

Governance Committee

Monday, 24th April, 2023
at 5.00 pm

PLEASE NOTE TIME OF MEETING

Conference Room 1 and 2 - Civic Centre

This meeting is open to the public

Members of the Committee

Councillor Shields (Chair)
Councillor Denness
Councillor Furnell (Vice-Chair)
Councillor D Galton
Councillor White

Contacts

Director – Governance, Legal and HR
Richard Ivory
Tel. 023 8083 2794
Email: richard.ivory@southampton.gov.uk

Senior Democratic Support Officer
Judy Cordell
Tel. 023 8083 2766
Email: Judy.cordell@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: Corporate Plan 2022-2030 sets out the four key outcomes:

- Communities, culture & homes - Celebrating the diversity of cultures within Southampton; enhancing our cultural and historical offer and using these to help transform our communities.
- Green City - Providing a sustainable, clean, healthy and safe environment for everyone. Nurturing green spaces and embracing our waterfront.
- Place shaping - Delivering a city for future generations. Using data, insight and vision to meet the current and future needs of the city.
- Wellbeing - Start well, live well, age well, die well; working with other partners and other services to make sure that customers get the right help at the right time

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

Mobile Telephones:- Please switch your mobile telephones or other IT devices 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.

Dates of Meetings: Municipal Year 2022/2023

2022	2023
13 June	13 February
25 July	24 April
26 September	
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 2.

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.

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 13th February, 2022 and to deal with any matters arising.

5 **ANNUAL REVIEW OF THE CONSTITUTION** (Pages 3 - 8)

Report of the Director of Governance, Legal & HR outlining proposed changes to the Constitution.

6 **EXTERNAL AUDIT - 2021/22 AUDIT RESULTS REPORT** (Pages 9 - 62)

Report of the External Auditor detailing the 2021/22 Audit Results Report.

7 **EXTERNAL AUDIT - 2021/22 INTERIM AUDITOR'S ANNUAL REPORT**

(Pages 63 - 90)

Report of the External Auditor detailing the 2021/22 Interim Auditor's Annual Report.

8 **STATEMENT OF ACCOUNTS 2021/22 UPDATE** (Pages 91 - 96)

Report of the Executive Director for Corporate Services detailing an update of the audit and finalisation of the 2021/22 Statement of Accounts.

9 **ANNUAL INTERNAL AUDIT PLAN 2023-24** (Pages 97 - 128)

Report of the Chief Internal Auditor requesting approval of the Annual Internal Audit Plan 2023-24.

Friday, 14 April 2023

Director – Legal, Governance and HR

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GOVERNANCE COMMITTEE
MINUTES OF THE MEETING HELD ON 13 FEBRUARY 2023

Present: Councillors Shields (Chair), Denness, Furnell (Vice-Chair) and White
Apologies: Councillor D Galton

24. **APOLOGIES**

Apologies from Councillor D Galton were noted.

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

Matters arising:

Item 17 – Centre for Governance and Scrutiny – Governance Review Report – Richard Ivory, Service Director, Legal & Governance and Monitoring Officer reported that due to this busy period in the municipal calendar it was important to obtain external resources to help with the implementation of Review and that the LGA had approved 8 extra days. Members could now expect to see a detailed Action Plan over the coming weeks.

Item 18 – Annual Review of the Health and Social Care Contracts managed by the Integrated Commissioning Unit. Councillor White expressed his concern at having to wait for a response as he had still not received information requested with regards to Northlands House and Oak Lodge.

RESOLVED: that the minutes for the Committee meeting on 14th November 2022 be approved and signed as a correct record.

26. **INTERNAL AUDIT PROGRESS REPORT**

The Committee considered the report of the Chief Internal Auditor detailing the Audit Progress Report 2022-23.

In particular, the Committee discussed the removal of the Direct Payments Audit – delayed to 2023-24. It was noted that the service had not implemented the detail to be monitored by Audit. Without anything to monitor this action had been withdrawn to enable Children Services to implement recommendations in the new financial year when the Audit would be resumed.

RESOLVED that the Governance Committee notes the Internal Audit Progress report for the period 27th October 2022 to 24th January 2023.

27. **TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS 2023/24 TO 2026/27**

The Committee considered the report of the Executive Director Finance and Commercialisation (S151 Officer) seeking approval of the Council's Treasury Management Strategy and Prudential Limits 2023/24 to 2026/27.

The Committee noted that the report highlighted the increasingly difficult economic climate being operated in, with record high levels of inflation and rising interest rates. In addition, the Committee noted that ethical policies of investments were not taken into consideration it was about the Government market and where those investments were.

RESOLVED: to

- (i) approve the Council's Treasury Management (TM) Strategy and Indicators for 2023/24 to 2026/27, as detailed in Appendix 1 of the report;
- (ii) note that at the time of writing this report it had been assumed that the budget proposals within the Medium Term Financial Strategy, Budget and Capital Programme 2023/24 to 2026/27 report, to be submitted to Council on the 22 February 2023, would be approved. Should the recommendations change and have any impact on the Prudential Indicators this would be reported to Council on 22 February 2023;
- (iii) the Executive Director Finance and Commercialisation (EDFC) to report any amendments and in year revisions to the TM Strategy as part of quarterly financial and performance monitoring; and
- (iv) endorse the proposal to continue to explore an alternative Treasury Strategy to generate additional income that can support local services, whilst maintaining a prudent approach.

28. **EXCLUSION OF THE PRESS AND PUBLIC - EXEMPT PAPERS INCLUDED IN THE FOLLOWING ITEM**

The Chair moved that in accordance with the Council's Constitution, specifically the Access to Information Procedure Rules contained within the Constitution, the press and public be excluded from the meeting in respect of any consideration of the exempt appendix to the following Item.

Appendix 2 'Summary - Strategic Risks' is not for publication by virtue of category 5 paragraph 10.4 of the Access to Information Procedure Rules as set out in Council's Constitution. The information is exempt from publication as it includes information in respect of which a claim to legal professional privilege could be maintained in legal proceedings.

29. **ANNUAL RISK MANAGEMENT REPORT 2022**

The Committee considered the report of the Cabinet Member for Finance and Change detailing the Annual Risk Management Report 2022.

The Committee discussed the report in confidential session.

RESOLVED to review and comment on the Annual Risk Management Report 2022 (Appendix 1) and to note the 'Summary - Strategic Risks' (Appendix 2).

Agenda Item 5

DECISION-MAKER:	GOVERNANCE COMMITTEE COUNCIL
SUBJECT:	ANNUAL REVIEW OF THE CONSTITUTION
DATE OF DECISION:	24 TH APRIL 2023 (GOVERNANCE COMMITTEE) 18 TH MAY 2023 (COUNCIL)
REPORT OF:	DIRECTOR OF LEGAL, GOVERNANCE & HR AND MONITORING OFFICER

<u>CONTACT DETAILS</u>			
Executive Director	Title	Executive Director of Corporate Services	
	Name:	Mel Creighton	Tel: 023 8083 3528
	E-mail	Mel.creighton@southampton.gov.uk	
Author:	Title	Director of Legal, Governance & HR and Monitoring Officer	
	Name:	Richard Ivory	Tel: 023 8083 2794
	E-mail	Richard.ivory@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY	
N/A	
BRIEF SUMMARY	
This report sets out the annual review of the Constitution. This will be considered and initially discussed by Governance Committee on 24 th April 2023. The recommendations to both the Governance Committee and Council are included below.	
As ever, the Constitution is a set of documents that changes regularly and, therefore, further revisions may be proposed prior to or at Council.	
RECOMMENDATIONS:	
	<u>Governance Committee</u>
(i)	To consider and recommend the changes to the Constitution to Council for adoption.
	<u>Council</u>
(ii)	To agree the changes to the Constitution and associated arrangements as set out in this report;
(iii)	To authorise the Director of Legal, Governance & HR to finalise the arrangements and wording to any revisions approved by Council and make any further consequential or minor changes arising from the decision; and
(iv)	Approve the City Council's Constitution, as amended, including the Officer Scheme of Delegation, for the municipal year 2023-24.

REASONS FOR REPORT RECOMMENDATIONS	
1.	It is appropriate as a core tenant of good governance for the Council to keep its Constitution under regular review and to amend it, both to reflect experience and changing circumstances.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
2.	The Council has previously resolved to review its Constitution annually. Therefore, it is appropriate that this report is considered by Members. There are a range of recommendations set out within the report, none of which are substantial changes. Members have a range of options about various changes, not least of which is to amend or reject some or all of them.
DETAIL (Including consultation carried out)	
	<u>Officer Scheme of Delegation</u>
3.	Following the Senior Management restructure which was completed in late 2022 the scheme has been updated to ensure all current delegations are allocated to the correct new Executive Director, Director or Head of Service as appropriate. The Director of Governance, Legal and HR has an existing delegation to keep the Scheme (and all parts of the Constitution) updated and to reallocate delegated functions.
4.	The only additions to the officer Scheme of Delegation are in relation to Supported Housing. The proposed delegations are not new but are simply included for completeness to clearly show the actions and decisions that officers currently undertake as “business as usual” matters.
	<u>Council Procedure Rules – Executive Business Report</u>
5.	It has been proposed by the Leader of the Council that the written Executive Business Report (EBR) for noting currently tabled at every ordinary meeting of Council is converted to a verbal update comprising the 15 minute period for Cabinet Members to do so and the 15 minute period for members to ask questions on matters raised.
6.	There is no obligation to present a written, or any, EBR update. Historically it was placed on the agenda some years ago prior to the current live streaming of council meetings and comprehensive use of all forms of “instant” social media, Council communications including the Council’s Twitter account, online mailings etc. By the time the EBR is tabled and considered by Council most matters have already been in the public domain for some weeks or implemented having been previously decided at Cabinet and/or been publicised widely. It is therefore considered that whilst originally there was merit in tabling the report that has now passed to a great extent. Additionally, there is also, of course, an officer resource needed to complete what is often a very comprehensive noting report and it is considered better use could be made of this resource.
7.	One important aspect which holds the Administration to account is the ability for opposition members to ask questions, without notice, on matters contained in the EBR. This will be retained but it is noted that if there is no written report on the agenda if a certain matter is not mentioned verbally by the Cabinet Member the opportunity to ask a question is lost. However, numerous other avenues to hold the Executive/Administration to account are available including tabled Council Questions as below, the well-honed scrutiny function

	and, of course, the ordinary use of emails etc outside of formal meetings. The exact wording in the Constitution will be revised following the Council resolution.
	<u>Council Procedure Rules - Questions from Members</u>
8.	As members will be aware this is a formal opportunity for members to ask written Questions to the Leader of the Council, Cabinet Members, the Lord Mayor and Committee Chairs. The system is comprehensively used but despite revisions to the process and criteria over the years members and officers have never found a system that suits everyone given the divergence of views.
9.	It is a core tenet of good governance in a democratic organisation that there are adequate opportunities to hold the Administration to account on matters of major policy and significant budget matters and/or projects. Council Questions are one of those opportunities, others include the scrutiny function and ability for Executive decisions to be “called in”.
10.	The current Council Questions “escalation” criteria and process was adopted by members in 2019 but from experience since that time it has proven rather tortuous and causes tension when Questions are adjudicated upon by the Lord Mayor and Director of Governance, Legal and HR and subsequently ruled out. Judgements are made, most of which are subjective, and members and officers have on numerous occasions interpreted matters differently. The general consensus is that despite revisions to the process it still does not meet everyone’s needs and requires further revision.
11.	For officers there is a significant resource allocated to this aspect of Council business in the week leading up to Council. Whatever revisions are made or criteria applied going forward there is a place for Questions at Council. To assist, officers are developing a SharePoint site which will mean simpler, easier and quicker access to the process by everyone involved. This will lead to a smoother process and involve less officer time. This should be in place for next ordinary Council meeting in July.
12.	With regard to the scope and criteria of Council Questions every authority has their own way of doing things. Most of our peer authorities do not have as many formal Questions tabled regularly and therefore have no need for complicated processes. There is no right or wrong way, it is for each Council to decide what suits their business needs best.
13.	Accordingly, Group Leaders have discussed refinements and proposed a revised and simpler process. Firstly, Questions will be limited in number and the time limited for answering removed; 10 is proposed together with supplementaries as now. The Questions will not be “first come, first served” they will be divided pro rata depending on the political proportionality of the 51 member seats. Questions will be limited to major project or policy items on the following basis and to simplify matters there will be no obligation to ask the Question to the Cabinet Member first before escalating to Council. The Lord Mayor after taking advice from the Director of Legal, Governance & HR will remain the final arbiter:
	a. A Member of the Council may ask: i. the Lord Mayor; ii. Cabinet Members; or iii. the Chair of any committee or sub-committee a question on any

	<ul style="list-style-type: none"> ○ major policy, project or strategic matter related to their role, responsibilities and/or office, ○ which is not similar to any question asked in the preceding Council meeting <p>b. Questions on matters relating to the day-to-day provision, management and administration of services will not be permitted. This includes any requests for data or any other operational information where Members should seek this information from officers.</p> <p>The Lord Mayor will be the final arbiter on whether any Question is to be tabled after consultation with the Director of Governance, Legal & HR. No Question will be struck out without consultation with the tableer and/or Group Leader.</p>
14.	<p>In addition, there will be up to 2 supplementary Questions permitted per Question and as now they must strictly relate to the primary tabled Question. In total 30 Questions and supplementaries could therefore be asked at any Council meeting; that is a significant number compared to peer authorities and considered adequate to deal with major matters arising. Importantly, to ensure comprehensive time for responses there will be no time limit on Member Questions as the focus will be on the number tabled. On occasions the current 60 minutes allocated for answers has been insufficient, with some tabled Questions remaining unanswered; under these proposals this will no longer be an issue. The exact wording in the Constitution will be revised following the Council resolution.</p>
15.	<p>For completeness, although not referred to in the CPRs operationally the Question response process is proposed to be as follows:-</p> <ul style="list-style-type: none"> • To ensure a more robust audit trail, the use of email to send and approve member questions between officers and members will no longer be in operation. All approvals and amendments to member questions will be conducted via a central member questions Sharepoint site to ensure the most up to date information is captured and approved. All cabinet members and relevant officers will have access to this area. • When member questions are first submitted, they will automatically populate Sharepoint and capture information ready for review by the Lord Mayor and Director of Legal, Governance and HR. • Cabinet members will then be notified of the questions submitted and will need to indicate (via Sharepoint) whether they require a formal written draft response from officers. This will then create an automated prompt to officers to draft a response. • Where a draft response is requested this will be uploaded to the member questions Sharepoint site by 5pm on the Friday preceding the meeting. Cabinet members will have access to this area and will be prompted to go into the document and approve any responses. • Cabinet Members are to submit any amendments or final responses via Sharepoint no later than 12 noon on the Tuesday preceding the Council Meeting. • Written responses from officers should be no longer than 200 words and uploaded to the member questions Sharepoint site ready for review by members.

