these errors to give an indication of the total value of overpayments. The extrapolated value of overpayments was £224,225. We are satisfied that this extrapolation is sufficiently accurate for our purposes. We would remind the Governance Committee that, relative to the total number of adult social care payments, this extrapolation is based on the results of a small sample test and the actual value of overpayments may be higher or lower. While performing this testing we also observed that two care packages had no evidence of an annual care review and four care packages had no evidence of funding approval from the Adult Panel. These are similar to the findings of the internal audit Direct Payments report. We have reviewed management's action plan to address the identified shortcomings and have no issues to raise. We would recommend that the Governance Committee commission an internal audit follow-up once management's action plan is implemented.



# Audit issues and approach: Expenditure Funding Analysis

## Expenditure and Funding Analysis and Comprehensive income and expenditure statement

Other non-significant Risk

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### What is the risk?

Amendments were made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) this year changing the way the financial statements are presented.

The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS), and include the introduction of the new 'Expenditure and Funding Analysis' note as a result of the 'Telling the Story' review of the presentation of local authority financial statements.

The Code no longer requires statements or notes to be prepared in accordance with Service Reporting Code of Practice. Instead the Code requires that the service analysis is based on the organisational structure under which the authority operates. We expect this to show the Council's segmental analysis.

This change in the Code required a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements. The restatement of the 2015/16 comparatives will require audit review, which could potentially incur additional costs, depending on the complexity and manner in which the changes are made. In past years we have observed, and the Council has recognised, that the process for generating the financial statements from the ledger is complex. This change in reporting requirement could provide an opportunity to streamline this process which could reduce the time taken to produce the financial statements moving forward.

### What did we do?

We reviewed the 'Expenditure and Funding Analysis', CIES and new notes to ensure disclosures are in line with the Code.

We reviewed the working papers supporting the derivation of these figures, and how the ledger system has been re-mapped to reflect the Council's organisational structure.

We agreed the restated comparative figures back to the Council's segmental analysis, supporting working papers and ledger.

### What are our conclusions?

Our work in this area is substantially complete. We will provide a verbal update in the Governance Committee on all ongoing areas.

The disclosures made were generally in line with the Code. We have agreed a number of presentational changes that management have agreed to make in the final statement of accounts. We will review these changes once they have been made. None of these are individually significant enough to bring to your attention here.

We have reviewed the working papers supporting the derivation of these figures, and how the ledger system has been re-mapped to reflect the Council's organisational structure. We have no matters to report, beyond the complexity of the methodology used to prepare the financial statements. We consider this further in Section 7.

We have agreed the restated comparative figures back to the Council's supporting working papers and ledger. The prior year cost of services income and expenditure have both increased by £20.1 million. This is to correct the classification in the prior year statements where they were incorrectly presented net. Our work in this area that is ongoing.



# 03 Audit Report



# Audit Report

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## Draft audit report

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

#### Opinion on the Authority's financial statements

We have audited the financial statements of Southampton City Council for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the Movement in Reserves Statement; Comprehensive Income and Expenditure Statement; Balance Sheet; Cash Flow Statement; related notes 1 to 40 and the Expenditure and Funding Analysis; Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and related notes 1 to 11; and the Collection Fund and the related notes 1 to 8.

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 2016/17.

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.

#### Respective responsibilities of the Section 151 Officer and auditor

As explained more fully in the Statement of the Section 151 Officer's Responsibilities set out on page 18, the Section 151 Officer is responsible for the preparation of the Statement of Accounts, 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 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Section 151 Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Financial Statements 2016/17 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.





# Audit Report

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## Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Southampton City Council as at 31 March 2017 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 2016/17.

## Opinion on other matters

In our opinion, the information given in the Financial Statements 2016/17 for the financial year for which the financial statements are prepared is consistent with the financial statements.

## 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 Council;
- 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

## Conclusion on Southampton City Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

### Authority's responsibilities

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

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 (NAO) 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.



