

Governance Committee

Monday, 25th July, 2016
at 5.00 pm

PLEASE NOTE TIME OF MEETING

Conference Room 4 - Civic Centre

This meeting is open to the public

Members of the Committee

Councillor Barnes-Andrews (Chair)
Councillor Inglis
Councillor Jordan
Councillor Noon
Councillor O'Neill
Councillor Parnell
Councillor Keogh (Vice-Chair)

Contacts

Service Director, Legal and Governance
Richard Ivory
Tel. 023 8083 2394
Email: richard.ivory@southampton.gov.uk

Senior Democratic Support Officer
Claire Heather
Tel. 023 8083 2412
Email: claire.heather@southampton.gov.uk

PUBLIC INFORMATION

Role of the Governance Committee

Information regarding the role of the Committee's is contained in Part 2 (Articles) of the Council's Constitution.

[02 Part 2 - Articles](#)

It includes at least one Councillor from each of the political groups represented on the Council, and at least one independent person, without voting rights, who is not a Councillor or an Officer of the Council.

Access – Access is available for disabled people. Please contact the Democratic Support Officer who will help to make any necessary arrangements.

Public Representations

At the discretion of the Chair, members of the public may address the meeting on any report included on the agenda in which they have a relevant interest. Any member of the public wishing to address the meeting should advise the Democratic Support Officer (DSO) whose contact details are on the front sheet of the agenda

Southampton City Council's Priorities:

- .Jobs for local people
- Prevention and early intervention
- Protecting vulnerable people
- Affordable housing
- Services for all
- City pride
- A sustainable Council

Smoking policy – The Council operates a no-smoking policy in all civic buildings.

Mobile Telephones:- Please switch your mobile telephones to silent whilst in the meeting

Use of Social Media:- The Council supports the video or audio recording of meetings open to the public, for either live or subsequent broadcast. However, if, in the Chair's opinion, a person filming or recording a meeting or taking photographs is interrupting proceedings or causing a disturbance, under the Council's Standing Orders the person can be ordered to stop their activity, or to leave the meeting. By entering the meeting room you are consenting to being recorded and to the use of those images and recordings for broadcasting and or/training purposes. The meeting may be recorded by the press or members of the public.

Any person or organisation filming, recording or broadcasting any meeting of the Council is responsible for any claims or other liability resulting from them doing so.

Details of the Council's Guidance on the recording of meetings is available on the Council's website.

Fire Procedure – in the event of a fire or other emergency a continuous alarm will sound and you will be advised by Council officers what action to take.

Dates of Meetings: Municipal Year 2016/17

2016	2017
6 June	13 February
25 July	24 April
14 November	
12 December	

CONDUCT OF MEETING

Terms of Reference

The terms of reference of the Governance Committee are contained in Part 3 of the Council's Constitution.

[03 - Part 3 - Responsibility for Functions](#)

Rules of Procedure

The meeting is governed by the Council Procedure Rules as set out in Part 4 of the Constitution.

Business to be discussed

Only those items listed on the attached agenda may be considered at this meeting.

Quorum

The minimum number of appointed Members required to be in attendance to hold the meeting is 3.

DISCLOSURE OF INTERESTS

Members are required to disclose, in accordance with the Members' Code of Conduct, **both** the existence **and** nature of any "Disclosable Pecuniary Interest" or "Other Interest" they may have in relation to matters for consideration on this Agenda.

DISCLOSABLE PECUNIARY INTERESTS

A Member must regard himself or herself as having a Disclosable Pecuniary Interest in any matter that they or their spouse, partner, a person they are living with as husband or wife, or a person with whom they are living as if they were a civil partner in relation to:

- (i) Any employment, office, trade, profession or vocation carried on for profit or gain.
- (ii) Sponsorship:

Any payment or provision of any other financial benefit (other than from Southampton City Council) made or provided within the relevant period in respect of any expense incurred by you in carrying out duties as a member, or towards your election expenses. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.

(iii) Any contract which is made between you / your spouse etc (or a body in which the you / your spouse etc has a beneficial interest) and Southampton City Council under which goods or services are to be provided or works are to be executed, and which has not been fully discharged.

(iv) Any beneficial interest in land which is within the area of Southampton.

(v) Any license (held alone or jointly with others) to occupy land in the area of Southampton for a month or longer.

(vi) Any tenancy where (to your knowledge) the landlord is Southampton City Council and the tenant is a body in which you / your spouse etc has a beneficial interests.

(vii) Any beneficial interest in securities of a body where that body (to your knowledge) has a place of business or land in the area of Southampton, and either:

- a) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body, or
- b) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which you / your spouse etc has a beneficial interest that exceeds one hundredth of the total issued share capital of that class.

Other Interests

A Member must regard himself or herself as having an, 'Other Interest' in any membership of, or occupation of a position of general control or management in:

Any body to which they have been appointed or nominated by Southampton City Council

Any public authority or body exercising functions of a public nature

Any body directed to charitable purposes

Any body whose principal purpose includes the influence of public opinion or policy

Principles of Decision Making

All decisions of the Council will be made in accordance with the following principles:-

- proportionality (i.e. the action must be proportionate to the desired outcome);
- due consultation and the taking of professional advice from officers;
- respect for human rights;
- a presumption in favour of openness, accountability and transparency;
- setting out what options have been considered;
- setting out reasons for the decision; and
- clarity of aims and desired outcomes.

In exercising discretion, the decision maker must:

- understand the law that regulates the decision making power and gives effect to it. The decision-maker must direct itself properly in law;
- take into account all relevant matters (those matters which the law requires the authority as a matter of legal obligation to take into account);
- leave out of account irrelevant considerations;
- act for a proper purpose, exercising its powers for the public good;
- not reach a decision which no authority acting reasonably could reach, (also known as the "rationality" or "taking leave of your senses" principle);
- comply with the rule that local government finance is to be conducted on an annual basis. Save to the extent authorised by Parliament, 'live now, pay later' and forward funding are unlawful; and
- act with procedural propriety in accordance with the rules of fairness.

AGENDA

1 APOLOGIES

To receive any apologies.

2 DISCLOSURE OF PERSONAL AND PECUNIARY INTERESTS

In accordance with the Localism Act 2011, and the Council's Code of Conduct, Members to disclose any personal or pecuniary interests in any matter included on the agenda for this meeting.

NOTE: Members are reminded that, where applicable, they must complete the appropriate form recording details of any such interests and hand it to the Democratic Support Officer.

3 STATEMENT FROM THE CHAIR

4 MINUTES OF PREVIOUS MEETING (INCLUDING MATTERS ARISING)

(Pages 1 - 2)

To approve and sign as a correct record the Minutes of the meeting held on 6th June 2016 and to deal with any matters arising, attached.

5 FINANCIAL STATEMENTS FOR 2015/16

(Pages 3 - 10)

Report of the Council's S151 Officer setting out the Audited Financial Statements for 2015/16.

6 ANNUAL GOVERNANCE STATEMENT 2015-16

(Pages 11 - 26)

Report of the Chief Financial Officer seeking to review the draft Annual Governance Statement 2015-16

7 EXTERNAL AUDIT - AUDIT RESULTS REPORT

(Pages 27 - 56)

Draft audit report summarising the findings from the audit of the Authorities 2015/16 financial statements and of any work undertaken to assess the Councils arrangements to secure value for money in its use of resources.

8 EXTERNAL AUDIT - AUDIT FEE LETTER 2016-17

(Pages 57 - 62)

Report of Chief Internal Auditor confirming the audit work and associated fee proposed by external audit for the 2016/17 financial year.

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GOVERNANCE COMMITTEE

MINUTES OF THE MEETING HELD ON 6 JUNE 2016

Present: Councillors Barnes-Andrews (Chair), Inglis, Noon, O'Neill, Keogh and Parnell

Apologies: Councillors Jordan

43. **ELECTION OF VICE CHAIR**

RESOLVED: that Councillor Keogh be elected as Vice-Chair for the 2016/2017 Municipal Year.

44. **MINUTES OF PREVIOUS MEETING (INCLUDING MATTERS ARISING)**

RESOLVED: that the minutes for the Committee meeting on 25th April 2016 be approved and signed as a correct record.

45. **FREEDOM OF INFORMATION, DATA PROTECTION AND REGULATION OF INVESTIGATORY POWERS ACTS: ANNUAL REVIEW 2015-16**

The Committee received and noted the report of the Service Director Legal and Governance detailing the Freedom of Information, Data Protection and Regulations of Investigatory Powers Acts Annual Review 2015/2016. The report also provided statistical information for the period 1st April 2015 to 31st March 2016 relating to Freedom of Information and associated legislation, Data Protection Act 1998 and Regulations of Investigatory Powers 2000.

46. **CHIEF INTERNAL AUDITOR ANNUAL REPORT & OPINION 2015 - 2016**

The Committee considered the report of the Chief Internal Auditor detailing the Chief Internal Auditor Annual Report and Opinion for 2015/2016. It was noted that the report concluded that Southampton City Council's Framework of Governance, Risk Management and Control was adequate, however the Committee raised concern as to the ongoing issues with PARIS and non-residential billing.

RESOLVED

- (i) That the Chief Internal Auditor Annual Report and Opinion 2015/2016 be approved; and
- (ii) That a report be submitted to the November meeting providing a detailed analysis of the ongoing issues with PARIS and non-residential billing.

47. **REVIEW OF PRUDENTIAL LIMITS AND TREASURY MANAGEMENT OUTTURN 2015/16**

The Committee considered the report of the Section 151 Officer detailing the Review of Prudential Limits and Treasury Management Outturn 2015/2016. The report provided details of the treasury management activities and performance for 2015/2016 against the approved prudential indicators for external debt and treasury management.

RESOLVED

- (i) That the Treasury Management activities for 2015/2016 and the outturn on the Prudential Indicators be noted;
- (ii) That the continued proactive approach to Treasury Management had led to reductions in borrowing costs and safeguarded investment income during the year be noted;
- (iii) That the revised Minimum Revenue Provision as detailed in paragraph 50 – 52 of the report be noted;
- (iv) That Council be recommended to approve the revised Minimum Revenue Provision and delegate authority to the Section 151 Officer to make any future changes which benefited the Authority and to report back at the next Treasury update; and
- (v) That a detailed Treasury Management briefing be provided to the Committee at the mid-year reporting cycle.