	If the Cabinet Member requires a further briefing to prepare for supplementary or verbal responses they will liaise directly with the Executive Director/other as appropriate.
	<u>Financial Procedure Rules (FPRs)</u>
16.	The Chief Financial Officer will be reviewing the FPRs later in the year once the outcome of the current CIPFA peer review has been completed and officers have initially considered the recommendations/actions required.
	<u>Contract Procedure Rules</u>
17.	<p>The key changes in the Contract Procedure Rules are proposed as follows:</p> <ul style="list-style-type: none"> • Clarification that a Chief Officer (or officer where a sub-delegation has been given) may sign a contract of value up to CPR Threshold. • Clarification that a Chief Officer (or officer with a sub-delegation) may authorise a variation where the variation is provided for within the terms and conditions of the contract. • Additional requirement for Chief Financial Officer to be consulted on a decision to require a parent company guarantee or other security. This is to reflect the new Economic and Financial standing process. • Introduction of requirement for all variations above CPR Threshold which are not provided for within the terms and conditions of the contract to be authorised by the Director of Commissioning – Integrated Health and Care or the Head of Supplier Management. This is to ensure there is sufficient oversight and governance around these variations. • Added clarification that that for sealing purposes, anything above the usual CPR Threshold of £213,477 must go to Legal Services for sealing / signing when it is in respect of CPR 2015 Schedule 3 services. This is to ensure Legal Services has oversight and responsibility for signing and sealing all contracts above an appropriate value.
18.	In addition to the above proposed amendments, it should be noted that the Procurement Bill is due to be passed into legislation in early 2024 and with a six-month advance preparation period. The Procurement Bill is likely to require a change to elements of the CPRs. It is not known at present how significant the changes will be, so it is proposed that once the impact is confirmed, a decision whether to make further changes to the CPRs will be taken.
	<u>Civic and Ceremonial Protocol</u>
19.	On occasions the Mayor has held informal gatherings in the Parlour and awarded a “Mayor’s Award” for citizens who have made valuable contributions to the life of the city but who do not meet the criteria for becoming an Alderman, given Freedom of the City or a City of Southampton award. It is recognised that a Lord Mayor may wish to hold an informal awards celebration within their Lord Mayoral year as part of their programme of events. If such an event is required, it will be funded from the current Lord Mayoralty budget following consultation with the Lord Mayor’s Office.
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
20.	None.

<u>Property/Other</u>	
21.	None.
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
22.	An up-to-date Constitution is a requirement of the Local Government Act 2000.
<u>Other Legal Implications:</u>	
23.	None.
RISK MANAGEMENT IMPLICATIONS	
24.	None.
POLICY FRAMEWORK IMPLICATIONS	
25.	None.

KEY DECISION?	Yes/No
WARDS/COMMUNITIES AFFECTED:	None
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	Tracked changed Constitution (available online)

Documents In Members' Rooms

1.	None.
2.	

Equality Impact Assessment

Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	Yes/No
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Data Protection Impact Assessment

Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.	Yes/No
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Other Background Documents

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.	

Agenda Item 6

DECISION-MAKER:	GOVERNANCE COMMITTEE
SUBJECT:	EXTERNAL AUDIT - 2021/22 AUDIT RESULTS REPORT
DATE OF DECISION:	24 APRIL 2023
REPORT OF:	EY LLP (EXTERNAL AUDITOR)

<u>CONTACT DETAILS</u>			
Executive Director	Title	Executive Director Corporate Services	
	Name:	Mel Creighton	Tel: 023 8083 35
	E-mail:	Mel.creighton@southampton.gov.uk	
Author:	Title	Engagement Manager	
	Name:	Hannah Lill	Tel:
	E-mail:	hlill@uk.ey.com	

STATEMENT OF CONFIDENTIALITY

N/A

BRIEF SUMMARY

The Audit Results Report summarises the findings from the 2021/22 audit. It includes the messages arising from the audit of the Council's financial statements and the work undertaken to assess the Council's arrangements to secure value for money in its use of resources.

The report summarises the status of our audit for the forthcoming meeting of the Governance Committee. We will update the Committee at its meeting, scheduled for 24 April 2023, on further progress to that date and explain the remaining steps to the issue of our final opinion.

The audit is designed to express an opinion on the 2021/22 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on SCC's accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process.

RECOMMENDATIONS:

(i)	To note the 2021/22 Audit Results Report as attached
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REASONS FOR REPORT RECOMMENDATIONS

1.	Please see summary above.
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ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2.	None
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DETAIL (Including consultation carried out)

3.	See summary above and attached Audit Results Report.
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.	<ul style="list-style-type: none"> Local Audit and Accountability Act 2014 Accounts and Audit Regulations 2015
<u>Other Legal Implications:</u>	
7.	None
RISK MANAGEMENT IMPLICATIONS	
8.	None
POLICY FRAMEWORK IMPLICATIONS	
9.	None

KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	N/A
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	2021/22 Southampton City Council Audit Results Report

Documents In Members' Rooms

1.	N/A
Equality Impact Assessment	
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	No
Data Protection Impact Assessment	
Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.	No
Other Background Documents	
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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Southampton City Council Audit results report

Year ended 31 March 2022

April 2023

Page 13

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letters.

Building a better
working world

Appendix 1

Agenda Item 6



13 April 2023

Dear Governance Committee Members

2022 Audit results report

We are pleased to attach our audit results report, summarising the status of our audit for the forthcoming meeting of the Governance Committee. We will update the Committee at its meeting, scheduled for 24 April 2023, on further progress to that date and explain the remaining steps to the issue of our final opinion.

The audit is designed to express an opinion on the 2022 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on SCC's accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process.

This report is intended solely for the use of the Governance Committee, other members of the Authority, and senior management. It is not intended to be and should not be used by any one other than these specified parties.

We welcome the opportunity to discuss the contents of this report with you at the Governance Committee meeting on 24 April 2023.

Yours faithfully

Kevin Suter

Associate Partner

For and on behalf of Ernst & Young LLP

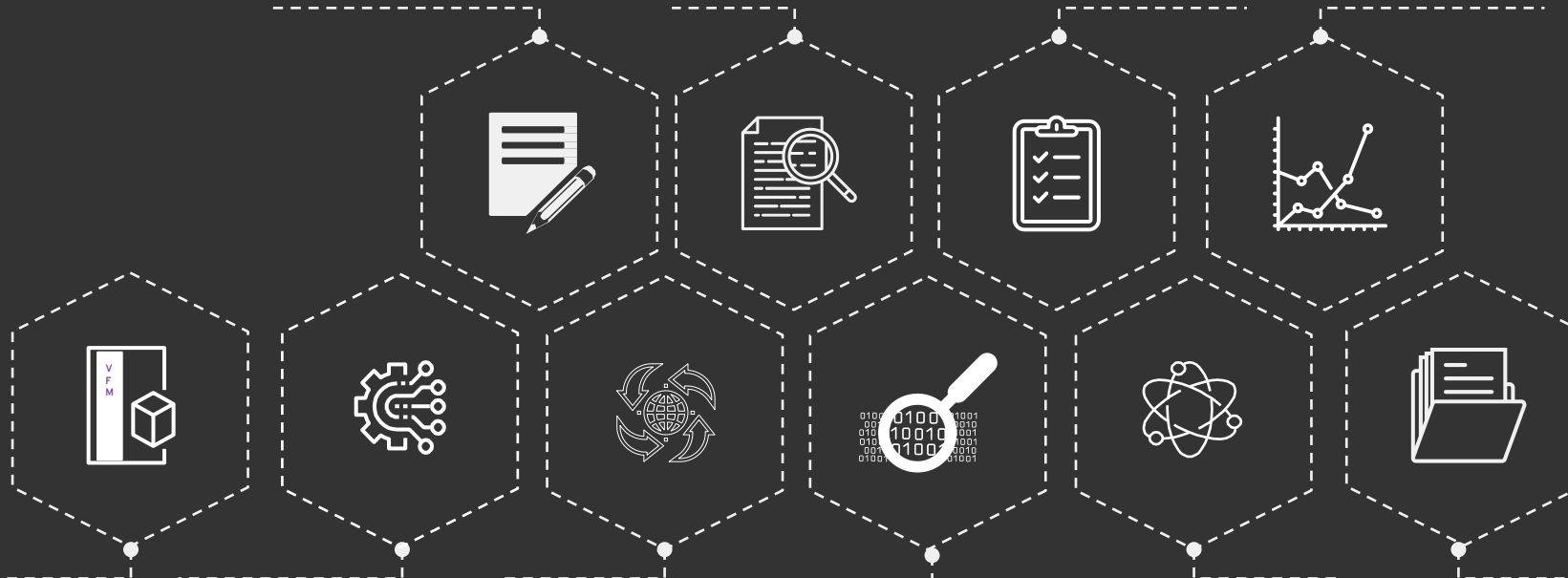
Contents

01 Executive Summary

02 Areas of Audit Focus

03 Audit Report

04 Audit Differences



05 Value for Money

06 Other Reporting Issues

07 Assessment of Control Environment

08 Data Analytics

09 Independence

10 Appendices

Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). 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 and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

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



01

Executive Summary

Executive Summary

Scope update

In our audit planning report presented at the 25 April 2022 Governance Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan.

Status of the audit

We have substantially completed our audit of Southampton City Council's financial statements for the year ended 31 March 2022 and have performed the procedures outlined in our audit planning.

As outlined in our audit plan, nationally, audit firms have identified an issue with applying the CIPFA code accounting treatment to infrastructure assets. Where management incur subsequent expenditure to replace part of an asset, the CIPFA Code requires management to write out the value of the old part being replaced. Across the country local authorities are not keeping sufficient detailed records of infrastructure spend to allow the value of the part being replaced to be written out. CIPFA and other related stakeholders have been seeking a solution to this issue since it was first identified.

Changes were made to the Local Authority Accounting Code by CIPFA and DLUHC has issued a Statutory Instrument to temporarily change accounting rules in this area. The Statutory Instrument and Code update temporarily resolve the derecognition and existence issues identified above, and the Council has amended the disclosures in its financial statements to comply with the revised requirements. We are content with the changes made following further minor amendments to disclosure as a result of our work. A bulletin has also been issued by CIPFA which covers how infrastructure assets should be depreciated. Management produced an assessment of the approach taken by the Council to depreciating infrastructure assets against this guidance. We are satisfied that the approach taken by management is reasonable.

The Council published its medium term financial plan in February 2023. This highlighted that the Council is failing to achieve its planned savings for 2022/23, needs to use significant reserves (£23.73m) to balance the budget for 2023/24 and is forecasting significant budget gaps from 2024/25 onwards. As a result, we have requested that the Council update its going concern assessment and disclosure and are considering the impact on our audit report.

The triennial valuation of the local government pension fund for the year ended 31 March 2022 is expected to be published imminently. Early indications are that there may be significant movements compared to the roll forward valuation included in the actuarial report. We are considering what additional procedures need to be completed as a result of this and will provide a verbal update to the Committee at the meeting on 24 April 2023.

Subject to satisfactory completion of the following outstanding items we do not expect to modify our opinion for any issues other than the going concern issue described above. However until work is complete, further amendments may arise:

- ▶ Completion of our work over the implication of the triennial valuation
- ▶ Completion of the manager and partner review of the work performed over infrastructure assets
- ▶ Completion of our review of the Council's updated going concern assessment
- ▶ Completion of internal review procedures
- ▶ Review of the final version of the financial statements
- ▶ Completion of subsequent events review
- ▶ Receipt of the signed management representation letter

We do not expect to issue the audit certificate at the same time as the audit opinion. We have not yet been able to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission for 2021/22. The audit certificate will be issued once this work is complete.

Auditor responsibilities under the Code of Audit Practice 2020

Under the Code of Audit Practice 2020 we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Authority a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- **Financial sustainability:**
How the Council plans and manages its resources to ensure it can continue to deliver its services;
- **Governance:**
How the Council ensures that it makes informed decisions and properly manages its risks; and
- **Improving economy, efficiency and effectiveness:**
How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Status of the audit - Value for Money

In the Audit Plan presented to the Governance Committee on 25 April 2022, we reported that our value for money (VFM) initial risk assessment was complete and there were no risks identified.