# Audit Report

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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 2016, as to whether the 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 the 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 2017.

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, the Southampton City Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## Conclusion

On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in November 2016, 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 2017.

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Day 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.

Helen Thompson (senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Appointed Auditor  
Southampton  
xx July 2017

The maintenance and integrity of the Southampton City Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



04 Audit Differences



# Audit Differences

## Audit differences

In any audit, we may identify misstatements between amounts we believe should be recorded in the financial statements and 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 have included all known amounts greater than £9.51 million relating to Southampton City Council in our summary of misstatements below. To avoid duplication, this excludes matters reported in Section 2 above.

We highlight the following misstatements in the financial statements or disclosures identified during the audit. These have been corrected by management:

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- in Cashflow Statement note 23a, a reclassification between the 'Depreciation' and 'Movement of assets charged to revenue' lines of £20.0 million. This was a presentational amendment in this note only and had no other impact on the financial statements;
- in note 10, 'Adjustment Between Accounting Basis and Funding Basis Under Regulations', a reclassification between HRA 'Depreciation and Impairment on non-current assets' and 'Financing of HRA Assets (Major Repairs Reserve)' of £18.9 million. This was a presentational amendment in this note only and had no other impact on the financial statements;
- in Revaluation Reserve Note 22a the subtotal 'Surplus or deficit on revaluation of non-current assets not posted in the Surplus or Deficit on the Provision of Services' was corrected to remove the £344.2 million and £297.5 million opening balances in the current and prior year respectively. This was a presentational amendment to a subtotal in this note that had no other impact on the financial statements;
- in Defined Benefit Pensions note 34c, the quoted total liability in the text was amended from £366.8 million to £425.0 million. This was a presentational amendment in this note only, whereby the text had not been updated, and had no other impact on the financial statements;
- in Defined Benefit Pensions note 34g, the quoted cumulative gains and losses recognised in the CIES was amended from £282.1 million to £259.5 million. This was a presentational amendment in this note only and had no other impact on the financial statements; and
- in the Note to Statement of Movement on the HRA Balance, the 'Transfer to Major Repairs Reserve' of £18.8 million was moved between sections, from 'Items Included in the HRA Income and Expenditure Account but excluded from the movement on the HRA' to 'Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year' This was a presentational amendment in this note only and had no other impact on the financial statements.

In total adjustments were made to 31 of the primary statements and notes.



# Audit Differences

## Audit differences (continued)

### Summary of unadjusted differences

We highlight the following misstatements in the financial statements and/or disclosures which were not corrected by management. We ask you to correct these uncorrected misstatements or give a rationale as to why they have not been corrected. This should be considered and approved by the Governance Committee and included in the Letter of Representation:

#### Description

We detected during interim testing that elements of the Council's general overhead were being incorrectly capitalised through recharges to the capital program. The Council has taken proactive action and corrected this for 2016/17 prior to producing their financial statements.

The Council has provided an estimate of the impact in prior years. We are satisfied that the estimate is reasonable. Crucially, the Council has demonstrated that direct revenue financing of the capital program in prior years far exceeds the capitalised recharges. This means that if the incorrectly capitalised recharges from prior years were corrected there would be no impact on the General Fund or Housing Revenue account balances as an offsetting reduction in direct revenue financing would be made.

The Council then considered whether or not these recharges could give rise to a materially incorrect carrying value of their assets. The estimate provided by the Council is included in the table below.

We have reviewed the Council's estimate. Overall, we are satisfied with the methodology although we acknowledge that it has been produced to demonstrate that the impact is not material and will likely overestimate the actual impact. As this estimated error is not material, proper accounting practise under IAS 8 would be to correct for the impact of this error in the current period.