48. **FINANCIAL STATEMENTS 2015/16**

The Committee considered the report detailing the Financial Statements for 2015/2016 which in accordance with the Accounts and Audit Regulations 2011 were signed by the Section 151 Officer on 13th May 2016 which was earlier than the statutory requirement to have the statements signed by 30th June 2016.

RESOLVED

- (i) That the draft Financial Statements 2015/2016 had been signed by the Section 151 Officer be noted;
- (ii) That the approval of the audited Financial Statements 2015/2016 by Governance Committee would take place on 25th July, 2016 be noted; and
- (iii) That the revision to the statement on the Minimum Revenue Provision Policy as set out in paragraph 42 of the report be noted.

49. **ANNUAL GOVERNANCE STATEMENT 2015 - 16**

The Committee considered the report of the Service Director Finance and Commercialisation detailing the Annual Governance Statement 2015/2016 which in accordance with the Accounts and Audit Regulations the Council was required to develop and publish.

RESOLVED

- (i) That the Annual Governance Statement 2015/2016 be approved; and
- (ii) That the status of the 2014/2015 Annual Governance Statement Action Plan be noted.

Agenda Item 5

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	FINANCIAL STATEMENTS FOR 2015/16		
DATE OF DECISION:	25 JULY 2016		
REPORT OF:	SECTION 151 OFFICER		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Sue Poynter	Tel: 023 80 834153
	E-mail:	Sue.Poynter@southampton.gov.uk	
Director	Name:	Mel Creighton	Tel: 023 80 834897
	E-mail:	Mel.Creighton@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY	
NOT APPLICABLE	
BRIEF SUMMARY	
<p>In accordance with the Accounts and Audit Regulations 2011 the Financial Statements 2015/16 were signed by the Section 151 (S151) Officer on 13 May 2016 which is earlier than the statutory requirement to have the statements signed by the 30 June. A copy of the draft unaudited Financial Statements is available in the Members Room.</p>	
<p>The Annual Audit, carried out by our auditors Ernst & Young, commenced on 6 June 2016 and has now been completed. This report details the findings noted in the draft annual audit report of any major changes to the Financial Statements arising from the annual audit. Any further changes, identified on submission of the final audit report, which is expected prior to this meeting, will be presented at this meeting.</p>	
RECOMMENDATIONS:	
(i)	Notes the changes to the Financial Statements 2015/16 as a result of the annual audit as detailed in paragraphs 6 to 9 and appendix 1;
(ii)	Approves the audited Financial Statements 2015/16.
REASONS FOR REPORT RECOMMENDATIONS	
1.	It is a legal requirement that Statement of Accounts 2015/16 be approved and signed by the person presiding at this meeting, subject to any residual changes required following the completion of the Audit, by 30 September 2016.
2.	The draft accounts were signed by the Chief Financial Officer on 13 May 2016, significantly earlier than the statutory date of the 30 June 2016.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
3.	The Financial Statements have been prepared in accordance with statutory accounting principles. No other options have been considered as it is a legal requirement that the Financial Statements are prepared and signed by the

	person presiding at this meeting no later than 30 September 2016.
DETAIL (Including consultation carried out)	
	CONSULTATION
4.	Not applicable.
	FINANCIAL STATEMENTS
5.	<p>The Financial Statements are a complex document and the layout and information provided are defined by statutory requirements. The key issues that should be drawn to the attention of Committee were presented at its meeting on the 6 June 2016. A copy of this is available in Members rooms on request from report author or by following the link below.</p> <p>Governance Committee 6th June 2016</p>
	FINANCIAL STATEMENTS AMENDMENTS
6.	The Financial Statements for 2015/16 have been completed earlier than required this year in recognition that for the financial year 2017/18 it will be a legal requirement to have the accounts certified by 31 st May. This has been made possible by significant effort from the Finance Team and due to sound financial management procedures being in place. The draft annual audit report includes a limited number of adjustments, none of which change the overall bottom line position of the Council for 2015/16.
7.	There were a number of minor numerical and typographical errors some presentational and additional disclosure adjustments to the Draft Financial Statements signed by the CFO on 13 May 2016.
8.	<p>The latest Draft Financial Statements, along with full details of any changes made, are available in Members rooms on request from report author. The main adjustments to the statements were:</p> <ul style="list-style-type: none"> • Exit Packages Disclosure increased, to include payments in lieu of notice of approximately £474k, to £3.5M. • Future minimum lease payments receivable disclosure increased by approximately £15M to £521M. • Payments in respect of PFI and IFRIC 12 Service Concessions table updated for 2015/16.
9.	The remaining adjustments to the statements and notes are detailed in Appendix 1.
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
10.	The capital and revenue implications were considered as part of the General Fund Capital Outturn report and the General Fund Revenue Outturn report that were presented to Council on 20 July 2016.

<u>Property/Other</u>	
11.	There are no specific property implications arising from this report.
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
12.	Accounts and Audit Regulations 2011.
<u>Other Legal Implications:</u>	
13.	None.
POLICY FRAMEWORK IMPLICATIONS	
14.	Not applicable. It should be noted that the Financial Statements are prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the UK.

KEY DECISION?	Yes/No
WARDS/COMMUNITIES AFFECTED:	
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	Revisions made to Statement of Accounts 2015/16.
2.	
Documents In Members' Rooms	
1.	Draft Unaudited Financial Statements 2015/16
2.	Governance Committee Report 6 th June 2016 – Financial Statements 2015/16
Equality Impact Assessment	
Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out?	Yes/No
Privacy Impact Assessment	
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.	Yes/No
Other Background Documents	
Equality Impact Assessment and Other Background documents available for inspection at:	

Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	
2.	

Governance Committee

Revisions made to Statement of Accounts

	Page	New Note /Paragraph	Detail																		
1	9	HRA Outturn Position 2015/16 - Table	Responsive Repairs A (from F) Programmed Repairs F (from A) Total Repairs A (from F) Variances incorrectly shown																		
2	56	Financial Instruments Note 17 b)	<p>Financial Assets Table</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: right;">31 March 2015</th> <th style="text-align: right;">31 March 2016</th> </tr> <tr> <th></th> <th style="text-align: right;">£000</th> <th style="text-align: right;">£000</th> </tr> </thead> <tbody> <tr> <td>Principal</td> <td style="text-align: right;">21,622</td> <td style="text-align: right;">22,985</td> </tr> <tr> <td>EIR adjustments (from)</td> <td style="text-align: right;">649</td> <td style="text-align: right;">(757)</td> </tr> <tr> <td>Fair value adjustments</td> <td style="text-align: right;">568</td> <td style="text-align: right;">1,303</td> </tr> <tr> <td></td> <td style="text-align: right;"><u>22,839</u></td> <td style="text-align: right;"><u>23,531</u></td> </tr> </tbody> </table>		31 March 2015	31 March 2016		£000	£000	Principal	21,622	22,985	EIR adjustments (from)	649	(757)	Fair value adjustments	568	1,303		<u>22,839</u>	<u>23,531</u>
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3	58	Financial Instruments Note 17 f)	Fair Value Tables Tables amended so that fair values only shown against those assets and liabilities that require disclosure of fair values - previous years fair values restated for consistency																		
4	105	Annual Governance Statement	<p>Para b) incorrectly showing para c)- changed to</p> <p>The Council Strategy 2014-17 was formally approved by Council in July 2014 and reflects feedback from residents through the City Survey conducted early 2014. The Council Strategy is however subject to periodic review to ensure that it reflects key priorities and outcomes taking into account both internal and external factors. See comments above</p> <p>The council has adopted a Code of Corporate Governance ("CCG") which identifies, in one document, how the council ensures that it runs itself in a lawful, structured, ethical and professional manner. The CCG is administered by the Service Director – Legal and Governance and is subject to an annual 'light touch' review with any recommendations presented to the Governance Committee for approval.</p>																		
5	24	Index	Pooled Budgets 85 (not 86)																		
6	49	PPE Note 12	PPE Amended reference to 1q from 1r																		
7	4	Political Structure	inserted " structure " after political																		
8	7	General Fund Outturn	Amended headings £000 (from £0)																		
9	35	Accounting Policies note 1q	removed apostrophe from Councils																		
10	56	Financial Instruments Balances Note 17 b)	Table 1 - All subtotals amended to bracketed - some shown without brackets																		
11	57	Financial Instruments Note 17 e)	Previous years gains (£572k) incorrectly shown against losses - amended																		
12	107	Audit Governance Statement	Providing a mixed economy Separate bullet point - incorrectly shown on the end of previous bullet point																		
13	109	Audit Governance Statement	inserted "to" with regard to best practice																		