We have completed our risk assessment and review procedures through to the date of this report. During the course of our audit, information came to our attention regarding your arrangements for Value for Money in 2022/23. We concluded that this information did not affect our risk assessment for 2021/22 and we do not expect to have any matters to report by exception in our audit report on the financial statements for 2021/22. However, we have identified a significant weakness in the Council's arrangements for Value for Money in 2022/23 and action points for the Council.

Further detail on this is included in section 5 of this report.

Executive Summary

Audit differences

There are no adjusted differences above our performance materiality level, arising from work completed to date.

We have identified five audit differences in the draft financial statements which management has chosen not to adjust. Uncorrected misstatements decrease the deficit on of provision of service by £1.3m, being an increase of £1.7m relating to current year differences and decrease of £3.0m relating to prior year differences.

- Management perform a rolling revaluation programme for Property, Plant and Equipment (PPE), meaning that not all assets are revalued in the current year. We applied an index to the assets which were not revalued to assess whether they could be material misstatements. This indexation exercise identified that the assets not revalued in 2021/22 are overstated by £2.7m.
 - Council Dwellings valuation were understated by £4.2m due to differences in the indexation applied to the assets.
 - Investment assets valuation is understated by £1.7m, due to management applying a 0.15% 'cost of disposal' to the recorded valuation.
 - Gross income and Gross expenditure were both understated by £6.8m due to how schools income and expenditure are reflected in the CIES. This error has no impact on the net expenditure of the Council.
 - We performed sample testing on receipts in advance, and identified a classification error in an item from our representative sample. The error identified was ~2% of the £14m receipt in advance balance. However, as the error identified was part of our representative sample, we extrapolated the error over the untested population. The total extrapolated error was £8m. This error has no impact on the net expenditure of the Council.
- Turnaround impact on the income statement of the overstatement of the depreciation on HRA dwellings in 2020/21 of £3m.

We ask that a rationale as to why these are not corrected be approved by the Governance Committee and included in the Letter of Representation. We agree with management's assessment that the impact is not material.

Other reporting issues

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

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission for 2021/22. However, we do not expect any issues in performing this work as the Council falls below the threshold set within the guidance from HM Treasury and the group audit instructions for 2021/22 on which our work is based.

We have no other matters to report.

Independence

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

Executive Summary

Areas of audit focus

Our audit planning report identified key areas of focus for our audit of Southampton City Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Areas of Audit Focus" section of this report. The areas of focus were as shown below. Where work is ongoing at the time of writing this report, a verbal update will be provided at the Governance Committee meeting on 24 April.

- ▶ Misstatements due to fraud or error - no issues have been identified from our work to address this risk
- ▶ Risk of fraud in revenue and expenditure recognition: inappropriate capitalisation of revenue expenditure - no issues have been identified from our work to address this risk
- ▶ Valuation of Investment Property and Land and Buildings - no material audit differences have been identified from our work to address this risk
- ▶ Pension Liability Valuation - no issues have been identified from our work to address this risk at the time of writing this report. As stated on page 5, we are considering what additional procedures we need to carry out as a result of the publication of the triennial valuation of the local government pension fund as at 31 March 2022
- ▶ Restatement of the Comprehensive Income and Expenditure Statement (CIES), Expenditure and Funding Analysis (EFA) and related disclosure notes - no issues have been identified from our work to address this risk

Page 20 Infrastructure assets valuation - our work is complete subject to review and we are satisfied that the approach taken by management is reasonable and in line with the CIPFA Code amendment

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

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

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

Control observations

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

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

There are no matters we wish to report.



02 Areas of Audit Focus



Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

What is the risk?

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

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

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

What judgements are we focused on?

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

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

What did we do?

Our approach focused on:

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

Further to this, we have:

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

What are our conclusions?

As a result of our procedures:

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





Areas of Audit Focus

Significant risk

Risk of fraud in revenue and expenditure recognition - inappropriate capitalisation of revenue expenditure

What is the risk?

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

We have assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure, as there is an incentive to reduce expenditure which is funded from Council Tax. This could then result in funding of that expenditure, that should properly be defined as revenue, through inappropriate sources such as capital receipts, capital grants, or borrowing.

The value of Property, Plant & Equipment (PPE) additions in 2021/22 was £83.4m, and the value of Investment Property (IP) additions was £0.

The value of Revenue Expenditure financed by Capital Under Statute (REFCUS) was £15.4m

Page 23

What judgements are we focused on?

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

What did we do?

Our approach focused on:

- We selected a sample of additions, using lowered testing thresholds, to test and confirm the item was appropriate to capitalise through agreement to evidence such as invoices and capital expenditure authorisations.
- We selected a sample of REFCUS, testing whether the classification was appropriate as capital expenditure on an asset not owned by the Council,
- Perform an analytical review against the capital budget.

What are our conclusions?

We have not identified any indication of management inappropriately capitalising revenue expenditure, or incorrectly classifying expenditure as REFCUS.





Areas of Audit Focus

Significant Risk

Infrastructure asset valuation

What is the risk?

Where management incur subsequent expenditure to replace part of an asset, the CIPFA Code requires management to write out the value of the old part being replaced.

Nationally, audit firms have identified an issue with applying this accounting treatment to infrastructure assets. Across the country Authorities are not keeping sufficient detailed records of infrastructure spend to allow the value of the part being replaced to be written out.

What did we do?

Our approach focused on:

- Page 24
- ▶ Engaging with management on the changes to the guidance to understand the impact on Southampton City Council and 2021/22 financial statements
 - ▶ Reviewing the draft financial statements to identify prima facie whether the Council is recording disposals of infrastructure assets, or components
 - ▶ Making enquiries to understand management's current processes, including bringing forward our knowledge from previous year's audits
 - ▶ Identifying whether the process is compliant with the Code
 - ▶ Assessing the changes made following the update to the CIPFA Code and issue of the Statutory Instrument
 - ▶ Assessing the reasonableness of the depreciation of the infrastructure assets.

What are our conclusions?

As outlined in our audit plan, nationally, audit firms have identified an issue with applying the CIPFA code accounting treatment to infrastructure assets. Where management incur subsequent expenditure to replace part of an asset, the CIPFA Code requires management to write out the value of the old part being replaced. Across the country Authorities have not kept sufficient detailed records of infrastructure spend to allow the value of the part being replaced to be written out.

Changes were made to the Local Authority Accounting Code by CIPFA, and DLUHC has issued a Statutory Instrument to temporarily change accounting rules in this area. Together they temporarily resolve the derecognition and existence issues identified above, and the Council has amended the disclosures in its financial statements to comply with the revised requirements. The amended disclosure requirements report infrastructure assets on a net book value basis, and require additional disclosures for when this is adopted by an authority. We are content with the changes made following further minor amendments to the updated disclosures as a result of our work.

A bulletin has also been issued by CIPFA which covers how infrastructure assets should be depreciated. Management produced an assessment of their approach to depreciating infrastructure assets. We reviewed the reasonableness of assets lives, and considered the sensitivity of the depreciation using the example asset lives within the CIPFA bulletin. We are satisfied that the approach taken by management is reasonable.

The Statutory Instrument and Accounting Code are only expected to provide a temporary solution to this issue, with the Code update only currently extending to 31 March 2025. We therefore raise the following recommendation for improvement.

Recommendation: Develop more granular accounting records and/or further supportable estimation techniques to allow for infrastructure assets and components to be derecognised when they are replaced, and to demonstrate the continued existence of assets accounted for.



Areas of Audit Focus

Other areas of audit focus

Valuation of Investment Property and Land and Buildings (valued using DRC, EUV & FV method)

What is the risk?

The value of Investment Property (IP) and Land and Buildings valued using DRC/EUV/FV methods, represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews, and market fluctuations. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

The value of IP in the draft accounts at 31/03/2022 was £114m. The value of land and buildings was £1,213m.

Page 25

What did we do?

- ▶ Considered the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- ▶ Sample tested key input information used by the valuer in performing the valuations and challenged the key assumptions used by the valuer.
- ▶ Commissioned EY Real Estates, our internal specialists on asset valuations, to consider the valuation approach in more detail for a smaller sub-set of the sample of assets.
- ▶ Tested whether valuations have been correctly processed in the financial statements.
- ▶ Considered the annual cycle of valuations to ensure that assets have been valued within a suitable rolling programme as required by the Code for PPE, and annually for IP. We also considered if there are any specific changes to assets that have occurred and whether these have been communicated to the valuer.
- ▶ Reviewed assets not subject to valuation in 2021/22 to confirm the remaining asset base was not materially misstated.

What are our conclusions?

We have completed our work in relation to Valuation of Investment Property and Land and Buildings.

Our internal specialist has completed their work on a sample of investment properties and no differences were noted on the valuation of the properties.

We have completed our work on Land & buildings and identified differences in relation to indexation applied to Council Dwellings resulting in an understatement of £4.2m.

We have also completed our work on assets not revalued. This identified the assets were overstated by £2.7m, again detailed in section 4.

We agreed the valuation of investment properties, but noted that the Council then applied a 0.15% reduction in value on the basis of disposal costs to all properties. We do not believe this is appropriate, understating the value by £1.7m.



Areas of Audit Focus

Other areas of audit focus

Pension Liability Valuation

What is the risk?

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

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

The net pension liability in the draft accounts at 31 March 2022 was £466m.

Page 20

What did we do?

We:

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

What are our conclusions?

We have assessed the work of the pension fund actuary on the pension liability. This included the use of Consulting Actuaries commissioned by the National Audit Office for all local government sector auditors & our EY actuary team. This showed the pension liability was fairly stated.

We reviewed and tested the accounting entries and disclosures made by the authority and confirmed they were in line with relevant account standards and The Local Authority Accounting Code of Practice.

The triennial valuation of the local government pension fund for the year ended 31 March 2022 is expected to be published imminently. Early indications are that there are significant movements compared to the roll forward valuation included in the actuarial report. We are considering what additional procedures need to be completed as a result of this and will provide a verbal update to the Committee at the meeting on 24 April 2023.



Areas of Audit Focus

Other areas of audit focus

Restatement of Comprehensive Income and Expenditure Statement, Expenditure and Funding Analysis, and related disclosure notes

What is the risk?

Under CIPFA's "Telling the Story" agenda, the Council is required to disclose its income and expenditure in accordance with the structure used for internal reporting, rather than the previous presentation as prescribed by SERCOP.

The Council has changed its internal reporting structure in 2021/22, which will mean the Comprehensive Income and Expenditure Statement, the supporting Expenditure and Funding Analysis, and related disclosure notes, will need to be restated in line with the new structure

What did we do?

We:

- Agreed the restated comparative figures back to the Council's prior year financial statements and supporting working papers
- Reviewed the analysis of how these figures are derived from the Council's ledger system

What are our conclusions?

The Comprehensive Income and Expenditure Statement, Expenditure and Funding Analysis, and related disclosure notes, have been restated appropriately following the change to internal reporting structures.



03 Audit Report



Audit Report

Impact of the financial position of the Council on the Audit report

As detailed in the executive summary and on page 5 we are considering the impact of the Council's financial position on our audit report in terms of whether we need to draw the readers attention to the going concern disclosure and if so, to what degree of uncertainty. The Council published its medium term financial plan in February 2023. This highlighted that the Council is failing to achieve its planned savings for 2022/23, needs to use significant reserves to balance the budget for 2023/24 and is forecasting significant budget gaps from 2024/25 onwards.



Audit Report

Draft audit report

Our draft opinion on the financial statements

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

Opinion

We have audited the financial statements of Southampton City Council (the Council) for the year ended 31 March 2022 under the Local Audit and Accountability Act 2014 (as amended). The financial statements comprise the:

- ▶ Comprehensive Income and Expenditure Statement,
- ▶ Movement in Reserves Statement,
- ▶ Balance Sheet,
- ▶ Cash Flow Statement
- ▶ the related notes 1 to 40 and Expenditure and Funding Analysis.
- ▶ Housing Revenue Account Income and Expenditure Statement, the Statement of Movement on the Housing Revenue Account, and the related notes 1 to 5
- ▶ Collection Fund and the related notes 1 to 4

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 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

In our opinion the financial statements:

- ▶ give a true and fair view of the financial position of Southampton City Council as at 31 March 2022 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 2021/22

as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

Basis for opinion

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

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Section 151 Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Council's ability to continue as a going concern for a period of 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Section 151 Officer with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Council's ability to continue as a going concern.



Audit Report

Draft audit report (cont.)

Our draft opinion on the financial statements

Other information

The other information comprises the information included in the Statement of Accounts 2021/22, other than the financial statements and our auditor's report thereon. The Section 151 Officer is responsible for the other information contained within the Statement of Accounts 2021/22.

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

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

We have nothing to report in this regard.

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 (as amended)
- ▶ we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014 (as amended)

- ▶ 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 (as amended)
- ▶ we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 (as amended)
- ▶ we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014 (as amended)
- ▶ we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

We have nothing to report in these respects

Responsibility of the Section 151 Officer

As explained more fully in the Statement of Responsibilities set out on page 25, the Section 151 Officer is responsible for the preparation of the Statement of Accounts 2021/22, 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 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), and for being satisfied that they give a true and fair view and for such internal control as the Section 151 Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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



Audit Report

Draft audit report (cont.)