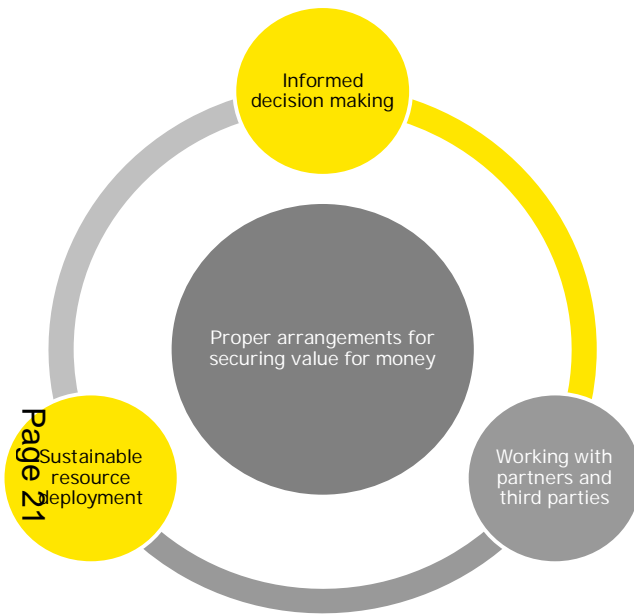
Area of account	Net Expenditure Chargeable to the General Fund (Increase)/Decrease	Balance sheet (Decrease)/Increase	
	Net Expenditure Chargeable to the General Fund Debit/(Credit) Current Period	Assets non- current Debit/(Credit)	Unusable Reserves: Capital Adjustment Account Debit/(Credit)
Comprehensive Income and Expenditure Statement: portfolio expenditure	£1,488k		
Property Plant and Equipment		(£1,488k)	
Movement in Reserves Statement: Direct Revenue Financing	(£1,488k)		
Capital Adjustment Account			£1,488k
<b>Total</b>	<b>£0</b>	<b>(£1,488k)</b>	<b>£1,488k</b>



# 05 Value for Money



## Value for Money



### Economy, efficiency and effectiveness

We must consider whether you have 'proper arrangements' to secure economy, efficiency and effectiveness in your use of resources. This is known as our value for money conclusion.

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

- take informed decisions;
- deploy resources in a sustainable manner; and
- work with partners and other third parties.

In considering your proper arrangements, we use the CIPFA/SOLACE framework for local government to ensure that our assessment is made against an already existing mandatory framework which you use in documents such as your Annual Governance Statement.

### Overall conclusion

We identified one significant risk to these arrangements. The tables below present our findings in response to the risk in our Audit Plan.

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



## VFM risks

We are only required to determine whether there is any risk 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 table below presents the findings of our work in response to the risks areas in our Audit Plan.

### What is the significant VFM risk?

The Council’s ability to deliver the savings required to support the sustainable delivery of services.

### What arrangements did this affect?

Sustainable resource deployment

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Background

Reductions in central government funding, coupled with demand lead pressures on services, mean that the Council is continuing to experience financial pressures. The Council’s 2016/17 budget, approved in February 2016, included a savings requirement of £33.7 million. The Council identified planned savings of £29.6 million to address the budget gap for the year. The residual budget gap of £3.9 million was planned to be addressed by the use of reserves. The Council recognises that reserves cannot, and should not, be used to bridge the revenue budget gap in the absence of longer term plans to make necessary savings. This is evident from the Medium Term Financial Strategy which plans no future use of reserves to address budget gaps.

At the time of publishing our Audit Plan, the latest publically available financial monitoring report was as at the end of September 2016. This showed that the Council was forecasting an over spend at year end of £3.5 million against their working budget. The key contributory factors were cost and demand pressures within social care coupled with reductions in expected Transformation savings. These contributed to the forecasted shortfall of £5.3 million in the delivery of savings proposals. The Council identified a number of specific actions to manage these issues and drew up recovery action plans to minimise any pressure carried forward into 2017/18. An update to the Council’s Medium Term Financial Strategy (MTFS) was taken to Cabinet in November 2016 which included draft proposals for eliminating the budget gap in the next two years by reducing cost and generating income of £21.3 million in 2017/18 increasing to £31.6 million in 2018/19. The Council’s approach to addressing their budget gap focused on:

- the implementation of outcome based budgeting to clearly link business planning and budgeting and focus on service outcomes;
- business as usual budget reviews throughout the year; and
- progressing the Transformation Programme through Service Delivery and Redesign Proposals.