	Page	New Note /Paragraph	Detail																																																																																									
14	110	Audit Governance Statement	inserted space between in focussing																																																																																									
15	67	Capital Adjustment Account Note 22 b)	Split out Amortisation £802k from Depreciation & Impairment £46,210k (£47,012k) and prior years £588k and £56,634k respectively																																																																																									
16	69	Notes to Cash Flow Statement 23 a)	Table Amended Split of Depreciation and Impairment <table style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">£000</td> <td style="text-align: right;">£000</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">41,410</td> <td style="text-align: right;">20,710</td> </tr> <tr> <td>Impairment</td> <td style="text-align: right;">4,798</td> <td style="text-align: right;">25,498</td> </tr> <tr> <td></td> <td style="text-align: right;"><u>46,208</u></td> <td style="text-align: right;"><u>46,208</u></td> </tr> </table>		£000	£000	Depreciation	41,410	20,710	Impairment	4,798	25,498		<u>46,208</u>	<u>46,208</u>																																																																													
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17	74	Officers Remuneration Note 26 b)	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th rowspan="2">Exit Package Cost Band (including special payments)</th> <th colspan="2">Number of compulsory Redundancies</th> <th colspan="2">Number of Other Departures agreed</th> <th colspan="2">Total Number of packages by Cost Band</th> <th colspan="2">Total Cost of Exit Packages in each Band</th> </tr> <tr> <th>2014/15</th> <th>2015/16</th> <th>2014/15</th> <th>2015/16</th> <th>2014/15</th> <th>2015/16</th> <th>2014/15 £000</th> <th>2015/16 £000</th> </tr> </thead> <tbody> <tr> <td>£0-£20,000</td> <td style="text-align: center;">18</td> <td style="text-align: center;">21</td> <td style="text-align: center;">54</td> <td style="text-align: center;">60</td> <td style="text-align: center;">72</td> <td style="text-align: center;">81</td> <td style="text-align: center;">503</td> <td style="text-align: center;">823</td> </tr> <tr> <td>£20,001-£40,000</td> <td style="text-align: center;">3</td> <td style="text-align: center;">5</td> <td style="text-align: center;">17</td> <td style="text-align: center;">30</td> <td style="text-align: center;">20</td> <td style="text-align: center;">35</td> <td style="text-align: center;">556</td> <td style="text-align: center;">989</td> </tr> <tr> <td>£40,001-£60,000</td> <td style="text-align: center;">4</td> <td style="text-align: center;">2</td> <td style="text-align: center;">5</td> <td style="text-align: center;">12</td> <td style="text-align: center;">9</td> <td style="text-align: center;">14</td> <td style="text-align: center;">400</td> <td style="text-align: center;">660</td> </tr> <tr> <td>£60,001-£80,000</td> <td style="text-align: center;">1</td> <td style="text-align: center;">1</td> <td style="text-align: center;">0</td> <td style="text-align: center;">8</td> <td style="text-align: center;">1</td> <td style="text-align: center;">9</td> <td style="text-align: center;">73</td> <td style="text-align: center;">623</td> </tr> <tr> <td>£80,001-£100,000</td> <td style="text-align: center;">0</td> <td style="text-align: center;">0</td> <td style="text-align: center;">0</td> <td style="text-align: center;">0</td> <td style="text-align: center;">0</td> <td style="text-align: center;">0</td> <td style="text-align: center;">0</td> <td style="text-align: center;">0</td> </tr> <tr> <td>£100,001-£150,000</td> <td style="text-align: center;">3</td> <td style="text-align: center;">0</td> <td style="text-align: center;">2</td> <td style="text-align: center;">2</td> <td style="text-align: center;">5</td> <td style="text-align: center;">2</td> <td style="text-align: center;">622</td> <td style="text-align: center;">246</td> </tr> <tr> <td>£150,000+</td> <td style="text-align: center;">0</td> <td style="text-align: center;">0</td> <td style="text-align: center;">0</td> <td style="text-align: center;">1</td> <td style="text-align: center;">0</td> <td style="text-align: center;">1</td> <td style="text-align: center;">0</td> <td style="text-align: center;">155</td> </tr> <tr> <td>Total</td> <td style="text-align: center;">29</td> <td style="text-align: center;">29</td> <td style="text-align: center;">78</td> <td style="text-align: center;">113</td> <td style="text-align: center;">107</td> <td style="text-align: center;">142</td> <td style="text-align: center;">2,154</td> <td style="text-align: center;">3,496</td> </tr> </tbody> </table> <p>Exit Packages Total costs of exit packages excluded Payments in Lieu of Notice Costs totals amended to include, including prior years, which increased 15/16 totals by £474k</p>	Exit Package Cost Band (including special payments)	Number of compulsory Redundancies		Number of Other Departures agreed		Total Number of packages by Cost Band		Total Cost of Exit Packages in each Band		2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15 £000	2015/16 £000	£0-£20,000	18	21	54	60	72	81	503	823	£20,001-£40,000	3	5	17	30	20	35	556	989	£40,001-£60,000	4	2	5	12	9	14	400	660	£60,001-£80,000	1	1	0	8	1	9	73	623	£80,001-£100,000	0	0	0	0	0	0	0	0	£100,001-£150,000	3	0	2	2	5	2	622	246	£150,000+	0	0	0	1	0	1	0	155	Total	29	29	78	113	107	142	2,154	3,496
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Total	29	29	78	113	107	142	2,154	3,496																																																																																				
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DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	ANNUAL GOVERNANCE STATEMENT 2015-16		
DATE OF DECISION:	25 JULY 2016		
REPORT OF:	CHIEF FINANCIAL OFFICER		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Peter Rogers	Tel: 023 8083 2835
	E-mail:	peter.rogers@southampton.gov.uk	
Director	Name:	Mel Creighton	Tel: 023 8083 4897
	E-mail:	mel.creighton@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY	
Not applicable	
BRIEF SUMMARY	
In accordance with the Accounts and Audit Regulations the council is required to develop and publish an Annual Governance Statement (“AGS”). The AGS is intended to provide an accurate representation of the corporate governance arrangements in place during the year and to identify any significant gaps or areas where improvements may be required.	
An important part of the process is for the Governance Committee to review and approve the final draft of the AGS prior to the document being presented to the Chief Executive and Leader of the Council for signing.	
RECOMMENDATIONS:	
The Governance Committee is asked to:	
	(i) Review the final draft 2015-16 AGS (Appendix 1)
REASONS FOR REPORT RECOMMENDATIONS	
1.	The Governance Committee has responsibility to provide independent assurance on the adequacy of the risk management framework and the internal control and reporting environment, including (but not limited to) the reliability of the financial reporting process and the annual governance statement.
2.	This responsibility extends to receiving, reviewing and approving the draft AGS prior to the document being presented to the Chief Executive and Leader of the Council for signing.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
3.	The production of an AGS is a mandatory requirement in accordance with Regulation 6 (1) (b) of the Accounts and Audit (England) Regulations 2015 and therefore no alternative options have been considered.
DETAIL (Including consultation carried out)	
4.	The Committee will recall that, at the previous meeting on 6 th June, Members were invited to comment on an early draft of the AGS. This is in accordance with CIPFA guidance where it is recommended that “the AGS is first

	reviewed by members of the Audit [Governance] Committee at an early stage to allow comments and contributions to be made. The AGS, which forms part of the Statement of Accounts, must be current at the time that it is published’.
5.	<p>The final draft of the 2015-16 AGS (Appendix 1) includes some minor amendments and reflects both comments made at the June 2016 Governance Committee meeting together with updates received from officers. A summary of these minor amendments (as highlighted on the draft AGS) are as follows:</p> <ul style="list-style-type: none"> • Page 3 – The revised Council Strategy is to be presented to Council for approval in September 2016. • Item P) Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful This paragraph has been redrafted to provide further clarity regarding the arrangements in place. • Governance Issue 4 The new Partnership Code was to be presented, as a supplementary report on the constitution, at the July 2016 Council meeting however a decision has been taken that the next changes to the constitution will not be made until September 2016 to combine with work on the revisions to the Financial Procedure Rules. • Governance Issue 5 It has been agreed that the development of a Workforce Strategy is to be deferred until September 2016.
6.	Subject to any further comments, the final draft of the AGS will be presented to the Chief Executive and Leader of the Council for signing
7.	As per the process adopted in previous years, the Governance Committee will be provided with a mid-year update report in respect of the status of the ‘Planned Actions’.
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
8.	None
<u>Property/Other</u>	
9.	None
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
10.	The Accounts and Audit (England) Regulations 2015 require the council to adopt good governance arrangements in respect of the discharge of its functions. The above arrangement are intended to meeting those responsibilities.
<u>Other Legal Implications:</u>	
11.	None

POLICY FRAMEWORK IMPLICATIONS	
12.	None
KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	Not applicable
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	Draft AGS 2015-16
Documents In Members' Rooms	
1.	None
Equality Impact Assessment	
Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out?	No
Privacy Impact Assessment	
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out?	No
Other Background Documents	
Equality Impact Assessment and Other Background documents available for inspection at:	
Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	None

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ANNUAL GOVERNANCE STATEMENT

SCOPE OF RESPONSIBILITY

Southampton City Council (“the council”) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the council is responsible for putting in place proper arrangements for the governance of its affairs, and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The council has approved and adopted a Code of Corporate Governance that is consistent with the principles of the CIPFA/SOLACE Framework ‘Delivering Good Governance in Local Government’. A copy of the code is on our website at:

http://www.southampton.gov.uk/policies/Code-of-Corporate-Governance_tcm63-364106.pdf

or can be obtained from the:

Service Director – Legal and Governance,
Southampton City Council,
Civic Centre,
Southampton,
SO14 7LY

This statement explains how the council has complied with the code and also meets the requirements of the Accounts and Audit (England) Regulations 2015, Regulation 6(1), which requires all relevant bodies to prepare an annual governance statement.

THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems and processes, cultures and values by which the council is directed and controlled and its activities through which it accounts to, engages with and leads its communities. It enables the council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the council’s policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the council for the year ended 31st March 2016 and up to the date of approval of the statement of accounts.

ANNUAL GOVERNANCE STATEMENT

THE GOVERNANCE FRAMEWORK

The key elements of the systems and processes that comprise the council's governance arrangements include arrangements for:

a) Identifying and communicating the authority's vision of its purpose and intended outcomes for citizens and service users

Delivery of key outcomes and priorities is guided by a framework of strategic plans and policies which are developed and agreed at three different levels:

- Sub-regional level, which cover more than one local authority;
- City level by 'Southampton Connect' and with our partners; and
- Council level for services which we deliver or commission.

The sub-regional level is through the Partnership for Urban South Hampshire ("PUSH") and the Solent Local Enterprise Partnership ("Solent LEP"). PUSH is a collaborative partnership working arrangement between the local authorities in the area to support the sustainable economic growth of the sub region. Solent LEP is led by the business community and supported by three university partners, the further education sector, three unitary authorities, eight district councils, one county council and the voluntary and community sector – all working together to secure a more prosperous and sustainable future for the Solent area. PUSH works collaboratively with Solent LEP to deliver its roles and objectives.

Southampton Connect is the strategic partnership in the city which seeks to address the key challenges facing the city in order to improve outcomes for all those who live, work and visit the city. This group, chaired by the Chief Executive of Southampton City Council and including city leaders for health, business, education, police, fire and rescue and the voluntary sector, have come together to agree a 10 year city vision, 'Southampton – A city of opportunity where everyone thrives'.