Our draft opinion on the financial statements

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

Auditor's responsibilities for the audit of the financial statements

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Council and determined that the most significant are:

- ▶ Local Government Act 1972,
- ▶ School Standards and Framework Act 1998,
- ▶ Local Government and Housing Act 1989 (England and Wales),
- ▶ Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992),
- ▶ Education Act 2002 and school Standards and Framework Act 1998 (England),
- ▶ Local Government Act 2003,
- ▶ The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018, 2020, and 2022,
- ▶ National Health Service Act 2006,
- ▶ The Local Government Finance Act 2012,
- ▶ The Local Audit and Accountability Act 2014 (as amended), and
- ▶ The Accounts and Audit Regulations 2015.

In addition, the Council has to comply with laws and regulations in the areas of anti-bribery and corruption, data protection, employment Legislation, tax Legislation, general power of competence, procurement and health & safety.

We understood how Southampton City Council is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, the head of internal audit and those charged with governance and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of the Council's committee minutes, through enquiry of employees to confirm Council policies, and through the inspection of other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our



Audit Report

Draft audit report (cont.)

Our draft opinion on the financial statements

procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.

We assessed the susceptibility of the Council's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures, we identified manipulation of reported financial performance through inappropriate capitalisation of revenue expenditure and management override of controls to be our fraud risks.

To address our fraud risk of inappropriate capitalisation of revenue expenditure we tested the Council's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine. We also tested a sample of revenue expenditure financed from capital under statute (REFCUS) items to confirm they were appropriately classified.

To address our fraud risk of management override of controls, we tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; assessed accounting estimates for evidence of management bias; and evaluated the business rationale for any identified significant unusual transactions.

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

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

We have undertaken our review in accordance with the Code of Audit Practice 2020, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General in December 2021, as to whether

Southampton City Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those 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 2022.

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

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 (as amended) to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



Audit Report

Draft audit report (cont.)

Our draft opinion on the financial statements

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until the NAO as group auditor has confirmed that no further assurances will be required from us as component auditors of [name of Authority]. We are satisfied that this work does not have a material effect on the financial statements or our work on value for money arrangements.

In addition, we cannot formally conclude the audit and issue an audit certificate until we have issued our Auditor's Annual Report for the year ended 31 March 2022. We have completed our work on the value for money arrangements and will report the outcome of our work in our commentary on those arrangements within the Auditor's Annual Report.

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 (as amended) and the Code of Audit Practice issued by the National Audit Office.

Use of our report

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

Kevin Suter (Key Audit Partner)
For and on behalf of Ernst & Young LLP
Southampton



04 Audit Differences





Audit Differences

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

Summary of adjusted differences and unadjusted differences

We report to you any uncorrected misstatements greater than our nominal value of £0.669m.

We have identified five audit differences in the draft financial statements which management has chosen not to adjust. Uncorrected misstatements decrease the deficit on of provision of service by £1.3m, being an increase of £1.7m relating to current year differences and decrease of £3.0m relating to prior year differences.

Page 36 Management perform a rolling revaluation programme for Property, Plant and Equipment (PPE), meaning that not all assets are revalued in the current year. We applied an index to the assets which were not revalued to assess whether they could be material misstatements. This indexation exercise identified that the assets not revalued in 2021/22 are overstated by £2.7m.

Council Dwellings valuation were understated by £4.2m due to differences in the indexation applied to the assets.

- Investment assets valuation is understated by £1.7m, due to management applying a 0.15% 'cost of disposal' to the recorded valuation.
- Gross income and Gross expenditure were both understated by £6.8m due to how schools income and expenditure are reflected in the CIES. This error has no impact on the net expenditure of the Council.
- We performed sample testing on receipts in advance, and identified a classification error in an item from our representative sample. The error identified was ~2% of the £14m receipt in advance balance. However, as the error identified was part of our representative sample, we extrapolated the error over the untested population. The total extrapolated error was £8m. This error has no impact on the net expenditure of the Council.
- Turnaround impact on the income statement of the overstatement of the depreciation on HRA dwellings in 2020/21 of £3m.

We agree with management's assessment that the impact is not material. We ask that a rationale as to why these are not corrected be approved by the Governance Committee and included in the Letter of Representation.

There are no adjusted differences above our performance materiality level, arising from work completed to date.



05

Value for Money



Value for money

The Council's responsibilities for value for money (VFM)

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

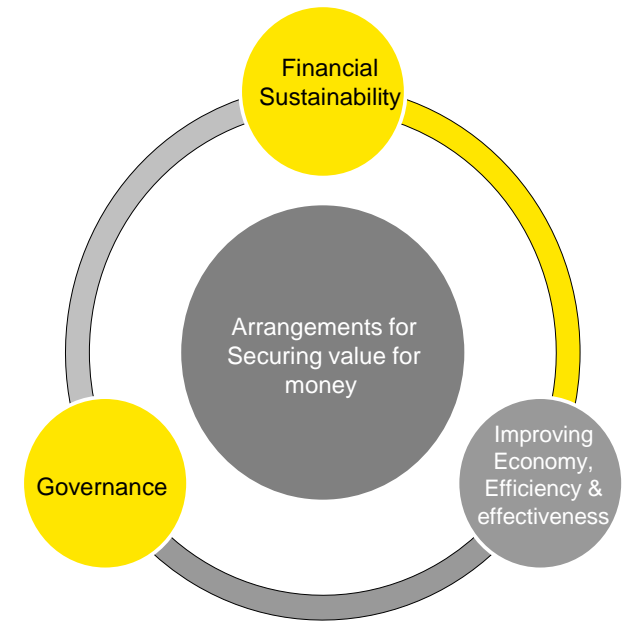
As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the CIPFA code of practice on local authority accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Risk assessment

We have previously reported to the Governance Committee that following our initial planning procedures we have not identified a risk of significant weaknesses in the Council's VFM arrangements.

We have completed our risk assessment and review procedures through to the date of this report. During the course of our audit, information came to our attention regarding your arrangements for Value for Money in 2022/23. We concluded that this information did not affect our risk assessment for 2021/22 and we do not expect to have any matters to report by exception in our audit report on the financial statements for 2021/22. However, we have identified a significant weakness in the Council's arrangements for Value for Money in 2022/23 and action points for the Council to address.

More detailed reporting on the Council's arrangements is included within our Value for Money Arrangements 2021/22 report which we have provided for the Governance Committee meeting on 24 April 2023. This will also be included within our Auditor's Annual Report.





06 Other reporting issues

Other reporting issues

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

We must give an opinion on the consistency of the financial and non-financial information in the 2021/22 Financial Statements document with the audited financial statements.

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

We have conclude that:

Financial information in the 2021/22 Draft Financial Statements document and published with the financial statements was consistent with the audited financial statements

The Annual Governance Statement is consistent with other information from our audit of the financial statements and we have no other matters to report.

Page 40

Whole of Government Accounts

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

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission for 2021/22. However, we do not expect any issues in performing this work as the Council falls below the threshold set within the guidance from HM Treasury and the group audit instructions for 2021/22 on which our work is based.

Other reporting issues

Other reporting issues

Other powers and duties

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

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

During the audit we received an objection to the Council’s accounts. In our discretion we decided not to accept the objection.

The objection was in regard to issues raised in the area of Children’s Direct Payments awarded to families. We decided not to accept the objection as the area had already been reviewed by Internal Audit raising a number of concerns, and the Council had responded with an action plan. In our view, accepting the objection would only identify the same findings, and therefore be a duplication of effort at a cost to the public. We also took into consideration that Internal Audit would be following up the issues raised as part of their 2022/23 audit plan.

Subsequently, Internal Audit have not been able to follow-up the issue because the action plan has not been completed. We are disappointed to note that the Council has not completed the agreed action plan on a timely basis.

Recommendation:

The Council should complete the action plan responding to the Internal Audit review of Children’s Direct Payments, without further delay.

Other reporting issues

Other matters

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

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

Page 42

We have nothing further to report on these issues that is not contained within other sections of our report.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

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

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

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

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

We have included two recommendations within our report:

1. **Develop more granular accounting records and/or further supportable estimation techniques to allow for infrastructure assets and components to be derecognised when they are replaced, and to demonstrate the continued existence of assets accounted for.** (See page 15)
2. **The Council should complete the action plan responding to the Internal Audit review of Children's Direct Payments, without further delay.** (See page 29)



08 Data Analytics



Use of Data Analytics in the Audit

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

Analytics Driven Audit

Page 46

Data analytics

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

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

In 2021/22, our use of these analysers in the Council's audit included testing selecting samples for general income and expenditure testing, testing payroll costs, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

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

Journal Entry Analysis

We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

Payroll Analysis

We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year from the payroll system and perform completeness analysis over the data, including reconciling the total amount to the General Ledger trial balance. We then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.

Financial insights

We also noted the following insights from our review of the journal data we extracted;

- People making manual postings to unfamiliar accounts are less productive and more likely to make a mistake. There are 250 accounts that have an individual posting less than 5.0% of the total activity to that account by volume. There are 74 people making these infrequent postings
- There are 20,679 manual journals smaller than 500 in value posted across the period (47.0% of all manual journals). This is estimated to take around 3,446 hours to post to your accounts at 10 minutes per journal. Can these postings be grouped together, automated or eliminated?



Page 47

09

Independence

Relationships, services and related threats and safeguards

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

There are no relationships from 1st April 2021 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The table below sets out a summary of the fees for the year ended 31 March 2022 in line with the disclosures set out in FRC Ethical Standard and in statute. As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

Page 48

	Planned Fee 2021/22	Scale Fee 2021/22	Final Fee 2020/21
	£	£	£
PSAA Scale Fee	109,891	109,891	109,891
Scale fee rebasing (1)	85,260	N/a	57,918
Scale fee variations (2,3)	tbc	N/a	
Total fees	195,151	109,891	167,809

All fees exclude VAT

Notes:

- As detailed in our 2020/21 Auditor's Annual Report we are submitting a proposed rebasing of the scale fee to reflect changes in work required to address professional and regulatory requirements and scope associated with risk.
- The 2020/21 Code work included a proposed additional fee of £35,853, for additional work undertaken in relation to property valuations, HRA depreciation, CIES/EFA restatement, new fixed asset register, Covid-19 grants, value for money, and pensions. This also includes the impact of amended auditing standards, and the changing requirements for our VFM responsibilities. PSAA has provided outline amounts to charge for the work required to address these latter areas.

For 2020/21, PSAA determined the total additional fee of £57,918, 51% of our submission.

- As noted in the previous sections of this report, we have identified new and continuing risks for 2021/22 that are not within the scale fee. Additional work will be required, but we are unable to quantify the impact at this time until the audit is complete. These will include:
 - CIES/EFA restatement
 - Infrastructure Assets
 - Consideration of the objection received
 - Value for money additional risk assessment
 - Triennial valuation of the pension fund

Other communications

EY Transparency Report 2022

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2022:

[EY UK 2022 Transparency Report | EY UK](#)






Page 50

10 Appendices

Appendix A

Required communications with the Governance Committee

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

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Terms of engagement	Confirmation by the Governance Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies	
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report - 25 April 2022	
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report - 25 April 2022	
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit results report - 24 April 2023	

Page 51

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ 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 - 24 April 2023
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management 	Audit results report - 24 April 2023
Subsequent events	<ul style="list-style-type: none"> ▶ Enquiry of the Governance Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	Audit results report - 24 April 2023
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to Governance Committee responsibility. 	Audit results report - 24 April 2023

Page 52

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ 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 Authority 	Audit results report - 24 April 2023
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Audit Planning Report - 25 April 2022</p> <p>Audit results report - 24 April 2023</p>
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures. 	We have received all requested confirmations
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ 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. 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	Audit results report - 24 April 2023
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> ▶ Written representations we are requesting from management and/or those charged with governance 	Audit results report - 24 April 2023
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> ▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit results report - 24 April 2023
Auditors report	<ul style="list-style-type: none"> ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit results report - 24 April 2023
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit planning report is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	Audit Planning Report - 25 April 2022 Audit results report - 24 April 2023

Management representation letter

Provisional Management Representation Letter

Ernst & Young LLP

Grosvenor House
Grovesnor Square
Southampton
Hampshire
SO15 2BE

This letter of representations is provided in connection with your audit of the financial statements of Southampton City Council (“the Council”) for the year ended 31 March 2022. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of Southampton City Council as of 31 March 2022 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

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), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

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

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, 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.

Management representation letter

Provisional Management Representation Letter

4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls and the effects of the conflict and related sanctions in Ukraine, Russia and/or Belarus on our system of internal controls.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because [specify reasons for not correcting misstatement].
6. We confirm the Council does not have securities (debt or equity) listed on a recognized exchange.

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

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
 - involving financial improprieties;
 - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
 - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
 - Involving management, or employees who have significant roles in internal controls, or others; or
 - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

Management representation letter

Provisional Management Representation Letter

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements , including those related to the COVID-19 pandemic and including those related to the conflict and related sanctions in Ukraine, Russia and/or Belarus.
3. We have made available to you all minutes of the meetings of the Council, Cabinet and Governance committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the period to the most recent meeting on the following date:
 - Council: XXXX;
 - Cabinet: XXXX;
 - Governance Committee: XXXX;
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22

Management representation letter

Provisional Management Representation Letter

6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. From the date of our last management representation letter (24 November 2021) through the date of this letter we have disclosed to you, to the extent that we are aware, any (1) unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants) , to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that we have given to third parties.