The delivery of plans to address the budget gap are crucial in making the future financial position of the Council sustainable.





# Value for Money

## Our audit approach

Our approach focused on reviewing the:

- achievement of the 2016/17 budget. A strong history of managing service delivery to budget, provides comfort over the Council's ability to set realistic and achievable budgets in the future.
- achievement of planned savings in 2016/17. A strong history of meeting planned efficiency and income generation targets provides comfort over the Council's ability to set realistic targets and achieve efficiency plans in the future.
- the arrangements in place to deliver the savings plans in 2017/18 onwards.

## What are our findings?

The 2016/17 financial outturn reported a portfolio overspend of (£3.67 million). After savings in other areas and approved movements from balances, the Council's outturn allowed an additional transfer to reserves of £4.17 million. This represents an improvement against budget although it is important to understand that this still represents a draw from the General Fund of £353k in 2017/18.

The largest portfolio overspend was in Health and Adult Social Care. This was consistently identified and monitored in corporate financial monitoring reports throughout the year. Appropriate linkages were in place with the risk register and mitigating actions and controls put in place to manage the overspend. Increased funding has been made available in the 2017/18 budget to offset increases in demand and meet future expectations for the cost of care packages.

The Council achieved £25.4 million of its 2016/17 saving plan of £31.2 million (£29.6 million agreed in February 2016 and £1.6 million of unachieved savings from 2015/16). This represents 81% of the target. The Council's quarterly corporate financial monitoring reports, taken to Cabinet, consistently forecast an accurate projection of the expected savings: £23.8 million in Q1, £25.8 million in Q2 and £26.0 million in Q3. Progress against savings plans was appropriately monitored by Service Directors and the Council's Management Team. Scorecards were prepared monthly for both, including RAG rating of individual savings schemes. We have reviewed the most significant areas contributing to the (£5.8 million) shortfall and are satisfied that any implications have been appropriately built into the February 2017 MTFS and 2017/18 budget.

We have reviewed the Council's MTFS and arrangements to deliver its planned savings in 2017/18. The Council has identified a revised need for savings of £19.6 million in 2017/18 in February 2017. We have reviewed the process to identify and agree detailed savings plans for 2017/18 and found it to be robust. As in 2016/17, appropriate arrangements are in place to ensure accountability and good governance through monitoring of savings by Service Directors, the Council's Management Team and Cabinet. The Council is currently forecasting achieving 95% or £18.5 million of its 2017/18 savings target of £19.6 million (as at Q1). Any shortfall in delivering these savings plans could be offset against earmarked reserves held by the Council, such as the £26.7 million MTFS reserve that has prudently been set aside for this purpose.

Based on the factors and considerations set out above, we consider that the Council continues to have appropriate arrangements in place to deliver services sustainably.



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## Other reporting issues



## 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 Financial Statements 2016/17 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 Financial Statements 2016/17 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.

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### 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 are currently concluding our work in this area and will report any matters arising to the Governance Committee.



## Other reporting issues

# 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 Council 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 Council, 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 relevant issues.

### Other matters

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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 Council'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 matters to report, other than those set out in Section 7.



## Control Environment observations



# Assessment of Control Environment

## Control environment observations

### 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. 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.

### Areas for improvement and observations

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Area → General Ledger

Observation

As in prior years we continue to observe that the Authority's method of producing its financial statements from its ledger is complex and would benefit from a review of the Chart of Accounts, streamlining and automation. This would help to reduce the time taken to produce and audit the financial statements.