See the following link:

http://www.southampton-connect.com/images/Updated%20CITY%20STRATEGY-15-25_tcm23-376953.pdf

The three key priorities identified in the Southampton City Strategy 2015-2025 ("City Strategy") have been developed through focusing on the challenges facing the city, regional aspirations and feedback from residents via the City Survey (conducted in early 2014). The City Strategy also identifies a number of 'cross-cutting' themes that require the collective action of Southampton Connect partners to progress.

Southampton Connect, who meet on a monthly basis, work closely with the following key city partnerships to deliver the vision:

- Health and Wellbeing Board; and
- Safe City Partnership; and
- Employment, Skills & Learning Partnership.

These partnerships enable the council to work with organisations from the public, private and voluntary sectors on cross-cutting issues, which the council cannot tackle alone. In addition, there are 3 statutory partnerships: the Youth Offending Service Board, the Southampton Local Safeguarding Children Board and the Southampton Local Safeguarding Adults Board.

ANNUAL GOVERNANCE STATEMENT

The Southampton City Council Strategy 2014-2017 (“Council Strategy”) is a key strategic document that outlines how the council will contribute towards the city vision. The Council Strategy sets out council’s priorities for the period and the required outcomes and associated success measures by 2017. The council has identified and agreed seven priorities with each having specific outcomes and measures aligned to them and explain where the council will focus its attention to deliver to the vision.

During 2015-16 these were further refined to 4 priority outcomes which will be reflected in a revised Council Strategy to be presented to Council for approval in **July** September 2016.

See the following link:

[http://www.southampton.gov.uk/Images/Council%20Plan%202014\(13Nov\)_tcm63-367231.pdf](http://www.southampton.gov.uk/Images/Council%20Plan%202014(13Nov)_tcm63-367231.pdf)

b) Reviewing the authority’s vision and its implications for the authority’s governance arrangements

The Council Strategy 2014-17 was formally approved by Council in July 2014 and reflects feedback from residents through the City Survey conducted early 2014. The Council Strategy is however subject to periodic review to ensure that it reflects key priorities and outcomes taking into account both internal and external factors. See comments above

The council has adopted a Code of Corporate Governance (“CCG”) which identifies, in one document, how the council ensures that it runs itself in a lawful, structured, ethical and professional manner. The CCG is administered by the Service Director – Legal and Governance and is subject to an annual ‘light touch’ review with any recommendations presented to the Governance Committee for approval.

c) Translating the vision into objectives for the authority and its partnerships

The Council Strategy identifies the key priorities, expected outcomes and success measures however the City Council continues to face significant financial challenges with a projected funding gap set to widen further due to increasing demand driven by demographics and long standing social, health and economic pressures faced by many residents, particularly our most vulnerable residents.

It is recognised that in order to deliver the outcomes and priorities of the Council Strategy 2014-17 the council needs to radically change how it does business and to embrace new ways of working. A new operating model and Transformation Programme, approved by Cabinet and Full Council in February 2015, is being implemented and includes digital transformation, restructuring of the council and a systematic redesign of how services are delivered and managed. This will include the council becoming less dependent on central government funding, increasing income generation and regularly commissioning the services needed based on outcomes.

d) Measuring the quality of services for users, ensure they are delivered in accordance with the authority’s objectives and to ensure they represent the best use of resources and value for money

Performance against the key success measures is actively monitored and reported to both the Council’s Management Team, Head of Strategy Unit and the Overview and Scrutiny Management Committee. Performance reports, in the form of performance scorecards with ‘RAG’ (Red/Amber/Green) status indicators, are published quarterly on the council’s website.

In addition, all significant commercial partnership working arrangements have a range of key performance indicators which are used to verify and manage service performance. The council is committed to achieving best value from its suppliers and ensuring that goods and services are

ANNUAL GOVERNANCE STATEMENT

procured in the most efficient and effective way. Regular review meetings are held with key suppliers in order to ensure that contracts remain fit for purpose.

The council's 'Contract Procedure Rules', which form part of the council's Constitution, govern how the council buys the supplies, services and works that it needs.

e) Defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication in respect of the authority and partnership arrangements

The council has a Constitution that sets out how it operates and how decisions are made (including an Officer Scheme of Delegation). The Constitution, which is divided into 15 Articles and sets out the detailed rules governing the council's business, is published on the council's website at: <http://www.southampton.gov.uk/council-democracy/meetings/council-constitution.aspx>

f) Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff

The council's Constitution contains both an Officer Code of Conduct and a Members' Code of Conduct which set out the expected behaviour and standards to be adhered to. In addition, a 'Code of Conduct and Disciplinary Rules' are in place for employees. The Code of Conduct sets out the expected standards of behaviour for all employees and the Disciplinary Rules set out examples of behaviour which are considered to be a breach of the Code of Conduct or a breach of the employee's contract of employment.

g) Reviewing the effectiveness of the authority's decision making framework, including delegation arrangements, decision making in partnerships and robustness of data quality

The council's Constitution details how the council operates, including how decisions are made and the role of Overview and Scrutiny. It also includes an Officer Scheme of Delegation setting out the powers, duties or functions that may be exercised under Delegated Powers. The Service Director – Legal and Governance conducts an annual review of the council's constitutional arrangements, which is considered by the council's Governance Committee, in its governance role, prior to submission to the Annual General Meeting of the council in May.

h) Reviewing the effectiveness of the framework for identifying and managing risks and demonstrating clear accountability

The council has a 'Risk Management Policy and Strategy' that sets out the framework, arrangements and responsibilities in respect of how risks, relating to the delivery of key outcomes and priorities, are identified and managed. The document is subject to annual review to ensure that it continues to reflect good practice and remains aligned with current business processes and practices. The policy and strategy is presented to the Governance Committee for review and approval.

The Governance Committee has responsibility to provide independent assurance on the adequacy of the risk management framework and the internal control and reporting environment. In addition, the Risk Management Policy and Strategy summarises the principal roles and responsibilities recognising that all employees, members and those who act on behalf of the council have a role to play in the effective management of risk.

ANNUAL GOVERNANCE STATEMENT

i) Ensuring effective counter-fraud and anti-corruption arrangements are developed and maintained

The council is committed to safeguarding public funds and has in place an anti-fraud and anti-corruption policy statement and strategy. The strategy summarises the responsibilities of Members, Chief Officers and employees and outlines the process to be followed where there is suspicion of financial irregularity. The strategy applies equally to all organisations with which the Council has joint working relations.

The council also has in place an Anti-Money Laundering policy and a Bribery Policy which are also published on the council's website and set out both the expectations and responsibilities of Members, Chief Officers and employees. These policies and strategies are subject to periodic review.

j) Ensuring effective management of change and transformation

The council's Transformation Programme is led by the Transformation Implementation Director who reports to the Chief Executive. The Programme is governed by the Transformation and Improvement Board ("TIB") which is chaired by the Cabinet Member lead for Transformation and supported by the Council Management Team ("CMT").

Progress and delivery of the overall Programme and individual projects is in the first instance monitored at Transformation Director and Portfolio Lead level, and thereafter by CMT and the 'TIB' which is led by Cabinet Members. CMT and TIB review the validity and achievability of transformation projects and provide approval (or not) to projects. Work in 2015-16 has included progress on digital transformation, renegotiating the contract with the council's Strategic Services Partner (Capita), centralising business operations and restructuring the council.

A fundamental part of the Transformation Programme is the implementation of a new operating model for the Council which is aligned with, and focused on, delivering the outcomes and priorities of Council Strategy 2014-17. The new operating model, which is to be fully implemented by 2017, is intended to create a sustainable council that is:

- **More self-reliant** – over time becoming less dependent on central government funding and increasing income generation.
- **Focused on outcome-based services** - regularly commissioning the services needed based on outcomes for residents, and making evidence based decisions on those services that need to be stopped or changed.
- **Quicker to respond** – more able to adapt to changing circumstances and residents' needs including improving the digital offer to our customers.
- **Equipped to work in new ways** – implement new ways of working for council staff, seeking new ways of reducing procurement spend and better use of assets.
- **Providing a mixed economy of service providers** – taking different approaches to delivering services, taking ideas from all sectors as well as the public sector.

k) Ensuring the authority's financial management arrangements conform with the governance requirements of the CIPFA 'Statement on the Role of the Chief Financial Officer in Local Government (2010)'

The council's financial management arrangements conform to the governance requirements of the CIPFA 'Statement on the Role of the Chief Financial Officer ("CFO") in Local Government (2010)'. The CFO is professionally qualified and is a member of the Council Management Team and has direct access to the Chief Executive. The CFO is actively involved in ensuring that strategic objectives are aligned to the longer-term finance strategy. The CFO has input into all major

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decisions, advises the Executive on financial matters and is responsible for ensuring that budgets are agreed in advance, that the agreed budget is robust and that the finance function is fit for purpose.

l) Ensuring the authority's assurance arrangements conform with the governance requirements of the CIPFA 'Statement on the Role of the Head of Internal Audit (2010)'

The council's assurance arrangements conform to the governance requirements of the CIPFA 'Statement on the Role of the Head of Internal Audit (2010)'. The Head of Internal Audit (Chief Internal Auditor) is professionally qualified and is responsible for reviewing and reporting on the adequacy of the council's internal control environment, including the arrangements for achieving value for money.

The Chief Internal Auditor has direct access to the Chief Executive, and to the council's Monitoring Officer where matters arise relating to Chief Executive responsibility, legality and standards. Where it is considered necessary to the proper discharge of internal audit function, the Chief Internal Auditor has direct access to elected Members of the Council and in particular those who serve on committees charged with governance (i.e. the Governance Committee).

m) Ensuring effective arrangements are in place for the discharge of the monitoring officer function

The Service Director – Legal and Governance is designated as the Monitoring Officer with responsibility for ensuring compliance with established policies, procedures, laws and regulation, and reporting any actual or potential breaches of the law, or maladministration, to the full Council and/or to the Cabinet.

n) Ensuring effective arrangements are in place for the discharge of the head of paid service function

The Chief Executive is designated as the Head of Paid Service with responsibility for leading the Council Management Team in driving forward the strategic agenda, set by Cabinet. The Chief Executive together with the Council Management Team is responsible for the leadership and direction of the council including the co-ordination and commissioning of council-wide activity and programme management.

o) Undertaking the core functions of an audit committee, as identified in CIPFA's 'Audit Committee – Practical Guidance for Local Authorities'

The council has a formally constituted Governance Committee that undertakes the core functions of an audit committee and operates in accordance with CIPFA guidance. It provides independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance statement process.

p) Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful

The council's Constitution sets out the way in which the council runs and the processes it uses. The Constitution ensures that these procedures are efficient, transparent and accountable. The law requires some of these processes, while others are a matter for the council to choose. The Constitution is divided into 15 Articles which set out the basic rules governing the Council's business. The Articles include Decision Making and Finance Contract and Legal Matters with more detailed procedures and codes of practice provided in separate rules and protocols. These include Access to Information Procedure Rules, Council Procedure Rules and Executive Procedure Rules.