E. Going Concern

1. Note 1(a) to the financial statements discloses all the matters of which we are aware that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

F. Subsequent Events

1. Other than As described in Note 7 to the financial statements, there have been no events, including events related to the COVID-19 pandemic, and including events related to the conflict and related sanctions in Ukraine, Russia and/or Belarus subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

Management representation letter

Provisional Management Representation Letter

G. Other information

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

H. Climate-related matters

1. We confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation and disclosure of climate-related matters has been considered ;, including the impact resulting from the commitments made by the Council, and reflected in the financial statements.
2. The key assumptions used in preparing the financial statements are, to the extent allowable under the requirements of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, aligned with the statements we have made in the other information or other public communications made by us.

I. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the the valuation of property, plant and equipment and investment property, the IAS19 pension liability, and the business rates appeals provision, and the disclosures regarding financial instruments and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

J. Estimates

Valuation of property, plant and equipment and investment property, and IAS19 pension liability

1. We confirm that the significant judgments made in making the valuation of property, plant and equipment and investment property, and IAS19 pension liability have taken into account all relevant information and the effects of the COVID-19 pandemic of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the estimate of the valuation of property, plant and equipment and investment property, and IAS19 pension liability.

Management representation letter

Provisional Management Representation Letter

3. We confirm that the significant assumptions used in making the valuation of property, plant and equipment and investment property, and IAS19 pension liability estimates appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.
4. We confirm that the disclosures made in the financial statements with respect to the accounting estimates, including those describing estimation uncertainty and the effects of the COVID-19 pandemic on the valuation of property, plant and equipment and investment property, and IAS19 pension liability, are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.
5. We confirm that appropriate specialized skills or expertise has been applied in making the estimates of the valuation of property, plant and equipment and investment property, and IAS19 pension liability.
6. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the financial statements, including due to the COVID-19 pandemic.

K. Retirement benefits

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

Yours faithfully,

Mel Creighton
(Section 151 Officer)

Councillor David Shields
(Chairman of the Governance Committee)

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ED None

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DECISION-MAKER:	GOVERNANCE COMMITTEE
SUBJECT:	EXTERNAL AUDIT - 2021/22 INTERIM AUDITOR'S ANNUAL REPORT
DATE OF DECISION:	24 APRIL 2023
REPORT OF:	EY LLP (EXTERNAL AUDITOR)

<u>CONTACT DETAILS</u>			
Executive Director	Title	Executive Director Corporate Services	
	Name:	Mel Creighton	Tel: 023 8083 3528
	E-mail:	Mel.creighton@southampton.gov.uk	
Author:	Title	EY Engagement Manager	
	Name:	Hannah Lill	Tel:
	E-mail:	hlill@uk.ey.com	

STATEMENT OF CONFIDENTIALITY
N/A

BRIEF SUMMARY

This report sets out commentary for 2021/22 detailing significant weakness in the Council's value for money arrangements for 2022/23 and recommendations thereon. As Southampton's external auditor we are reporting below against the specified Value for Money criteria relating to the Council's arrangements for financial sustainability and governance. We have no points to raise at this stage on the specified Value for Money reporting criteria relating to the Council's arrangements for improving economy, efficiency and effectiveness.

RECOMMENDATIONS:

(i)	To note the 2021/22 External Auditor's Annual Report as attached
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REASONS FOR REPORT RECOMMENDATIONS

1.	Please see summary above.
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ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2.	None
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DETAIL (Including consultation carried out)

3.	Under the National Audit Office's (NAO) Code of Audit Practice 2020 (the '2020 Code' we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money (VFM)
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through economic, efficient and effective use of its resources for the relevant period.

The NAO's guidance notes require external auditors, in Southampton's case EY, to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Council's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This included identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

The NAO's 2020 Code enabled EY to report risks of significant weaknesses in a Council's arrangements as soon as we become aware of them, irrespective of whether or not we have started the current year audit. In addition, where we are not satisfied that the Council had made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the 2020 Code requires us to refer to this by exception in the audit report on the financial statements for the year in question.

During the course of our audit, information came to our attention regarding the Council's arrangements for Value for Money in 2022/23. We concluded that this information had not affected our risk assessment for 2021/22 and we did not expect to have any matters to report by exception in our audit report on the financial statements for 2021/22. However, we have identified a significant weakness in the Council's arrangements for Value for Money in 2022/23 and action points for the Council.

The Auditor's Annual Report is a public facing document and is written for a wider audience because it must be published by the audited body.

RESOURCE IMPLICATIONS

Capital/Revenue

4. None

Property/Other

5. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

6.
 - Local Audit and Accountability Act 2014
 - Accounts and Audit Regulations 2015

Other Legal Implications:

7. None

RISK MANAGEMENT IMPLICATIONS

8. None

POLICY FRAMEWORK IMPLICATIONS

9. None

WARDS/COMMUNITIES AFFECTED:	N/A
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	Southampton City Council Interim Auditor's Annual Report 2021/22
Documents In Members' Rooms	
1.	N/A
Equality Impact Assessment	
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	No
Data Protection Impact Assessment	
Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.	No
Other Background Documents	
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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**Southampton City
Council**

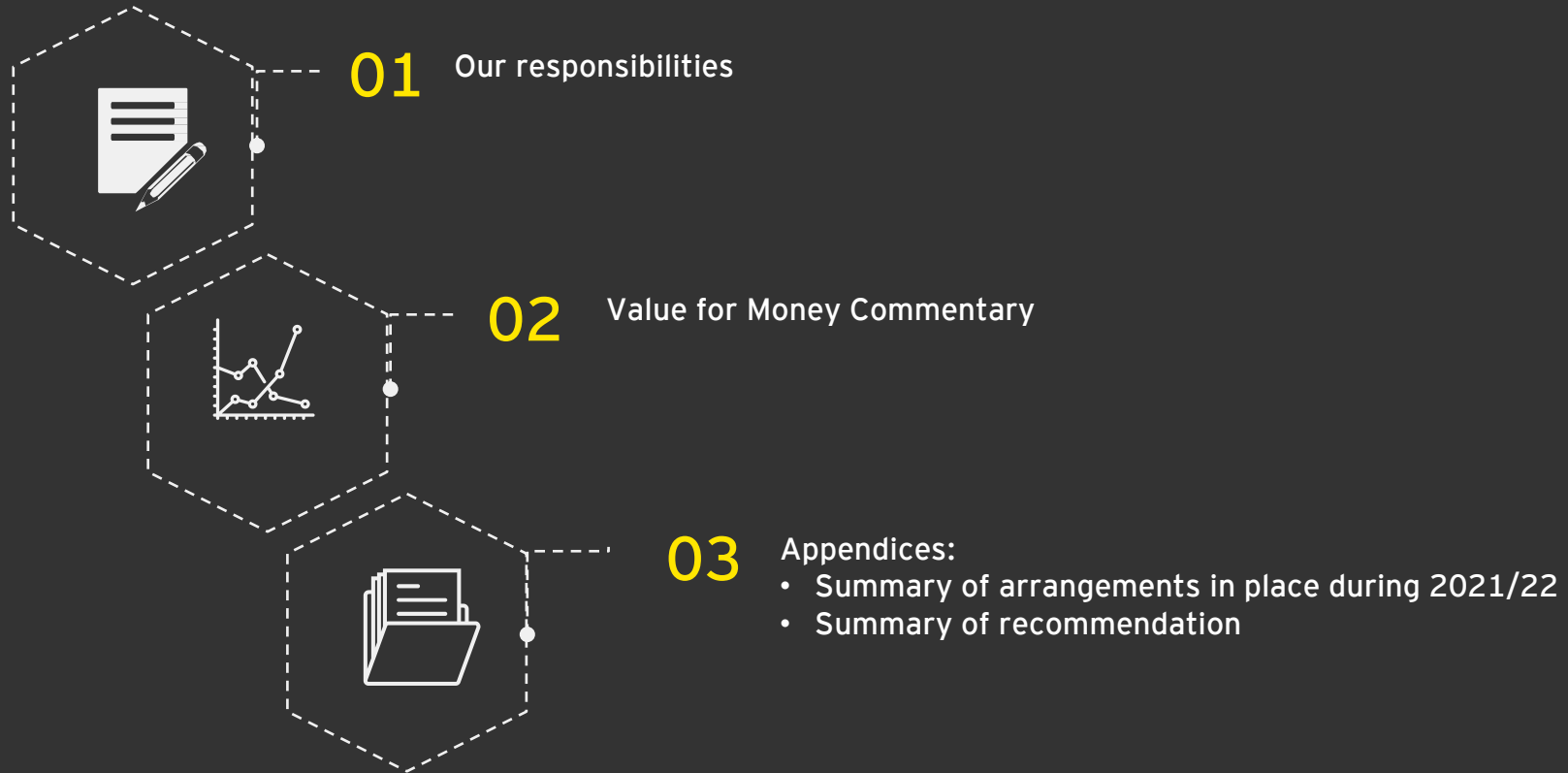
**Value for Money
Arrangements
2021/22**

March 2023

Page 67

Agenda Item 7
Appendix 1

Contents



Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). 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 and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

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



01

Our responsibilities



Our Responsibilities

Our responsibilities under the NAO Code of Audit Practice 2020

Under the National Audit Office's (NAO) Code of Audit Practice 2020 (the '2020 Code' we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money (VFM) through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- **Financial sustainability:** How the Council plans and manages its resources to ensure it can continue to deliver its services;
- **Governance:** How the Council ensures that it makes informed decisions and properly manages its risks; and
- **Improving economy, efficiency and effectiveness:** How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

The NAO's guidance notes require us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Council's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

In relation to the Council's arrangements, we are required to consider:

- The Council's governance statement
- Evidence that the Council's arrangements were in place during the reporting period;
- Evidence obtained from our work on the accounts;
- The work of inspectorates (such as OfSTED) and other bodies; and
- Any other evidence source that we regard as necessary to facilitate the performance of our statutory duties.



Our Responsibilities

Our responsibilities under the NAO Code 2020 (continued)

Risk Assessment

We consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement. However, the NAO states that a weakness may be said to be significant if it:

Exposes - or could reasonably be expected to expose - the Council to significant financial loss or risk;

- Leads to - or could reasonably be expected to lead to - significant impact on the quality or effectiveness of service or on the Council's reputation;
- Leads to - or could reasonably be expected to lead to - unlawful actions; or
- Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

We should also be informed by a consideration of:

- The magnitude of the issue in relation to the size of the Council;
- Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves, or impact on budgets or cashflow forecasts;
- The impact of the weakness on the Council's reported performance;
- Whether the issue has been identified by the Council's own internal arrangements and what corrective action has been taken or planned;
- Whether any legal judgements have been made including judicial review;
- Whether there has been any intervention by a regulator or Secretary of State;
- Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- The impact on delivery of services to local taxpayers; and
- The length of time the Council has had to respond to the issue



Our Responsibilities

Our responsibilities under the NAO Code 2020 (continued)

Responding to identified risks

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions.

Reporting on VFM

The NAO's 2020 Code enables us to report risks of significant weaknesses in a Council's arrangements as soon as we become aware of them, irrespective of whether or not we have started the current year audit. In addition, where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the 2020 Code requires us to refer to this by exception in the audit report on the financial statements for the year in question.



02

Value for Money commentary

We did not identify any risks of significant weaknesses in the VFM arrangements for 2021/22.

Page 14
Our VFM commentary highlights relevant issues for the Council and the wider public.

We had no matters to report by exception in the audit report.

Reporting

We completed our risk assessment procedures in January 2022 and did not identify any significant weaknesses in the VFM arrangements for the Council for the year to 31 March 2022.

During the course of our audit, information came to our attention regarding your arrangements for Value for Money in 2022/23. We concluded that this information did not affect our risk assessment for 2021/22 and we do not expect to have any matters to report by exception in our audit report on the financial statements for 2021/22. However, we have identified a significant weakness in the Council's arrangements for Value for Money in 2022/23 and action points for the Council.

This report sets out commentary for 2021/22 and our identification of the significant weakness in the Council's value for money arrangements for 2022/23 and our recommendations thereon. We are reporting below against the specified Value for Money criteria relating to the Council's arrangements for financial sustainability and governance. We have no points to raise at this stage on the specified Value for Money reporting criteria relating to the Council's arrangements for improving economy, efficiency and effectiveness.

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

Reporting criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability: How you plan and manage your resources to ensure they can continue to deliver their services	No significant risks identified in 2021/22 Risk of significant weakness in arrangements identified in 2022/23	No significant weaknesses identified
Governance: How you ensure that you make informed decisions and properly manages their risks	No significant risks identified in 2021/22 Risk of significant weakness in arrangements identified in 2022/23	No significant weaknesses identified
Improving economy, efficiency and effectiveness: How you use information about your costs and performance to improve the way you manage and deliver their services	No significant risks identified Risk of significant weakness in arrangements identified in 2022/23	No significant weaknesses identified



Value for Money (continued)

Financial Sustainability: How Southampton City Council plans and manages its resources to ensure it can continue to deliver its services

We concluded in our initial risk assessment for the 2021/22 audit that the 2022/23 budget (which was set during 2021/22) was based on reasonable assumptions, this included estimated savings of £10.87m. We also concluded that the Council was on track to achieve substantially all of the proposed savings of £10.68m for 2021/22. The outturn for 2021/22 reported a £10.9m underspend, which was taken to reserves.

Since then we have continued our regular meetings with officers and were updated on progress on addressing the 2023/24 budget gap. We were informed in February 2023 that the budget report to be taken to Cabinet in February 2023 would report that the Council is in financial difficulties. We understand that there were savings opportunities potentially identified but with a variable level of supporting detail and in some cases they overlapped with other options and hence were at different levels of formulation. These were not followed through to be included in the Medium Term Financial Forecast and Annual Budget.