Management comment

There has been significant discussion and sharing of information with the auditors around potential improvements to this methodology; there has been progress in completing the 2016/17 financial statements and further works are planned to substantially challenge and update the methodology before completion of the 2017/18 financial statements.

Area → Journals

Observation

We identified two material journals entered as part of the closedown process that did not feed through into the financial statements or working papers. See Section 2. Simplification of the Authority's method of producing its financial statements from its ledger coupled with staff training would help to prevent this reoccurring.

Management comment

The planned review of the methodology used to produce the financial statements is expected to address this issue as well as identify any further staff training requirements.



# Assessment of Control Environment

## Disclosures

Observation

In Section 4 we reported that there were a number of adjustments to disclosures as part of our audit. We would recommend management identify the root cause to prevent reoccurrence in the future.

Management comment

Further review of the current quality assurance process will be addressed as part of the overall review of the final accounts process, with specified resources identified to undertake this role linked to specific activity within the production of the final accounts.

## IT controls testing

Observation

We have made recommendations to management relating to manage change and manage access controls within Agresso (the general ledger). These relate predominantly to segregation of duties and promptly disabling leavers accounts. We will follow up responses to these recommendations as part of our 2017/18 audit.

Management comment

This information has been recently received and will be reviewed and considered with actions agreed as appropriate with EY.

## Working papers

Observation

We worked closely with the Authority earlier in the year to provide comprehensive client assistance schedule (working paper requirements). While working papers were available, they would benefit from being simplified and more easily understandable.

Management comment

EY were invited to attend a recent Finance Service away day and provided a presentation to all staff on the importance and structure of working papers. Additionally, it has already been agreed with the Auditors to look at and review the client assistance schedule for 2017/18 in September 2017 and to review the required working papers.

## Group structure

Observation

The Council is currently not required to prepare Group Accounts on the basis of materiality. It is important that the Council keeps this assessment up to date throughout the year. If it changes, the Council should engage with us early, to understand the full implications of group accounting.

Management comment

It is recognised that there are significant implications on both Council and Auditor resources to undertake the production and audit of group accounts. This will be considered as part of any ongoing commercialisation activity and discussed as and when relevant with the Auditors at the earliest opportunity.



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## Appendices






# Appendix A

## Required communications with the Governance Committee

There are certain communications that we must provide to the audit committees of UK clients. We have done this by:

 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.
Planning and audit approach	Communication of the planned scope and timing of the audit, including any limitations.	February 2017 Audit Plan
Significant findings from the audit	<ul style="list-style-type: none"> <li>• Our view of the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>• Any significant difficulties encountered during the audit</li> <li>• Any significant matters arising from the audit that were discussed with management</li> <li>• Written representations we have requested</li> <li>• Expected modifications to the audit report</li> <li>• Any other matters significant to overseeing the financial reporting process</li> </ul>	July 2017 Audit Results Report
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>▶ Significant corrected misstatements, in writing</li> </ul>	July 2017 Audit Results Report

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# Appendix A

## Our Reporting to you

Required communications	What is reported?	When and where
Fraud	<ul style="list-style-type: none"> <li>▶ Asking the Governance Committee whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority</li> <li>▶ Unless all those charged with governance are involved in managing the entity, any fraud identified or information obtained indicating that a fraud may exist involving:               <ul style="list-style-type: none"> <li>(a) management;</li> <li>(b) employees with significant roles in internal control; or</li> <li>(c) others where the fraud results in a material misstatement in the financial statements.</li> </ul> </li> <li>▶ A discussion of any other matters related to fraud, relevant to Governance Committee responsibility.</li> </ul>	We have asked management and the Chairman of the Governance Committee about arrangements to prevent or detect fraud. We have not become aware of any fraud or illegal acts during our audit.
Related parties Page 32	Significant matters arising during the audit in connection with the Authority's related parties including, where applicable: <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/or regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	We have no matters to report.
Subsequent events	<ul style="list-style-type: none"> <li>▶ Where appropriate, asking the Governance Committee whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	We have asked management and those charged with governance. We have no matters to report.
Other information	<ul style="list-style-type: none"> <li>▶ Where material inconsistencies are identified in other information included in the document containing the financial statements, but management refuses to make the revision.</li> </ul>	We have no matters to report.
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ We were unable to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	We have received all requested confirmations.
Consideration of laws and/or regulations	<ul style="list-style-type: none"> <li>▶ Audit findings of non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on "tipping off"</li> <li>▶ Asking the Governance Committee about possible instances of non-compliance with laws and/or regulations that may have a material effect on the financial statements, and known to the Governance Committee.</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.