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In addition, 'Decision Making - Corporate Standards and Guidance for Officers' is published on the internet and sets out the decision-making process, highlighting those aspects of decision making that are compulsory and must be complied with in all respects.

q) Whistle blowing and receiving and investigating complaints from the public

The council has in place 'Whistleblowing Policy' (Duty to Act) which reflects the legal framework and obligation on the council to enable staff to raise concerns which may involve unlawful conduct, illegality, financial malpractice or dangers to the public, employees or the environment. This procedure sets out the action that individuals should take to report a concern and also the action to take if, in extreme circumstances, a matter is not addressed or if they feel that raising the matter internally could result in evidence of malpractice being concealed.

There is a Corporate Complaints policy and procedure in place which is published on the council's website and sets out how a complaint will be dealt with. In accordance with legislation there is a separate procedure in place in respect of Children's Services Complaints. There is also an 'Unreasonably Persistent and Vexatious Customer Behaviour Policy'. Complaints about Members are dealt with under the Members' Code of Conduct.

r) Identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training

A Member Development Strategy is in place which sets out how Member Learning and Development will be identified, delivered and managed. The Strategy refers to the following key values:

- Development will be available to all Members;
- Development will be based on the identified and agreed needs of the individual Member;
- All Members will contribute to identifying and agreeing their development needs
- Development will be delivered through a variety of methods and times to ensure equality of access; and
- An acknowledgement that Members may have transferable skills that can be used to help them perform or develop their Council role.

In addition, a comprehensive induction programme for new Members is in place and delivered following elections.

The identification of Senior Officer development needs forms part of the performance appraisal process and will be an integral part of the new 'Performance Contracts' (introduced as part of the New Operating Mode). of considerable importance during this time of transformation and change

A 'Manager's Toolkit' is in place which consists of a range of tools that both inform and guide managers and supervisors with regard best practice in undertaking key processes of management and to enable a consistent approach. The Toolkit is also able to be used by newly appointed managers as part of their induction with established managers able to use the toolkit as a refresher. The toolkit, which is based on best practice, consists of different types of learning opportunities and materials.

In order to better reflect the new requirements of our transforming council, the Learning and Development Plan is to be run on a 6 monthly cycle (April – September and October to March) and will be based on training that is essential from the council perspective (e.g. due to law / regulation or mandate) and the skills / knowledge required by staff to carry out their work role to the appropriate standard.

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This “essential learning” will be identified through:

- the creation of Learning and Development Pathways (beginning with the main occupational groupings across the council) and the developing role of managers
- the continued evolution of the Managers’ Toolkit, reflecting the core behaviours and provision of key learning opportunities for new skills as well as the embedding of role requirements (e.g. HR Policy Case Study workshops) and accreditation of learning

The Learning and Development team will work with stakeholder managers / subject matter experts to inform and construct the pathways and identify methods of training provision which are affordable, sustainable and accessible with the new training plan format commencing in October 2016.

s) Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation

The council supports the principle that people should have the opportunity to voice their opinions on issues that affect them. The views of customers are at the heart of the council’s service delivery arrangements and are actively sought.

The council’s website includes a ‘Have your say’ section which set out how residents and other stakeholders can voice their opinions and shape service delivery. It includes information on:

- Consultation
- E-Petitions
- Comments, compliments and complaints
- Have your say at meetings

In addition, where appropriate, public consultation is used to seek the views of residents and stakeholders. For example the 2015-16 Pre Budget consultation process helped shape the final 2016-17 budget report. Information was made available in an easy-to-understand format and respondents were informed on how their feedback was used. This was then reported to Cabinet before they made their final recommendations to Council.

The council has established a ‘People’s Panel’ which now has a membership of over 1,000, and an average response rate of 59% from them over 25 polls and surveys. This Panel comprises a group of residents who are interested in taking part in consultations and other opportunities to express their views on council services, health services and living in the city, the results of which will be used to inform future decisions and services. For example, a People’s Panel event on housing was held in November 2015 whereby participants were invited to discuss four important questions about housing in the city, and had the opportunity to listen to and question a panel of experts.

The council also track residents’ views over time to see how changes in the city affect their opinions and experience of the city. Members of the People’s Panel may also be asked to take part in various forms of activity including surveys, quick polls, interviews and workshops.

Southampton City Council is the first council to develop a ‘Citizen Science’ project with around 100 members of the People’s Panel. ‘Citizen Science’ is defined as scientific work undertaken by members of the public, often in collaboration with or under the direction of professional scientists and scientific institutions. In this case the participants are supported by the Council’s Strategy Unit, as well as academics from the University of Southampton and the University of Manchester. Citizen Science has been used often in the natural sciences but the social science application is more recent and this is one of the largest cohorts of participants ever in the UK for a project of this type. The project is focussing on what prevents residents from recycling and what could help them recycle more. The participants have framed research questions and are in the process of designing methodologies.

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The council also seeks to engage the input of children and young people and works closely with schools. An 'Imagine the Future' event was held in 2015, which brought together 200 children and young people from Southampton schools. This event is to be held again 2016 with aim to increase its reach to the young people of the city with up to 300 children joining in.

There is ongoing work to develop a strong focus on youth participation in the city which includes facilitating creative focus groups with children and young people to get their views and suggestions on the draft Participation and Engagement Strategy, which will influence the development of the final strategy. In addition, as part of the council's youth offer, a 'Youth Forum Southampton' continues to be developed which is intended as a platform for children and young people to have their say on a variety of topics which affect both them and their families.

This is in addition to the Southampton City Residents Survey which took place in 2014 and will be repeated every other year for the next five years. The survey, undertaken in partnership with other key organisations working in the city including the local Clinical Commissioning Group, Police, NHS Trusts, Fire Service and further education bodies, is an important step in building a better understanding of our residents.

t) Enhancing the accountability for service delivery and effectiveness of other public service providers

A number of the council's key services are delivered in partnership with external service providers. All such arrangements include a suite of key performance indicators and are based upon a culture of continuous improvement recognising the need to achieve a balance between the council's ongoing financial challenges and long term strategic aims. The council is committed to achieving best value from its suppliers and ensuring that goods and services are procured in the most efficient and effective way. Regular review meetings are held with key suppliers in order to ensure that contracts remain fit for purpose.

In addition, all significant commercial partnership working arrangements have a range of key performance indicators which are used to verify and manage service performance. These outsourced contracts are managed by a centralised Contract Management Team which provides a senior management interface between the council and our partnership service providers.

u) Incorporating good governance arrangements in respect of partnerships and other joint working as identified by the Audit Commission's report on the governance of partnerships, and reflecting these in the authority's overall governance arrangements

An Internal Audit review on 'Partnership Arrangements' was undertaken in 2014 which focussed on the adequacy and coverage of partnership guidance to address key risk exposure to the organisation. The overall opinion was that 'adequate assurance could be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives'.

The report did however identify the need for the council's 'Partnership Code' to be updated and enhanced to emphasise resourcing, governance, accountability, performance and alignment to strategic aims when entering into partnership arrangements. The 'Partnership Code', which forms part of the council's Constitution, has been updated and will be presented to Full Council in **July** September 2016 for review and approval.

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Support, including planning, performance monitoring and projects, for following key partnerships has been brought together into the council's new Strategy Unit, to ensure coordinated and effective support is provided to all Boards:

- Southampton Connect
- Health and Wellbeing Board
- Safe City Partnership
- Southampton Employment, Skills and Learning Partnership

The chairs of these partnerships meet once a quarter to review shared learning and joint working opportunities across the partnerships.

REVIEW OF EFFECTIVENESS

The council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is led by a 'Controls Assurance Management Group' comprising the Service Director – Strategic Finance & Commercialisation (Section 151 Officer), Chair of the Governance Committee, Chief Strategy Officer, Service Director – Legal & Governance (Monitoring Officer) and Chief Internal Auditor.

The review process, applied in respect of maintaining and reviewing the effectiveness of the system of internal control, is informed by:-

- The views of Internal Audit regularly reported to Governance Committee via the 'Internal Audit: Progress Report' which include executive summaries of new reports published where critical weaknesses or unacceptable levels of risk were identified. In addition, where appropriate, the relevant Service Director being required to attend a meeting to update the Committee regarding progress and actions;
- The views of external auditors, regularly reported to the Governance Committee, including regular progress reports, the Annual Audit Letter and Audit Results Report – ISA260;
- The Chief Internal Auditors 'Annual Report and Opinion' on the adequacy and effectiveness of the Council's internal control environment;
- The Internal Audit Charter and delivery of the annual operational plan;
- The work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment;
- The completion of an annual 'Self-Assessment Statement' by Service Directors which cover the key processes and systems that comprise the council's governance arrangements and is intended to identify any areas where improvement or further development is required;
- Completion of an 'Assurance Framework' document which reflects the key components of the Council's overall governance and internal control environment. This document, based on CIPFA/SOLACE guidance, records the key controls in place, and sources of assurance, and identifies any significant gaps or weaknesses in key controls;
- The independent views of regulatory inspection agencies such as Ofsted and the Care Quality Commission;
- The Risk Management Policy and Strategy, specifically the Strategic Risk Register;
- The work of the Governance Committee in relation to the discharge of its responsibility to lead on all aspects of corporate governance.

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We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Governance Committee, and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below.