The latest financial monitoring report shows that the Council have struggled to keep to the budgeted position in 2022/23. They were reporting a forecast deficit for the year of £10.34m after taking into account in year savings of £4.7m, with the most significant deficit being for the Children & Learning portfolio of £11.02m. The Council have implemented mitigation plans to reduce the forecast deficit, however, these are not expected to reduce the deficit in full.

We note from a review of the 2023/24 budget that reserves of £23.73m are being used on a one-off basis to balance the 2023/24 budget. Projected reserves at the end of 2023/24 are £21.0m, a reduction of £65m over the previous 5 years from £86m at the end of 2018/19.

Both the position in 2022/23 and the actual revenue budget setting process for 2023/24 and beyond are issues relating to 2022/23, and not 2021/22.

The medium term financial strategy includes a statement from the S151 Officer, in which he set out that *“The Council finds itself in a precarious financial position at a time when many risks are faced which will potentially weaken its finances further still. The Council is spending unsustainably, applying reserves (of £20.6M) as a one off short-term measure. Projections for our unallocated Medium Term Financial Risk (MTFR) Reserve show that this will expire in 2024-25, and potentially sooner if savings plans are not achieved and/or overspending continues. There is a major risk of the Council’s finances being critically impacted to the point that a balanced budget will be challenging to achieve.”*

In our initial risk assessment and year-end update, we have previously identified that the Council was forecasting significant budget gaps and had savings plans in place. However, the already existing budget gaps, combined with additional cost pressures experienced during 2022/23 have put significant additional pressure on the finances of the Council, which were not and could not have been known in 2021/22.

These cost pressures are as a consequence of a variety of national issues which the section 151 officer lists as including (but not limited to):

- Unusually high levels of inflation and the cost of living crisis impact
- Very sharp increases in the costs of energy for the Council
- Higher than expected nationally set pay awards
- Sharply rising interest rates, after a prolonged period of very low interest rates



Value for Money (continued)

Financial Sustainability: How Southampton City Council plans and manages its resources to ensure it can continue to deliver its services (continued)

- Continuing high demand for Council services, especially in the field of social care for both Adults and Children, but also other key areas such as Home-to-School Transport.
- Inflation has also impacted on contractual costs and continues to influence the costs arising from the capital programme
- On-going effects of Covid-19, in terms of the demands for local services and on the Council's income streams

The section 151 officer continued that he has recommended that the Administration, *"when facing any new decision, to limit spending as much as possible to the criteria for Essential Spend, and to consider any options which have been tabled that could go beyond the savings identified in this report, to help lower the reliance on reserves and help protect against a risk of a S114 notice being needed in 2023/24, whereby the S151 Officer states spending exceeds the resources for funding it and limiting expenditure to statutory items only."*

Furthermore, the section 151 officer highlighted the 2023/24 budget is only balanced due to significant use of reserves, and that any additional cost pressures puts further pressure on the Council's finances and there is a risk that the Council's reserves will not be sufficient.

We are aware from our meetings with officers, and specifically with the new section 151 officer who started on 27 February 2023, that the Council is considering their position and they are working to identify and mitigate against any overspend. The Council is considering the savings options available to them and intends to issue a revised MTFS in July 2023 once the new section 151 officer has had time to understand the situation including:

- what has already been put in place to mitigate the issue;
- what additional savings the Council can identify and deliver to reduce the pressure on the budget.

This will include a clear gap analysis. These savings need to be identified as soon as possible, and included within the expected Medium Term Financial Forecast update in July 2023. In our view, to do so within the 2024/25 budget will be too late.

There is increased focus within the Council on financial reporting and holding Directors to account for not meeting their budgetary targets.

The Council have also requested support from CIPFA to perform two reviews, including benchmarking from other authorities where similar reviews have taken place, with an aim of developing an improvement plan off the back of the work:

- 1) Financial management - assessing against the FM model.
- 2) Financial resilience review. - looking at saving delivery, resilience. More in depth review of the resilience indicators.

One of the concerns raised has been that the Council is only on track to achieve approximately 39% of the planned savings for 2022/23. This is a departure from prior years, where the Council has achieved a significant amount of the planned savings and an overall underspend against its annual budgets.



Value for Money (continued)

Financial Sustainability: How Southampton City Council plans and manages its resources to ensure it can continue to deliver its services (continued)

As stated above, we have been informed that the Council did not include all of the cost saving options that were potentially identified, within their 2023/24 budget. Given the financial position, this has left the Council more vulnerable than the position could have been, with more time to consider the implement them during 2023/24, and we believe these should savings should be brought forward.

The Council will also be undertaking a spending review as part of the MTFS refresh, this is expected to involve but not be limited to:

- Targets for Directors to reduce spend by target amounts
- A review of the significant areas of expenditure to determine how reductions can be made and income generation projects to see where income can be increased (staffing and procurement reductions, fees and charges increase)
- A review of individual activity budget lines
- Capital investment being outcome based

This work will continue beyond the refresh of the MTFS through to the setting of the 2024-25 budget, while continuing to hold the whole Council to account over the 2023-24 budget, targets and delivering planned savings.

Conclusion:

Based on the work performed, Southampton City Council had proper arrangements in place in 2021/22 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

However, we have identified a risk of a significant weakness in their arrangements in 2022/23.

Recommendation:

The Council needs to ensure that it has fully considered the achievable savings that it can make to reduce the pressure on reserves. These savings need to be supported by business plans and are monitored closely to ensure that they are delivered within planned timeframes.

These savings need to be identified as soon as possible, and included within the expected Medium Term Financial Forecast update in July 2023. To do so within the 2024/25 budget will be too late.

The Council will also need a further list of options on top of those savings, to mitigate any risk of overspends in other areas, or current planned savings not being progressed at the scale or speed required.



Value for Money (continued)

Governance: How Southampton City Council ensures that it makes informed decisions and properly manages its risks

Based on the information obtained and documented throughout the audit we are satisfied that the control environment does support the prevention and detection of fraud. The Council maintains Strategic Registers and Key Financials risk which are presented to the Committee quarterly.

Internal controls are monitored and assessed by the Governance Committee (Those Charged With Governance) to ensure that internal controls are appropriate and effective. An Internal Audit plan is agreed on an annual basis with internal audit reports and embedding of recommendations reviewed by the Governance Committee. The committee also considers assurance on the risk processes in place across the organization. We have inspected the Internal Audit Progress report for the 2021/22 Financial year and we note that, although no critical risks were identified, there were a number of high risk areas. However, there had been a reduction in the number of high risk areas compared to 2020/21 (38 high risk in 2021/22 progress report vs 44 in 2020/21), which can be seen as evidence for improvements in processes and controls.

Following setting the annual budget, the Council continuously monitor the financial position throughout the year for any additional costs or Covid-19 costs that need to be considered. The Council has updated its forecasts as the new information/data becomes available through from any local government updates, spending reviews, and other national issues. These have been considered on the roll-forward of the medium term financial strategy model with special considerations around additional Covid-19 pressures, assumptions, CPI inflations, policy and decisions and how this might impact costs, income & savings.

There is also a regular monitoring of levels of reserves to ensure these could meet unexpected costs. These are then reflected to the estimated forecast/budgets made by budget holders with support from the finance team that will go through the Senior Management Team/Executive management team who discuss them on a monthly basis with the Business Partners.

The Council has been forecasting a deficit for 2022/23 throughout its regular outturn reporting, including the reporting on the additional cost pressures as they arose during the 2022/23 year. However, the Council has not acted swiftly in identifying the longer term impact of the pressures identified, including the impact of using reserves. As set out in detail in the prior section, we have identified a weakness within the budget setting process for 2023/24 and in not achieving the planned savings for 2022/23.

A former staff member made an objection to the 2021/22 accounts in relation to Children's Direct Payments. In our discretion we declined to accept the objection given that this had already been investigated by the Council and an action plan has been put in place to address the issues identified. However, we do note that the action plan has not yet been implemented.

Conclusion:

Based on the work performed, Southampton City Council had proper arrangements in place in 2021/22 to enable it to make informed decisions and properly manage its risks. However, we identify a risk of a significant weakness in the arrangements in 2022/23 in relation to the budget and managing financial risks.

Recommendation:

The Council should complete the actions in relation to Children's Direct Payments without further delay, to address the weaknesses highlighted by the Internal Audit review.



Value for Money (continued)

Improving economy, efficiency and effectiveness: How Southampton City Council uses information about its costs and performance to improve the way it manages and delivers its services

We can see from the minutes of meetings of the councillors that financial and performance information has been used to identify areas for improvement. We can see that short term planning has been conducted, which details a budget for the 2022/23 financial year both identifying potential shortfalls and risks as well as potential savings. This document was considered by Cabinet on the 21/02/2022. We have also inspected evidence of longer term planning and performance assessment.

As confirmed from published minutes of the Cabinet, there is quarterly revenue monitoring done by the council. The Committee is responsible in assessing the financial performance of the Council and identify areas/sections that are risky or needs improvement if necessary. The actual risk factors are documented in the quarterly Key Financial Risks.

As previously documented, the Council has been forecasting a deficit for 2022/23 throughout it's regular outturn reporting, including the reporting on the additional cost pressures as they arose during the 2022/23 year and has struggled to achieve the planned savings for 2022/23. This is indicative that the Council has struggled to use information about its costs and performance to improve its services timely and accurately in 2022/23.

Page 79 We know from our knowledge of the Council and the prior year Annual Governance Statement that the Council is part of Southampton Connect, which is a multiagency partnership which includes the council, the police, the local NHS and representation from the private sector. This is a key element of SCC's interaction with the general public (its main stakeholders) as well as local partner organizations. This can also be seen on their website at [Southampton Connect](#).

OFSTED reporting in the year regarding children's services notes that, whilst trust had been eroded in the past in this area due to the Council's historical failings, good progress had been made in rebuilding 'eroded trust and confidence' and that there had been purposeful engagement with school leaders. This report also noted that feedback from the family judiciary and the Children and Family Court Advisory and Support Service indicated a vastly improved relationship with the Council.

Conclusion: Based on the work performed, Southampton City Council had proper arrangements in place in 2021/22 to enable it to use information about its costs and performance to improve the way it manages and delivers services.

However, we have identified a risk of a significant weakness in their arrangements in 2022/23.

Recommendation:

The Council needs to ensure that it has fully considered the underlying reasons for not delivering the planned budget and savings in 2022/23 to ensure that it can improve the way it manages and delivers its services.



03 Appendices

Appendix A - Summary of arrangements in place during 2021/22

Financial Sustainability

Reporting Sub-Criteria

How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them

Findings

The Council regularly reviews the overall short, medium and longer-term financial position. There is a Medium Term Financial Strategy, a medium term Capital Programme and quarterly monitoring of revenue and capital. The Council's medium term financial model is updated regularly throughout the year and includes a 4-year financial projection which is reviewed annually and informs savings and budget reporting.

The in-year budget position is reported monthly to the Executive Management Team (consisting of the Executive Directors). This covers both revenue and capital. This also includes discussing budget implications going forward and the latest medium term projections, as a part of the future budget setting process.

Quarterly reports to Cabinet on in-year financial monitoring also provide an update on a range of financial health indicators, such as collection rates for council tax, speed of collection of other income and creditor payment efficiency levels.

Cabinet Member Briefings are held monthly for each Portfolio area, which include an agenda item for the latest budget position to ensure this is discussed by the Cabinet Member and Executive Director with support from a Finance Business Partner.

Treasury Management forms a part of the quarterly report to cabinet, and this includes an update on the Prudential Indicators adopted by the Council. Treasury Management is also reported twice yearly to the Governance Committee - in February and November. This provides for setting out and agreeing the strategy for the year ahead and onwards, plus a mid-year update compared with the agreed strategy, and information on the prudential indicators as well as treasury activity and performance (with benchmarking information comparing SCC to other local authorities).

Government announcements on the Settlement or Spending Review are monitored and the financial implications highlighted in briefings to Executive Directors and Cabinet Members. Business case and option appraisal is applied to major areas of investment decisions.

The HRA operates within a 40 year time horizon for its Business Plan. This is published as part of the formal budget report papers considered by Council, but also during the year less formally at Cabinet Member Briefings and in discussion with the relevant Executive Director, as well as at Directorate Management Team meetings as part of the annual business plan cycle leading up to budget preparation.

The HRA is also captured as part of in-year budget monitoring work and reported formally in the quarterly cycle to Cabinet, both for revenue and capital.