# Appendix A



## Our Reporting to you

Required communications	What is reported?	When and where
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>	July 2017 Audit Results Report
Independence	<p>Communication of all significant facts and matters that have a bearing on EY's objectivity and independence.</p> <p>Communicating 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 on the firm's general policies and processes for maintaining objectivity and independence</li> </ul> <p>Communications whenever significant judgments are made about threats to objectivity or independence and the appropriateness of safeguards,</p>	February 2017 Audit Plan  July 2017 Audit Results Report
Fee Reporting	<p>Breakdown of fee information when the audit plan is agreed</p> <p>Breakdown of fee information at the completion of the audit</p> <p>Any non-audit work</p>	February 2017 Audit Plan  July 2017 Audit Results Report
Certification work	Summary of certification work	Certification Report (due later this year)



## Independence

We confirm that there are no changes in our assessment of independence since our confirmation in our audit plan taken to the February 2017 Governance Committee.

We complied with the APB 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 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 24 July 2017.

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2017.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements.

	Planned Fee 2016/17 £	Scale Fee 2016/17 £	Final Fee 2015/16 £	Scale Fee 2015/16 £
Total Audit Fee - Code work	147,101 <sup>a</sup>	142,715	142,715	142,715
Certification of claims and returns	15,204 <sup>b</sup>	19,005	19,524	19,524
Total	162,305	161,720	162,239	162,239

<sup>a</sup> the additional fee relates to additional work in: agreeing your financial statements to the general ledger (due to the complexity of the methodology) and assessing the impact of the uncorrected errors in Section 4. This has been agreed with management but under the terms of our contract is subject to agreement with PSAA (Public Sector Audit Appointments).

<sup>b</sup> In our April 2017 progress report, we informed you that we have agreed that the Council will perform some of the initial Housing Benefit certification testing itself in 2016/17 in return for a 20% reduction in our fee. We will do sufficient checking to satisfy ourselves that this testing has been performed appropriately.



## Looking forward - Early close in 2017/18

Name	Summary of key measures	Impact on Southampton City Council
<p>Earlier statutory deadline for production and audit of the financial statements from 2017/18</p> <p>Page 35</p>	<p>The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.</p>	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>As auditors, nationally we have:</p> <ul style="list-style-type: none"> <li>• Issued a thought piece on early closedown;</li> <li>• As part of the strategic Alliance with CIPFA jointly presented accounts closedown workshops across England, Scotland and Wales; and</li> <li>• Presented at CIPFA early closedown events and on the subject at the Local Government Accounting Conferences in July 2017.</li> </ul> <p>To prepare for this change both we and the Council have targeted achievement of the earlier deadlines in 2016/17. This clearly represents significant progress.</p> <p>Moving forward, we will need to continue to work together collaboratively to ensure none of the observations in Section 7 impact our ability to deliver to these timescales.</p>



## Appendix D

# Draft management representation letter

To be prepared on the entity's letterhead]

24<sup>th</sup> July 2017

Ernst & Young LLP  
Wessex House,  
19 Threefield Lane,  
Southampton,  
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<sup>st</sup> March 2017. 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 Council financial position of Southampton City Council as of 31<sup>st</sup> March 2017 and of its income and expenditure for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

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 2016/17.
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 2016/17. 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 2016/17, that are free from material misstatement, whether due to fraud or error.