SIGNIFICANT GOVERNANCE ISSUES

The following significant governance issues have been identified:

1.	Governance Issue (CARRIED FORWARD FROM 2014-15)
	Information Governance arrangements need to be reviewed and aligned with new organisational structures and operational arrangements.
	Planned Action: Review and implement appropriate arrangements to provide adequate organisational resources in each service area to enable compliance and oversight of information governance, to include monitoring and reviewing compliance, report breaches, ensuring action plans are implemented. An operational review is also taking place as a result of a voluntary audit by the Information Commissioners Office in January 2016. The Action Plan (as agreed by CMT) will be in effect by September 2016 and will address this issue.
	Responsible Officer: Service Director - Legal & Governance Target for completion: Sept 2016
2.	Governance Issue
	The general level of staff awareness of the existence and content of the 'Whistleblowing Duty to Act' policy, 'Anti-Fraud and Corruption Strategy' and 'Anti Money Laundering Policy' and associated responsibilities is inconsistent.
	Planned Action: A 'Corporate Standards' Training programme, which will incorporate the above policies, is being developed and will be rolled out to managers in 2016-17.
	Responsible Officer: HR Strategy Manager (Organisational Development and Reward) Target for completion: March 2017
3.	Governance Issue
	There is need for more a formal, robust and consistent approach to succession planning, performance appraisal and performance monitoring across the organisation.
	Planned Action: Phase 2 of the council's management restructure (which form parts of the council's wider Transformation Programme) will see the introduction of a more robust and consistent approach to performance management, via individual performance contracts, and will also seek to address future succession planning issues. In light of significantly reduced resources succession planning remains an issue.
	Note: Phase 1 of the programme involving the restructure of the senior management team from 21 to 13 was implemented in February 2016.
	Responsible Officer: Council Management Team Target for completion: Sept 2016

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4.	Governance Issue
	The Partnership Code, which forms part of the council's constitution needs to be reviewed and updated to reflect the current approach.
	Planned Action: A new Partnership Code has been drafted and will be presented, as a supplementary report on the constitution, at the September July 2016 Council meeting.
	Responsible Officer: Service Director - Intelligence, Insight & Communications Target for completion: July Sept 2016
5.	Governance Issue
	Reduced overall capacity and loss of some experienced staff coupled with implementation of a new organisational structure will present challenges in terms of the demands on managers
	Planned Action: To be addressed as part of the development of a Workforce Strategy to be considered in July September 2016.
	Responsible Officer: HR Strategy Manager (Organisational Development and Reward) Target for completion: July Sept 2016

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness, and will monitor their implementation and operation as part of our next annual review.

Signed

.....
Dawn Baxendale
 (Chief Executive)
 On behalf of Southampton City Council

.....
Councillor Simon Letts
 (Leader of the Council)

Agenda Item 7

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	EXTERNAL AUDIT – AUDIT RESULTS REPORT		
DATE OF DECISION:	25 JULY 2016		
REPORT OF:	SECTION 151 OFFICER		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Sue Poynter	Tel: 023 80 834153
	E-mail:	Sue.Poynter@southampton.gov.uk	
Director	Name:	Mel Creighton	Tel: 023 80 834897
	E-mail:	Mel.Creighton@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY	
NOT APPLICABLE	
BRIEF SUMMARY	
<p>The Audit Commission’s Code of Audit Practice (the Code) requires the Council’s external auditors to report to ‘those charged with governance’ on the work carried out to discharge their statutory audit responsibilities together with any governance issues identified.</p>	
<p>The Draft Audit Results Report summarises the findings from the 2015/16 audit which is substantially complete. It includes the messages arising from the audit of the Council’s financial statements and the results of the work undertaken to assess the Council’s arrangements to secure value for money in its use of resources.</p>	
RECOMMENDATIONS:	
	(i) To note the external auditor’s ‘Audit Results Report’ as attached Appendix 1.
REASONS FOR REPORT RECOMMENDATIONS	
1.	The Governance Committee’s terms of reference require it to be satisfied that appropriate action is taken on risk and internal control related issues identified by the external auditors. Specifically, the Committee has responsibility for oversight of the reports of external audit.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
2.	None.
DETAIL (Including consultation carried out)	
3.	The report, as attached in Appendix 1, has been discussed and agreed with the Chief Executive and the Chief Financial Officer.
4.	The external auditor will be in attendance at the Governance Committee meeting to answer questions and to provide an update of any further findings identified in completing the audit.

RESOURCE IMPLICATIONS	
Capital/Revenue	
5.	None.
Property/Other	
6.	None.
LEGAL IMPLICATIONS	
Statutory power to undertake proposals in the report:	
7.	Local Government Act 1999.
Other Legal Implications:	
8.	None.
POLICY FRAMEWORK IMPLICATIONS	
9.	None.

KEY DECISION?	Yes/No
WARDS/COMMUNITIES AFFECTED:	
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	Annual results report 2015/16.
Documents In Members' Rooms	
1.	
2.	
Equality Impact Assessment	
Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out?	Yes/No
Privacy Impact Assessment	
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.	Yes/No
Other Background Documents	
Equality Impact Assessment and Other Background documents available for inspection at:	
Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)

1.		
2.		

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Southampton City Council

Audit Results Report - ISA (UK and Ireland) 260
for the year ended 31 March 2016

July 2016

Ernst & Young LLP



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

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

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

This Audit Results Report is prepared in the context of the Statement of responsibilities. This report is intended solely for the use of the Members of the audited body. We, as appointed auditor, take no responsibility to any third party.

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

1. Executive summary

The National Audit Office's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Governance Committee – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2015/16 audit which is substantially complete. It includes messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Below are the results and conclusions on the significant areas of the audit process.

Status of the audit	<p>We have substantially completed our audit of the financial statements of Southampton City Council for the year ended 31 March 2016. Subject to satisfactory completion of the following outstanding items we will issue an unqualified audit opinion in the form which appears in Appendix D:</p> <ul style="list-style-type: none"> • Whole of Government Accounts; • receipt of the signed management representation letter; • receipt of the signed assurance letter; • completion of journals testing; • housing stock valuation; • disclosure notes; • pensions; • housing Benefits; • social care and schools income and expenditure. <p>We have performed the procedures outlined in our Audit Plan presented at the 25 April 2016 Governance Committee meeting and anticipate issuing an unqualified opinion on the Authority's financial statements.</p> <p>We expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources.</p> <p>We are unable to formally conclude the audit at the same time as giving our audit opinion until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack.</p>
Objections	<p>We have not received any objections to the 2015/16 accounts from members of the public.</p>
Audit differences	<p>We have identified one unadjusted audit difference within the draft financial statements, which management have chosen not to adjust. We ask the Governance Committee to consider approving management's rationale as to why these adjustments have not been made and, if approved, include this in the Letter of Representation. Appendix A to this report sets out the unadjusted audit difference. We do not consider this to be material to our audit opinion.</p> <p>Our audit identified a number of further audit differences which our team have highlighted to management for amendment. These have been corrected during the course of our work and further details are provided at Appendix A.</p>
Scope and materiality	<p>In our Audit Plan, we communicated that our audit procedures would be performed using a materiality of £7.062 million. We have reassessed this based on the actual results for the financial year and have decreased this amount to £6.828 million.</p>

The threshold for reporting uncorrected audit differences which impact the financial statements has also reduced from £353,000 to £341,000. The basis of our assessment is 1% of gross operating expenditure, which has remained consistent with prior years.

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

Significant audit risks

We identified the following significant risks during the planning phase of our audit, and reported these to you in our audit plan:

- **Financial statements:** risk of management override: 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.
- **Value for money:** reductions in central government funding, coupled with demand led pressures on its services, mean the Authority is continuing to experience financial pressures. We identified the risk that the Authority will not be able to plan its finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

We also identified two non-significant risks during the planning phase of our audit, and reported these to you in our Audit Plan:

- **Financial statements – minimum revenue provision (MRP):** local authorities are normally required each year to set aside some of their revenues as provision for capital expenditure financed by borrowing or credit arrangements. The Authority made changes to the basis on which it has charged MRP and its future approach to calculating the provision.
- **Financial statements – Better Care Fund (BCF):** the BCF is a major policy initiative between local authorities, clinical commissioning groups and NHS providers with the primary aim of driving closer integration and improving outcomes for patients, service users and carers. Proper disclosure and accounting for this arrangement in the Authority’s accounts required careful consideration.

The ‘addressing audit risks’ and ‘value for money’ sections of this report sets out how we have gained audit assurance over those issues.

Other reporting issues

We have no other matters we wish to report.

Control observations

During the audit, we identified a number of observations and improvement recommendations in relation to management’s financial processes and controls. These are set out in the “Assessment of control environment” section of this report.

We would like to take this opportunity to thank the Authority’s staff for their assistance during the course of our work.

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

2. Responsibilities and purpose of our work

The Authority's responsibilities

The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement (AGS). In the AGS, the Authority reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

The Authority is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Purpose of our work

Our audit was designed to:

- express an opinion on the 2015/16 financial statements and the consistency of other information published with them;
- report on an exception basis on the AGS;
- consider and report any matters that prevent us being satisfied that the Authority had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the value for money conclusion); and
- discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

In addition, this report contains our findings related to the areas of audit emphasis and any views on significant deficiencies in internal control or the Authority's accounting policies and key judgments.

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 are specified by the National Audit Office.

3. Financial statements audit

Addressing audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues. A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the Authority's controls relevant to each risk and assess the design and implementation of the relevant controls.

Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
<p>Risk of management override</p> <p>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.</p>	<ul style="list-style-type: none"> • Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; • Reviewed accounting estimates for evidence of management bias; • Evaluated the business rationale for any significant unusual transactions; and • Evaluated the appropriateness of accounting policies against CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and for changes from the prior period. 	<ul style="list-style-type: none"> • At the point of drafting this report we have not found any indications of management override. Our work on journals remains in progress, but those tested to date have been supported by appropriate evidence; • We have reviewed the material accounting estimates and not found any instances of management bias; • We have not identified any transactions we would consider to be outside of the Authority's normal course of business; and • We have not identified any inappropriate accounting policies.