Appendix A - Summary of arrangements in place during 2021/22 (continued)

Financial Sustainability

Reporting Sub-Criteria	Findings
How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them (continued)	The Council maintains a Strategic Risk Assurance Report that is reviewed quarterly by the Executive Management Board. This report includes the risk of "Failure to address the significant and ongoing financial pressures in a sustainable way and to enable service provision to reflect key strategic outcomes and be aligned with the associated budget envelopes". This includes consideration of any financial pressures and how these reflect on key strategic outcomes and the associated budgets. The Council's risk monitoring records the key financial risks over the short term and medium-term, and the mitigating actions that have been implemented to address the identified issues.
How the body plans to bridge its funding gaps and identifies achievable savings	The Council has a Medium Term Financial Forecast (MTFF) which includes a 4-year forecast of planned savings. In the budget setting for 2022/23 and beyond, the Council acknowledged that extensive work will be undertaken to identify savings and mitigations to address the gaps.
How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities	<p>The Council's vision in 2021/22 focussed on:</p> <ol style="list-style-type: none"> I. Customers - residents, business and visitors. To deliver high quality customers experiences and to deliver quality public services II. Communities, culture & Homes. To help communities to develop into thriving neighbourhoods that reflects Southampton as a vibrant and diverse city. To celebrate diversity of cultures within Southampton and to enhance cultural offer. III. Green City. To provide sustainable, clean and healthy and safe environment. To support economic growth and to obtain sustainable environment, resilient to effect of climate change. IV. Place Shaping. To deliver city of future generations and to continue the grow of local economy V. Wellbeing. To ensure that customers and residents get the right help at the right time. VI. Successful and Sustainable Business. To build sustainable, agile and flexible services with people <p>The Council set out its longer-term strategic plan within the Council Strategy 2015-2025, underpinned by the Corporate Plan 2020-2025, wherein the Council sets out its priorities. This provides the strategic framework for its decision making, and informs the Medium Term financial forecast and annual budget setting.</p>

Appendix A – Summary of arrangements in place during 2021/22 (continued)

Financial Sustainability

Reporting Sub-Criteria

Findings

How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system

The Council's Medium Term Financial Forecast (MTFF) outlines the issues that affect Council services and finances and how these factors are considered in the planning and completion of MTFF. Key financial strategies such as the capital strategy, treasury management, investments and borrowings are considered in the MTFF.

The Council's annual financial budget is aligned to activity plans, to ensure there is consistency and triangulation between all elements of the organization. Through the regularly quarterly financial monitoring including the General Fund Forecast, Capital Programme and Key Financial Risks, the Council can identify the significant financial and business risks that might affect the performance of the Council in the future, and act to address them.

How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans

The Council maintains a Strategic Risk Assurance Report and Key Financial Risks Report which are reported quarterly to Cabinet. These reports outline all the risks identified including risks in financial pressures, service disruptions, and risks in sustainable adult social care system among others. The Council also acknowledges the risk of significant and ongoing financial pressures. Mitigations by the Council include:

- Medium term financial modelling and monitoring, which are reviewed quarterly
- Having service budgets and financial forecasts that are aligned with the Council outcomes
- Identifying and addressing significant in-year budget variances by monitoring of Capital and Revenue Monthly budgets
- Identifying delivery of new savings/income opportunities

The Council's Executive Management Board (EMB) review quarterly the Strategic Risk Assurance Report. The Risk and Insurance Service will support the EMB in identification, management and review of Council's strategic risks. The Governance Committee also provide oversight.

Through these mechanisms, Council can identify significant business risks including key financial risks that might affect the financial performance of the Council in the future. The risk register is updated regularly to include the summary of financial risks, how likely they are to occur, and the mitigations, process and plans the Council is putting in place to address and manage these risk areas. These mitigations are also reflected through regular update of budgets. Budgets are also updated with latest assumptions e.g. updated CPI, RPI, % change in council tax and business rates and other financial considerations including expected grants to be received, and probable financial pressures.

Appendix A - Summary of arrangements in place during 2021/22 (continued)

Governance

Reporting Sub-Criteria

Findings

How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

Internal controls are monitored and assessed by the Governance Committee to ensure that they are appropriate and effective. An Internal Audit plan is agreed on an annual basis with the results of internal audit work and the embedding of recommendations reviewed by the Governance Committee. The Committee also considers assurance in respect of the risk processes in place across the organization.

How the body approaches and carries out its annual budget setting process

The Council meets every February, to set the Budget and Council Tax. The Budget and MTFE will be presented to the Council based on an assessment at a granular level of income, expenditure workforce, capacity and efficiency plans. The impact of these plans is triangulated with operational, performance and workforce lead officers.

In our previous section on Financial Sustainability we set out various processes the Council uses to set the strategic framework and provide a medium term financial forecast from which the annual budget derives.

It continuously monitors the financial position through the year for any additional costs that need to be considered. The Council updates budgets as new information and data becomes available. These are considered when rolling forward the MTFE model, which is then revised in light of pressures, assumptions, and policy decisions, and how these are expected to impact costs, income & savings.

There is also a regular monitoring of levels of reserves to ensure these are sufficient to meet unexpected costs. They will then be reflected in the budget forecasts made by the finance team, which are reported monthly to the Senior Management Team - and are discussed on a monthly basis with the relevant Business Partners.

The annual budgeting process then engages the services at the detailed level to determine the impacts and specifics for their specific budgets.

Appendix A - Summary of arrangements in place during 2021/22 (continued)

Governance

Reporting Sub-Criteria

How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed

Findings

Decisions are made by the Executive Body being the Leader and Cabinet, within the overall policy and budgetary framework approved by Full Council. Any decisions the Executive wishes to take outside of the framework must be referred to Full Council to decide. The Cabinet will develop and propose to Council corporate strategies and plans, and will prepare proposals for the annual budget, which it will recommend to Full Council. The Cabinet will also keep under review the allocation of resources necessary to meet the Council's responsibilities. Scrutiny committees monitor the work of the Executive Body.

The Governance Committee is independent of the executive (Cabinet) and scrutiny functions and is embedded as a key part of the Council's overall governance framework. Its terms of reference are aligned to CIPFA's best practice standards for audit committees. This Committee ensures that the Council is managing risks properly and that proper audit arrangements are in place.

The Council and Cabinet receive quarterly updates on Financial performance. These take the form of update reports that summarize the overall position during the year to date and projections against the budget. They also include financial health (balance sheet) indicators, and Treasury Management reports.

Management teams receive more detailed monthly reports that examine the income and expenditure of the directorate and associated services on a line by line basis. The information is drawn from the financial ledger, and management place reliance on the controls established through the financial rules and procedures within those specific transaction systems, and on the annual programme of work undertaken by internal audit.

We note that within the Constitution of the Council there are processes and procedures in place to ensure the body has effective processes and systems in place to ensure budgetary control, to communicate relevant, accurate and timely management information; to support its statutory financial reporting requirements and to ensure the body is taking corrective action where needed

Appendix A - Summary of arrangements in place during 2021/22 (continued)

Governance

Reporting Sub-Criteria

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee

Findings

The Council has a number of Committees in place, established through its Constitution. The Constitution includes the roles and responsibilities of the Executive, Committees, Full Council and chief officers. It also sets out the rules under which they operate; in particular how decisions are made and how procedures are to be followed to ensure that actions are efficient, legal, transparent and accountable to the community. Officers prepare reports for each of the Committees to enable decision making, as evidenced by the relevant section of the Council website. Resource implications are factored into all decisions, with a dedicated section in reports both to Councillors and to the Executive Management Team

The Council is made up of 48 Councillors which meet regularly to make key decisions including setting the Budget and Council Tax, while Cabinet reviews activity and portfolios to ensure operations are in accordance with the Budget and strategic plans.

Overview and scrutiny arrangements are in place to review decision making.

The Council has a Governance Committee which has responsibility for oversight of the scope and effectiveness of the internal control, and systems established by management to identify, assess, manage and monitor financial and non-financial risks (including measures to protect against, detect and respond to fraud).

Annually the Chief Internal auditor is required to produce an Annual Plan which sets the scope and detailed areas for review of the Authority's functions, with subsequent reporting to the Governance Committee.

The Governance Committee sees and comments on the Annual Governance Statement, which would highlight any overall concerns including those which may effect value for money. It is reviewed as both a draft and final document.

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)

The Council operates strict Standards of Business Conduct. All decision-making staff as described in the policy are required to adhere to this policy and make disclosures as required. A Register of Interests is held. In addition, there is a gifts and hospitality register to declare any gifts received or offered along with whether they have been accepted or declined.

Accountabilities and responsibilities are set out in authority's Financial Procedure Rules, including Chief Officers being responsible to achieve Value for Money.

Appendix A - Summary of arrangements in place during 2021/22 (continued)

Improving economy, efficiency and effectiveness

Reporting Sub-Criteria	Findings
How financial and performance information has been used to assess performance to identify areas for improvement	<p>We can observe from the minutes of meetings of the council that financial and performance information has been used to identify areas for improvement.</p> <p>We have commented before on arrangements for financial monitoring and risk management, reviewed on a quarterly basis.</p>
How the body evaluates the services it provides to assess performance and identify areas for improvement	<p>The most notable area for improvement from the prior year related to the Children's Services Department. In early 2020 the Council received a whistleblower report which followed on from an OFSTED report in 2019 which noted that the council required improvement across all areas of the service. We reviewed these issues on our previous year audit.</p> <p>In this financial year there is evidence of continued improvement. We note that OFSTED performed a 'focused visit'. This report noted a number of considerable improvements, and noted that senior leaders demonstrated a 'balanced, accurate self-assessment on the quality of frontline practice' and that an extensive workforce and practice transformation is in progress. The report also noted that there had been significant cultural change since the whistleblower report. A detailed improvement plan is in place and the improvements are being implemented. Whilst we note there are still points for improvement in this report, the changes made indicate that the authority has the arrangements in place to continue to improve and deliver value for money in this area</p>
How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve	<p>We can see from published documents that the council has a number of strategies that involve working with key partners including local businesses, local police/fire services and local health services. These include a strategy for Health and Care which detailed its commitment to working with local NHS organizations.</p>

Appendix A - Summary of arrangements in place during 2021/22 (continued)

Improving economy, efficiency and effectiveness

Reporting Sub-Criteria	Findings
How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits	<p>The Council has a procurement policy which is publicly available and therefore available for public scrutiny. It clearly states a number of principles, as well as a number of strategic initiatives to further improve its procurement practices. This policy document details a number of the arrangements we would expect to see in good governance, and includes commitments to reduce spending with external suppliers, to maintaining up to date information on all procurement activity, centralization of buying activity over £1k , and maintaining a centralized contract register.</p> <p>Adherence with procurement policies and best practice was identified as an area of weakness in the Council's arrangements in 2017/18, leading to a qualification of the VFM conclusion. A risk was then identified in this area in 2018/19, but our work in that year confirmed that sufficient progress had been made that the qualification could be lifted. This has been kept under review by internal audit in subsequent years, with no further risks to our VFM responsibilities identified.</p> <p>No material inappropriate spending has been identified through our financial statement audit.</p>

Appendix B - Summary of recommendations

Recommendations

The table below sets out the recommendation arising from the financial statements and value for money audits in 2021/22. The recommendations has been agreed by management.

Issue	Recommendation	Management Response
Value for Money: Financial Sustainability	<p>The Council needs to ensure that it has fully considered the achievable savings that it can make to reduce the pressure on reserves. These savings need to be supported by business plans and are monitored closely to ensure that they are delivered within planned timeframes.</p> <p>These savings need to be identified as soon as possible, and included within the expected Medium Term Financial Forecast update in July 2023. To do so within the 2024/25 budget will be too late.</p> <p>The Council will also need a further list of options on top of those savings, to mitigate any risk of overspends in other areas, or current planned savings not being progressed at the scale or speed required.</p>	
Value for Money: Governance	<p>The Council should complete the actions in relation to Children's Direct Payments, to address the weaknesses highlighted by the Internal Audit review</p>	
Value for Money: Improving economy, efficiency and effectiveness	<p>The Council needs to ensure that it has fully considered the underlying reasons for not delivering the planned budget and savings in 2022/23 to ensure that it can improve the way it manages and delivers its services.</p>	

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ED None

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Agenda Item 8

DECISION-MAKER:		GOVERNANCE COMMITTEE	
SUBJECT:		STATEMENT OF ACCOUNTS 2021/22	
DATE OF DECISION:		24 APRIL 2023	
REPORT OF:		EXECUTIVE DIRECTOR CORPORATE SERVICES	
<u>CONTACT DETAILS</u>			
Executive Director	Title:	Executive Director Corporate Services	
	Name:	Mel Creighton	Tel: 023 80833528
	E-mail:	Mel.Creighton@southampton.gov.uk	
Author:	Title:	MTFS & Revenue Manager	
	Name:	Stephanie Skivington	Tel: 023 80832692
	E-mail:	Stephanie.Skivington@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY	
NOT APPLICABLE	
BRIEF SUMMARY	
<p>The draft statement of accounts for 2021/22 for the Council were presented to the Governance Committee at its meeting on 26 September 2022. At that time the audit of the statement was substantially complete and the Committee approved the statement of accounts, however in recognition that some final audit work was still needed accepted the recommendation that “the Executive Director for Finance, Commercialisation & S151 Officer, after consultation with the Chair of the Committee, can make any further minor changes to the Statement of Accounts 2021/22 that may arise during completion of the audit.”</p>	
<p>Since September, the audit has been unable to be completed, largely due to accounting issues beyond the control of the authority. This report updates on the latest position.</p>	
RECOMMENDATIONS:	
(i)	Notes this update on the Statement of Accounts 2021/22.
(ii)	Approves the rationale for not correcting the audit difference relating to investment properties in paras 7 and 8.
(iii)	Resolves that the Executive Director Corporate Services, after consultation with the Chair of the Committee, can make any further minor changes to the Statement of Accounts 2021/22, including any technical accounting adjustments that have no impact on the 2021/22 General Fund or HRA outturn position, that may arise during completion of the audit.
REASONS FOR REPORT RECOMMENDATIONS	
1.	Given the audit has not yet been completed, this report updates on the latest position.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	

2.	The Statement of Accounts has been prepared in accordance with statutory requirements. No other options have been considered as it is a legal requirement that the Statement of Accounts is prepared, and signed by the person presiding at this meeting, following completion of the audit.
DETAIL (Including consultation carried out)	
	CONSULTATION
3.	Not applicable.
	STATEMENT OF ACCOUNTS
4.	A copy of the updated draft statement of accounts is available in the Members' Room.
	STATEMENT OF ACCOUNTS AMENDMENTS
5.	Only minor amendments have been made to the accounts since the Committee approved the accounts in September, primarily relating to additional disclosures for infrastructure assets as noted in paragraph 10 below.
	UNADJUSTED AUDIT DIFFERENCES
6.	The Committee approved the rationale for not adjusting four audit differences identified by our external auditors, Ernst & Young LLP (EY), at its meeting in September 2022. Since that meeting one further audit difference has been identified.
7.	The net book value for Investment Properties reported in the draft accounts was £114M. EY have identified an understatement in the value of Investment Properties of around £1.7M due to the valuation taking into account an element for transactional costs of sale should the assets be disposed of.
8.	We have not corrected the accounts for this audit difference because it is below the materiality level and would not seriously affect how any reader of the accounts would view our asset values. Also, such an adjustment would have no impact on the 2021/22 General Fund reported position.
	INFRASTRUCTURE ASSETS
9.	In September 2022, a delay to completing the audit of the accounts was anticipated as CIPFA were considering a temporary update to the Accounting Code for infrastructure assets. The amendments were intended to address issues raised by auditors in relation to the derecognition (removal of the carrying amount) of parts of infrastructure assets when replacement expenditure is undertaken i.e. infrastructure assets may have been overstated by most authorities.
10.	An update to the Code was made at the end of November 2022, along with new regulations which provide a temporary solution to this national issue. This resulted in additional paragraphs included in our accounts, to the effect that the Council is making use of the statutory override and changes afforded by the Code update and is not reporting the gross book value or accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position to the users of the financial statements.
11.	CIPFA will consult further on longer term accounting resolutions to this issue.