## Appendix D

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5. We believe that the effects of any unadjusted audit difference, summarised in the Audit Results Report (Section 4) and the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented is immaterial 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. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Council's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Council.

### C. Compliance with Laws and Regulations

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

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

1. We have provided you with:
  - access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - additional information that you have requested from us for the purpose of the audit; and
  - unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting.
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 period end. These transactions have been appropriately accounted for and disclosed in the financial statements.



## Appendix D

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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.

### E. Liabilities and Contingencies

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

### F. Subsequent Events

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

### G. Other information

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

### H. Comparative information – corresponding financial information

1. Comparative amounts have been restated as a result of CIPFA's 'Telling the Story' review to improving the presentation of local authority financial statements.

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

### I. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate valuation of property, plant and equipment, and the 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





## Appendix D

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otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

### J. Estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine accounting estimates have been consistently applied and are appropriate in the context of the applicable financial reporting framework.
2. We confirm that the significant assumptions used in making accounting 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 applicable financial reporting framework.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

### K. 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.

Yours faithfully,

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Service Director of Finance and Commercialisation

I confirm that this letter has been discussed and agreed at the Governance Committee on 24 July 2017.

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(Chairman of the Governance Committee)

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ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

[ey.com](http://ey.com)

### Letter of representations

[To be prepared on the entity's letterhead]

24<sup>th</sup> July 2017

Ernst & Young LLP  
Wessex House,  
19 Threefield Lane,  
Southampton,  
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<sup>st</sup> March 2017. 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 Council financial position of Southampton City Council as of 31<sup>st</sup> March 2017 and of its income and expenditure for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

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 2016/17.
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 2016/17. 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

## Letter of representations

Local Authority Accounting in the United Kingdom 2016/17, that are free from material misstatement, whether due to fraud or error.

5. There is one unadjusted audit difference the effects of which, summarised in the Audit Results Report (Section 4) and the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented is immaterial to the financial statements taken as a whole. We have not corrected this difference identified by and brought to the attention from the auditor because:
  - The issue has been corrected in the year that it has been identified i.e. 2016/17;
  - There is no overall material variance and no net impact on the General Fund or HRA reported position; and
  - The resources in terms of time and effort in calculating the actual re statement figures would outweigh the benefit to the general public in having a restated set of accounts and the use of the accounts; and
  - The reported estimated misstatement is likely to be the maximum level of the misstatement as a number of the assets will have been revalued during the time period in question.

### **B. Fraud**

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Council's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Council.

### **C. Compliance with Laws and Regulations**

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

### **D. Information Provided and Completeness of Information and Transactions**

1. We have provided you with:

## Letter of representations

- 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 committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting.
  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 period 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.

### **E. Liabilities and Contingencies**

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

### **F. Subsequent Events**

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

# Letter of representations

disclosure in the financial statements or notes thereto.

## **G. Other information**

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

## **H. Comparative information – corresponding financial information**

1. Comparative amounts have been restated as a result of CIPFA's 'Telling the Story' review to improving the presentation of local authority financial statements.

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

## **I. Use of the Work of a Specialist**

1. We agree with the findings of the specialists that we engaged to evaluate valuation of property, plant and equipment, and the 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.

## **J. Estimates**

1. We believe that the measurement processes, including related assumptions and models, used to determine accounting estimates have been consistently applied and are appropriate in the context of the applicable financial reporting framework.
2. We confirm that the significant assumptions used in making accounting 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 applicable financial reporting framework.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

## **K. 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

## Letter of representations

retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

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Service Director of Finance and Commercialisation

I confirm that this letter has been discussed and agreed at the Governance Committee on 24 July 2017.

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(Chairman of the Governance Committee)

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