We also identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Other Risks	Audit procedures performed	Assurance gained and issues arising
<p>Minimum Revenue Provision (MRP)</p> <p>Local authorities are required each year to set aside some of their revenues as provision for capital expenditure financed by borrowing or credit arrangements. This provision is known as MRP.</p> <p>MRP is a real charge that impacts on the general fund and therefore the council tax financing requirement.</p> <p>The Authority proposes to make changes to the basis on which it has charged MRP and its future approach to calculating the provision.</p>	<p>We commissioned an EY expert to review the changes proposed by the Authority in this area.</p>	<p>Our testing highlighted some minor changes to the underlying arrangements of the Authority but these did not have an impact on the council tax financing requirement.</p>

Better Care Fund (BCF)

The Better Care Fund (BCF) is a major policy initiative between local authorities, clinical commissioning groups and NHS providers with the primary aim of driving closer integration and improving outcomes for patients, service users and carers.

From 1 April 2015, local BCFs have been set up pooling funds between local government and NHS partners using powers available under pre-existing legislation. The partners use the pooled funds to jointly commission or deliver health and social care services.

BCF arrangements can be complex and varied, involving a number of different commissioning, governance and accounting arrangements that raise the risk of inconsistencies in treatment between the partners. Proper disclosure and accounting for this arrangement in the Authority's accounts will require careful consideration.

We engaged with management to ensure that the plans for the financial statements production were clear.

We reviewed the proposed accounting treatment for the BCF against the requirements of the underlying accounting standards.

Our testing did not highlight any issues with the Authority's accounting for BCF transactions.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to you oversight of the Authority's financial reporting process, including the following:

- qualitative aspects of your accounting practices; estimates and disclosures;
- matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
- any significant difficulties encountered during the audit; and
- other audit matters of governance interest

We have no matters we wish to report.

Control themes and observations

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.

We have tested the controls of the Authority only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.

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

Description	Impact
<p>General Ledger/Data Analytics:</p> <p>As in 2014/15 we continue to observe that the Authority undertook a complex method for producing its financial statements from its ledger.</p> <p>The Authority had to provide additional information to our data analytics team to enable them to get an audit trail from the ledger to the financial statements.</p>	<p>The Authority recognises the need to streamline the process of generating the financial statements from the ledger and is putting in place processes and systems in order to help facilitate this.</p> <p>This should help to reduce the time taken to produce and audit the financial statements.</p>
<p>Working papers:</p> <p>We worked closely with the Authority earlier in the year to provide a comprehensive client assistance schedule (working paper requirements), specifically highlighting changes from previous years, or more complex areas.</p> <p>The client assistance schedule was not available at the beginning of the audit although a schedule of working papers and contacts was available. In a limited number of instances, working papers were not available at the beginning of the audit but were shared when requested.</p>	<p>We will arrange a meeting with officers in autumn 2016 to debrief on the 2015/16 accounts production and audit process. Our aim will be to identify areas for improvement to assist the Authority achieve earlier completion of the audit.</p>
<p>PARIS healthcare system:</p> <p>We support Internal Audit's findings in respect of the PARIS system, specifically our testing highlighted inconsistencies in the recording and retention of data and supporting information.</p> <p>Additionally, we have noted that there is no formal reconciliation between the PARIS system and the general ledger (accounts payable and accounts receivable systems).</p>	<p>We support Internal Audit's findings regarding the risk the PARIS system represents to effective service delivery.</p> <p>In respect of the financial statements, additional audit procedures were required to ensure that the income and expenditure initiated from the PARIS system was not materially misstated.</p> <p>This was time consuming for both the audit team and Authority staff and we would recommend that a formal reconciliation process is implemented.</p>

We have reviewed the Annual Governance Statement and can confirm that it not misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Authority.

Request for written representations

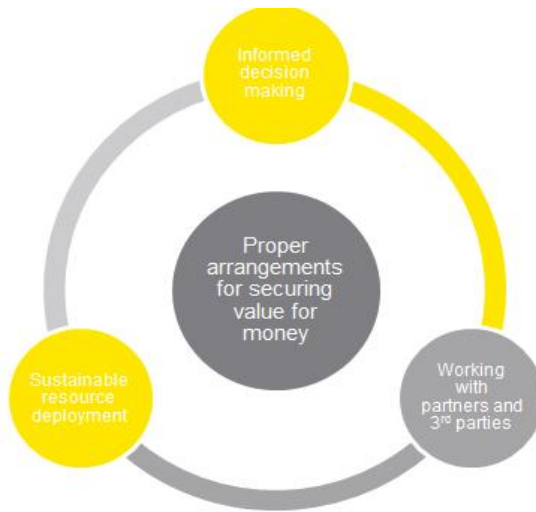
We have requested a management representation letter to gain management's confirmation in relation to a number of matters, as outlined in Appendix E.

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 are specified by the National Audit Office.

We are still to complete our work in this area and we will report any matters that arise to the Governance Committee.

4. Value for money



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.

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.

Overall conclusion

In our planning work we identified one significant risk for further review:

- Deploy resources in a sustainable manner: the Authority will not be able to plan its finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

We have performed the procedures outlined in our audit plan. And we did not identify any significant weaknesses in the Authority's arrangements

We therefore expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources.

Significant risks

The table below presents the findings of our work in response to the risk areas in our audit plan.

VFM risk included in our audit plan	Deploying resources in a sustainable manner (financial resilience): the Authority will not be able to plan its finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions. Reductions in central government funding, coupled with demand led pressures on its services, mean the Authority is continuing to experience financial pressures. The Authority continues to face very significant and increasing financial challenges. In total it predicts that it will need to save some £42.3 million from its budget over the next four years. Continued reductions in government grants, and increasing demand and cost around key services such as adult social care and children's services are the key drivers of the need for significant savings. The Authority continues to seek alternative solutions to ensure that local services can be maintained and supported in the future, in line with local need.
Response	Our approach focussed on: <ul style="list-style-type: none"> ▶ reviewing achievement against the 2015/16 budget; and ▶ reviewing the reasonableness of the 2016/17 budget and five year finance strategy.

Findings

The 2015/16 financial outturn reported an underspend of £3.25 million against budget, with transfers into reserves to mitigate future risks. We note that there was a shortfall of £3.1 million against planned savings of £27.1 million. The underperformance was predominantly within the Health & Adult Social Care portfolio, which accounted for £2.5 million of the shortfall.

Health & Adult Social Care and Children's services portfolios both overspent their budgets, despite additional funding in year. Our review of the potential risk this presents to the achievement to the 2016/17 budget identified that investments have been made into both portfolios for demographic and other external factors and the level of savings required within the Health & Adult Social Care portfolio in 2016/17 is smaller than originally planned. This gives us a degree of assurance that the portfolio is not facing an unachievable target, although it is still challenging.

The Authority's 2016/17 budget, published in February 2016, included a savings requirement of £33.7 million. As reported in the budget, the Authority has identified planned savings of £29.8 million to address the budget gap for the year and our initial assessment of these is that they are achievable. The residual budget gap of £3.9 million will be addressed by the use of reserves. The Authority recognises that reserves cannot, and should not, be used to bridge the base budget gap in the absence of longer term plans to make the necessary savings and we note from the Medium Term Financial Strategy that there is no planned future use of reserves to address budget gaps.

We have concluded that the Authority has set a reasonable and achievable 2016/17 budget. We similarly assessed the assumptions made within the medium term financial forecast to be reasonable.

In undertaking our work on value for money, we look not only at the budget and performance for the year of our audit (2015/16), and the following year, but also towards the arrangements being progressed to address the budget gaps identified over the medium term.

The Authority's medium term forecast demonstrates a cumulative budget gap of around £42.3 million up to the end of 2019/20.

The Authority's approach to addressing this budget gap is threefold:

- business as usual budget reviews throughout the year;
- progressing the Transformation Programme. Updates are provided to members, and key milestones to date have been achieved; and
- the implementation of outcome based budgeting to clearly link business planning and budgeting and focus on service outcomes.

The Authority has set aside funding into a number of earmarked reserves to manage the impact of future funding reductions, increased budgetary pressures and the cost of organisational redesign. The reserves available are some £39.2 million which represents 91.7% of the medium term budget gap.

At this point, having reviewed the 2015/16 outturn and the preparation of the 2016/17 budget we judge the Authority to be financially resilient for the foreseeable future. It is important that the Authority continues its track record of delivering its planned budget and savings. In particular, progressing the overall transformation programme and identifying clearly supported savings plans is critical to the Authority's finances and the balance it has to strike against the level of services it can provide.

Appendix A – Uncorrected and corrected audit differences

Uncorrected audit differences

The following differences have been identified during the course of our audit and have not been considered material by management or by us for adjustments. We are bringing them to the Committee's attention to enable you to form your own view on these items.

Balance sheet and Statement of comprehensive income and expenditure

Item of account	Balance sheet (Decrease) / Increase £000	Comprehensive income and expenditure statement (Decrease) / Increase £000
<p>The Authority failed to accrue for a capital invoice received for works on the Southampton New Arts Centre (SNAC) which was received in March 2016 and related to the 2015/16 financial year.</p> <p>We do not consider this error to be material to our audit opinion.</p>		
<ul style="list-style-type: none"> Property, Plant and Equipment – Assets under constructions 	644	
<ul style="list-style-type: none"> Current Liabilities 	644	

Corrected audit differences

The following corrected differences have been identified during the course of our audit and warrant communicating to you. These items have been corrected by management within the revised financial statements.

Disclosure	Description of difference
Note 26 (b) – Exit Packages	<p>Note 26 of the draft financial statements presented for audit disclosed liabilities of £3 million relating to the payment of exit packages. This amount excludes payments in lieu of notice (PILON). These payments however need to be included.</p> <p>The financial statements have been amended to ensure compliance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.</p>
Note 31 - Leases	<p>Our testing highlighted two errors within the leases note:</p> <ul style="list-style-type: none"> future rental income relating to Nelson Gate had been calculated on an income figure that had not been updated; and an error in the leases working papers, incorrectly showed some leases having future income of zero. <p>The total effect of these errors was to understate the future rental income by £15 million, the financial statements have been amended to correct this error.</p>

Appendix B – Independence

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan which we presented to the Governance Committee on 25 April 2016.

We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Public Sector Audit Appointments Ltd (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 confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Governance Committee on 25 July 2016.

We confirm that we have met the reporting requirements to the Governance Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements was set out in our Audit Plan.

In the current year the ratio of non-audit fees to audit fees is approximately 0.15:1. This amount is within both the limits set by EY and the Authority. The non-audit fees work relates to a forensic audit undertaken by EY on the costs included within the Authority's contract with Capita Business Services Limited. This work was led and delivered by a separate EY team. We considered the following factors when considering whether this work affected our independence:

- ▶ no members of the advisory team work on the audit, and no audit team members worked on the project;
- ▶ the remuneration of the Engagement Lead, Helen Thompson, and the audit team are not impacted by this project; and
- ▶ decisions regarding which options to pursue and how to implement them were wholly the responsibility of the Authority.

Appendix C – Auditor fees

The table below sets out the scale fee and our final proposed audit fees.

Description	Proposed final Fee 2015/16 £	Scale Fee 2015/16 £	Variation comments
Total Audit Fee – Code work	142,715	142,715	
Certification of claims and returns	19,524	19,524	
Non-audit work	25,427	25,427	

Our actual fee is in line with the scale fee set by the PSAA at this point in time, subject to satisfactory clearance of the outstanding work.

We confirm we have undertaken non-audit work outside of the PSAA's requirements. This work is detailed within Appendix B of this report.

Appendix D – 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 2016 under the Local Audit and Accountability Act 2014. The financial statements comprise the Movement in Reserves Statement; the Comprehensive Income and Expenditure Statement; the Balance Sheet; the Cash Flow Statement and related notes 1 to 40, the Housing revenue Account Comprehensive Income and Expenditure Statement, the Statement of Movement on the Housing Revenue Account Balance 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 2015/16.

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 Southampton City Council 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 2015/16, 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 2015/16 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.

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 2016 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 2015/16.

Opinion on other matters

In our opinion, the information given in the Financial Statements 2015/16 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.

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 (C&AG) in

November 2015, 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 C&AG 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 2016.

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.

Conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2015, 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 2016.

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 NAO.

Helen Thompson
for and on behalf of Ernst & Young LLP, Appointed Auditor
Southampton
XX July 2016

Appendix E – Management representation letter

[To be prepared on the entity's letterhead]

XX July 2016

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

This representation letter is provided in connection with your audit of the financial statements of Southampton City Council ("the Council") for the year ended 31 March 2016. 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 2016 and of its expenditure and income for the year then ended in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

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

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

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations (England) 2011 and CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.
2. We acknowledge, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, and of its expenditure and income of the Council in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. We believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 that are free from material misstatement, whether due to fraud or error.
5. We believe that the effects of any unadjusted audit differences, 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 the capital expenditure has been recognised in the 2016/17 financial statements and it is our assessment that this does not impact on the readers understanding of the financial statements.

B. Fraud

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

C. Compliance with Laws and Regulations

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

D. Information Provided and Completeness of Information and Transactions

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

These transactions have been appropriately accounted for and disclosed in the financial statements.

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

E. Liabilities and Contingencies

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

F. Subsequent Events

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

G. Accounting Estimates

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

H Retirement benefits

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

I. Comparative information – corresponding financial information

1. Prior year adjustments have only been included in the financial statements to correct material prior year errors.

J. Use of the Work of an Expert

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

Yours Faithfully,

Service Director of Finance and Commercialisation

I confirm that this letter has been discussed and agreed at the Governance Committee on 25 July 2016

Chairman of Governance Committee

Appendix F – Required communications with the Governance Committee

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

Required communication	Reference
<p>Planning and audit approach</p> <p>Communication of the planned scope and timing of the audit, including any limitations.</p>	Audit Plan
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit Results Report
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	Audit Results Report
<p>Misstatements</p> <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	Audit Results Report
<p>Fraud</p> <ul style="list-style-type: none"> ▶ Enquiries of the Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	Audit Results Report
<p>Related parties</p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	Audit Results Report

Required communication	Reference
<p>External confirmations</p> <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Audit Results Report
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Governance Committee may be aware of 	Audit Results Report
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	Audit Plan and Audit Results Report
<p>Significant deficiencies in internal controls identified during the audit</p>	Audit Plan and Audit Results Report
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	<p>Audit Plan</p> <p>Audit Results Report</p> <p>Annual Audit Letter</p>
<p>Certification work</p> <ul style="list-style-type: none"> ▶ Summary of certification work undertaken 	Certification Report

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Agenda Item 8

DECISION-MAKER:		GOVERNANCE COMMITTEE	
SUBJECT:		EXTERNAL AUDIT – AUDIT FEE LETTER 2016-17	
DATE OF DECISION:		25 JULY 2016	
REPORT OF:		CHIEF INTERNAL AUDITOR	
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Neil Pitman	Tel: 01962 845139
	E-mail:	neil.pitman@hants.gov.uk	
Director	Name:	Mel Creighton	Tel: 023 80834897
	E-mail:	Mel.creighton@southampton.gov.uk	
STATEMENT OF CONFIDENTIALITY			
None			
BRIEF SUMMARY			
This letter confirms the audit work and associated fee proposed by external audit for the 2016/17 financial year. The fee was set by Public Sector Audit Appointments Ltd (PSAA) and has been agreed with the Service Director of Finance and Commercialisation.			
RECOMMENDATIONS:			
	(i)	to note the external auditor's 'Audit Fee Letter' as attached Appendix 1.	
REASONS FOR REPORT RECOMMENDATIONS			
1.	The Governance Committee's terms of reference require it to be satisfied that appropriate action is taken on risk and internal control related issues identified by the external auditors. Specifically, the Committee has responsibility for oversight of the reports of external audit.		
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED			
2.	None		
DETAIL (Including consultation carried out)			
3.	The report, as attached in Appendix 1, has been discussed and agreed with the Chief Executive and the Service Director Strategic Finance and Commercialisation.		
RESOURCE IMPLICATIONS			
<u>Capital/Revenue</u>			
4.	None		
<u>Property/Other</u>			
5.	None		
LEGAL IMPLICATIONS			
<u>Statutory power to undertake proposals in the report:</u>			
6.	Local Government Act 1999		

<u>Other Legal Implications:</u>	
7.	None
POLICY FRAMEWORK IMPLICATIONS	
8.	None

KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	Audit Fee Letter 2016/17
Documents In Members' Rooms	
1.	None
Equality Impact Assessment	
Do the implications/subject of the report require an Equality and Safety Impact Assessments (ESIA) to be carried out.	No
Privacy Impact Assessment	
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.	No
Other Background Documents	
Equality Impact Assessment and Other Background documents available for inspection at:	
Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	None

Dawn Baxendale
Chief Executive
Southampton City Council
Civic Centre
Southampton
SO14 7LY

7 April 2016

Ref: SCC/1617 Fee Letter

Direct line: 023 8038 2099

Email: HThompson2@uk.ey.com

Dear Dawn

Annual Audit and Certification Fees 2016/17

We are writing to confirm the audit and certification work that we propose to undertake for the 2016/17 financial year at Southampton City Council.

Indicative audit fee

For the 2016/17 financial year Public Sector Audit Appointments Ltd (PSAA) has set the scale fee for each audited body, following consultation on its Work Programme and Scale of Fees.

The fee reflects the risk-based approach to audit planning set out in the National Audit Office's Code of Audit Practice for the audit of local public bodies.

The audit fee covers the:

- audit of the financial statements;
- value for money conclusion; and
- whole of Government accounts.

For Southampton City Council our indicative fee is set at the scale fee level. This indicative fee is based on certain assumptions, including:

- the overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year;
- our accounts opinion and value for money conclusion are unqualified;
- officers meet the agreed timetable of deliverables;
- prompt responses are provided to our draft reports.;
- the Council provides appropriate quality of documentation;

- The overall control environment remains effective and internal controls operate effectively for the key processes identified within our audit strategy; and
- we can rely on the work of internal audit as planned..

Meeting these assumptions will help ensure the delivery of our audit at the indicative audit fee which is set out in the table below.

As we have not yet completed our audit for 2015/16, our audit planning process for 2016/17 will continue as the year progresses. Fees will be reviewed and updated as necessary, within the parameters of our contract.

Certification fee

The PSAA has set an indicative certification fee for housing benefit subsidy claim certification work at each audited benefits authority. The indicative fee is based on actual 2014/15 benefit certification fees, and incorporating a 25 per cent reduction.

The indicative certification fee is based on the expectation that an audited body is able to provide the auditor with complete and materially accurate housing benefit subsidy claim with supporting working papers, within agreed timeframes.

The indicative certification fee for 2016/17 relates to work on the housing benefit subsidy claim for the year ended 31 March 2017. We have set the certification fee at the indicative fee level. We will update our risk assessment after we complete 2015/16 benefit certification work, and to reflect any further changes in the certification arrangements.

Summary of fees

	Indicative fee 2016/17 £	Planned fee 2015/16 £	Actual fee 2014/15 £
Total Code audit fee	142,715	142,715	190,286
Certification of housing benefit subsidy claim	19,005	19,524	25,340
Total	161,720	162,239	215,626
Non audit work	N/a	25,427	N/a

Any additional work that we may agree to undertake (outside of the Code of Audit Practice) will be separately negotiated and agreed with you in advance.

Billing

The indicative audit fee will be billed in four quarterly instalments of £40,430.

Audit plan

We expect to issue our audit plan in February 2017. This will communicate any significant financial statement risks identified, planned audit procedures to respond to those risks and any changes in fee. It will also set out the significant risks identified in relation to the value for money conclusion. Should we need to make any significant amendments to the audit fee during the course of the audit, we will discuss this in the first instance with the Service Director – Strategic Finance & Commercialisation and, if necessary, prepare a report outlining the reasons for the fee change for discussion with the Governance Committee.

Audit team

The key members of the audit team for the 2016/17 financial year are:

Helen Thompson
Executive Director

HThompson2@uk.ey.com

Tel: 07974 007332

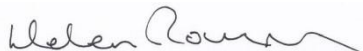
Ian Young
Senior Manager

IYoung@uk.ey.com

Tel: 07867 152505

We are committed to providing you with a high quality service. 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, please contact me. 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.

Yours sincerely



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

cc. Mel Creighton, Service Director – Strategic Finance & Commercialisation
Councillor Barnes-Andrews, Chair of the Governance Committee

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