	PENSION LIABILITIES
12.	A further delay has occurred in the completion of the audit due to potential material variation between figures in SCC accounts for pension liabilities (via the Local Government Pension Scheme or LGPS) and the triennial actuarial review of Hampshire LGPS valuation. Different assumptions are often used between the pension liabilities included in the accounts and the Hampshire LGPS valuation, but since on this occasion there are significant differences on the pension liabilities an updated report from the Actuary has been requested to refresh 2021/22 figures and to confirm if any adjustments are required.
13.	Even if the pension liabilities need to be adjusted, after an updated report from the actuary, this will not impact on the reported General Fund position for 2021/22. Accounting rules ensure that fluctuations in the liabilities do not affect the General Fund position, rather they impact on the long term payment via the employer's contribution rate into the LGPS fund. As there is ultimately no effect on the 2021/22 outturn, it is therefore viewed as a minor change that could be addressed within the delegation granted to the Committee Chair and S151 officer.
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
14.	Not applicable
<u>Property/Other</u>	
15.	Not applicable
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
16.	Accounts and Audit Regulations 2015, the Accounts and Audit (Amendment) Regulations 2021, the Accounts and Audit (Amendment) Regulations 2022 and the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022.
<u>Other Legal Implications:</u>	
17.	None.
RISK MANAGEMENT IMPLICATIONS	
18.	Not applicable
POLICY FRAMEWORK IMPLICATIONS	
19.	Not applicable. It should be note that the Statement of Accounts has been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the UK 2021/22 as updated.

KEY DECISION?	Yes/No
WARDS/COMMUNITIES AFFECTED:	None

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<u>SUPPORTING DOCUMENTATION</u>

Appendices

1.	
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2.	
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Documents In Members' Rooms

1.	Updated Statement of Accounts 2021/22
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2.	
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Equality Impact Assessment		
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) 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		
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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DECISION-MAKER:	GOVERNANCE COMMITTEE
SUBJECT:	ANNUAL INTERNAL AUDIT PLAN 2023-24 INTERNAL AUDIT & COUNTER FRAUD CHARTER & CODE OF ETHICS 2023-24
DATE OF DECISION:	24th APRIL 2023
REPORT OF:	CHIEF INTERNAL AUDITOR

<u>CONTACT DETAILS</u>			
Executive Director	Title	CORPORATE SERVICES	
	Name:	Mel Creighton	Tel: 023 8083 3528
	E-mail	Mel.Creighton@southampton.gov.uk	
Author:	Title	CHIEF INTERNAL AUDITOR	
	Name:	Elizabeth Goodwin	Tel: 023 8083 4616
	E-mail	Elizabeth.Goodwin@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY
N/A
BRIEF SUMMARY
<p>On 1st April 2013 the 'Public Sector Internal Audit Standards' (PSIAS) were formally adopted in respect of Local Government across the UK. The PSIAS apply to all internal service providers, whether in-house, shared services or outsourced.</p> <p>The purpose of the PSIAS are to:</p> <ul style="list-style-type: none"> • Define the nature of internal auditing within the UK public sector • Set basic principles for carrying out internal audit in the public sector • Establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations • Establish the basis for the evaluation of internal audit performance and to drive improvement planning. <p>Conformance to the standards must be reported by the Chief Internal Auditor in the annual audit report as part of the opinion on the internal control framework. The requirements of the Standard are covered in the attached Internal Audit & Counter Fraud Charter & Code of Ethics, Appendix 2.</p> <p>Further to this, on an annual basis, the Chief Internal Auditor is required to produce an Annual Plan that translates into a schedule of audit assignments. The plan defines the areas and potential scope inclusion and must provide a sufficient review of the Authority's functions in order to form an annual opinion on the effectiveness of the control framework. The plan must be proportionate to the risk exposure and appropriately aligned to the strategic objectives of the Council.</p>

RECOMMENDATIONS:	
	(i) To approve the provisional Annual Internal Audit Plan for 2023-24 as set out in Appendix 1.
	(ii) To approve the Internal Audit and Counter Fraud Charter and Code of Ethics as set out in Appendix 2.
REASONS FOR REPORT RECOMMENDATIONS	
1.	In accordance with internal audit practices and protocol, the Governance Committee is required to approve, but not direct the annual audit plan for Internal Audit & Counter Fraud.
2.	In accordance with the Public Sector Internal Audit Standards the Chief Internal Auditor is required to periodically review the internal audit charter and present it to the Governance Committee for approval.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
3.	None
DETAIL (Including consultation carried out)	
4.	The provisional Internal Audit Plan for 2023-24 has been discussed with the Council's Executive Management Team, Senior Officers and the Chair of the Governance Committee.
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
5.	None
<u>Property/Other</u>	
6.	None
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
7.	The Accounts and Audit (England) Regulations 2015 state 'a relevant body must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the Public Sector Internal Auditing Standards.
<u>Other Legal Implications:</u>	
8.	None
RISK MANAGEMENT IMPLICATIONS	
9.	Failure to maintain an effective internal audit functions would result in a failure of the organisation meeting its statutory responsibilities in relation to the Annual Governance Statement and Annual Audit Opinion.
POLICY FRAMEWORK IMPLICATIONS	
10.	None

KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	None
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	Annual Internal Audit Plan 2023-24
2.	Internal Audit & Counter Fraud Charter & Code of Ethics 2023-24
Documents In Members' Rooms	
1.	None
Equality Impact Assessment	
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	No
Data Protection Impact Assessment	
Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.	No
Other Background Documents	
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

2023/24 Internal Audit Plan

Elizabeth Goodwin, Chief Internal Auditor

Executive Summary

This document sets out Internal Audit's programme of work for 2023/24, following appropriate engagement across the authority including but not limited to; CEO, Executive Directors, Directors, Heads of Service and the Chair of Governance Committee.

The Plan is informed by:

- Legal/ government requirements, specifically including grant sign offs by Internal Audit.
- Outcomes of prior Internal Audit reviews, for example all 2022/23 higher risk exceptions will be followed up during 2023/24. Any outstanding 'open or in progress' actions from follow up reviews performed during 2022/23 will be revisited as part of an ongoing schedule of work to support directorates implementation of actions to address risk exposure.
- Consultation with the Council's senior management and member as noted above.
- Risk assessment methodology and adequate coverage of activities across the authority in order to inform the annual opinion on the effectiveness of the control environment.

Primarily the Plan is risk based, although a number of fundamental areas, for example key financial processes such as Payroll, Accounts Payable and Receivable are reviewed every year due to the inherent risk exposures and transaction levels. A significant focus for any review included would be financial sustainability given ongoing budgetary pressures.

Detail regarding the standards applicable to Internal Audit are set out in the Public Sector Internal Audit Standards:

<http://www.cipfa.org/policy-and-guidance/standards/public-sector-internal-audit-standards>

Proposed Audits

Corporate Services				
Audits	Type	Provisional Scope	Strategic Risks	Corporate Goals
Accounts Payable	Full	Scope to include a review of key controls.	1/4/5/7	All
Accounts Receivable	Full	Scope to include a review of key controls.	1/4/5/7	4
Agency & Temporary Staff	2nd Follow Up	Follow up required on raised exceptions, 1 high and 1 medium risk exceptions.	1/2/11	4
Business Continuity & Disaster Recovery	Full	Scope to include a key controls and cyber security arrangements.	1/3/	4
Expenses, Travel & Subsistence	Full	Scope to include a review of compliance with agreed arrangements and a follow up on the 4 high and 3 medium risk exceptions.	1	4
Feeder Systems	2nd Follow Up	Follow up required on raised exceptions, 3 high and 1 medium risk exceptions.	1/3/9	4
Financial Rules Non-Compliance	Analytics	IDEA (Data Analytics Software)	1	4
IT Assets	Full	Scope to include a review of procurement and inventory.	1/3	4
IT Automation	Full	Scope to include a review of automated processes.	1/3	All
Key Controls (Fraud Prevention)	Full	Scope to include a review of key controls to prevent fraud.	All	All
Network Management & Security	1st Follow Up	Follow up required on raised exceptions, 1 high, 2 medium and 2 low risk exceptions.	3/9	4
Payroll	Full	Scope to include a review of key controls.	1	4
Procurement Service	1st Follow Up	Follow up required on raised exceptions, 3 high.	1/4/5/7	All
Purchase Cards	Full	Scope to include a review of key controls and follow up on exceptions previously raised, 3 medium and 2 risk exceptions.	1	4
PUSH	Full	Annual accounts sign off.	1	All
Risk Management	1st Follow Up	Follow up required on raised exceptions.	All	All

Corporate Services				
Audits	Type	Provisional Scope	Strategic Risks	Corporate Goals
Starters & Leavers	Full	Scope to include a review of compliance with the terms and condition of the shared funding.	1/9/11	4
Business Planning and Savings Proposals	Full	Scope to include a review of the robustness of arrangements and achievement of objectives.	All	All

Corporate Services & Place				
Audits	Type	Provisional Scope	Strategic Risks	Corporate Goals
Biodiversity Net Gain Grant	Grant	Grant Verification	1/10/13	3
Disabled Facilities Grant	Grant	Grant Verification	1/4/5/8	1
Disabled Facilities Grant	Full	Process review, scope to include examination of underspends.	1/4/5/8	1
Transforming Cities Fund	Grant	Preparation for Grant Verification	1/10/13	3/4
Local Transport Capital Block Funding	Grant	Grant Verification	1/10/13	3/4

Corporate Services & Wellbeing & Housing				
Audits	Type	Provisional Scope	Strategic Risks	Corporate Outcomes
Appointeeship	1st Follow Up	Follow up required on raised exceptions.	4/5/9	1
Housing Rents & Arrears Collection	Full	Scope to include a review of key controls and follow up on exceptions previously raised, 2 high and 3 medium risk exceptions.	1/4/9	1/3/4
Modern Slavery	Full 2nd Follow Up	Compliance review to establish arrangements within directorates for main contractors. Along with follow up review on open or in progress exceptions, 2 high and 2 medium risk exceptions.	4/6	1/3/4

Corporate Services & Wellbeing (Children & Learning)				
Audits	Type	Provisional Scope	Strategic Risks	Corporate Goals
Schools Financial Values Statement (SFVS)	Full	Annual review required to enable s151 Officer sign off.	6/7	1
Schools Budget Deficits	2nd Follow Up	Follow up required on open or in progress exceptions, 1 high.	1/6/7	1/4

Place				
Audits	Type	Provisional Scope	Strategic Risks	Corporate Goals
Asbestos	Full	Review to include a review of key controls.	2/4/6/8	1/3
Contractor Arrangements	Full	Scope to include a review of due diligence and ongoing monitoring once contracts awarded.	2/4/8	2/3/4
Health & Safety	Full	Review to include a review of key controls.	2/8	3/4
Home 2 School Transport System	Full	Review at the request of s151 officer.	1/6/7/13	1/3
Operator's License	2nd Follow Up	Follow up required on open or in progress exceptions.	1/2//8/11	2/3/4
Safety Compliance (Tower Blocks)	1st Follow Up	Follow up required on raised exceptions.	4/6/8/12	2/3
Toll Bridge	1st Follow Up	Follow up required on raised exceptions, 1 high.	1	All
Waste Operations	1st Follow Up	Follow up required on raised exceptions	1/2/8	2/3
Water Quality	Full	Review to include a review of key controls.	2/4/6/8	1/2/3

Transformation				
Audits	Type	Provisional Scope	Strategic Risks	Corporate Goals
Partnerships	Full	Scope of the review to include governance arrangements.	All	All
Project	Full	Area to be determined.	All	All

Transformation				
Audits	Type	Provisional Scope	Strategic Risks	Corporate Goals
Transformation Programme	Consultancy	Support work across the Authority.	All	All

Wellbeing & Housing				
Audits	Type	Provisional Scope	Strategic Risks	Corporate Goals
Adult Safeguarding	Full	Follow up required on raised exceptions, 2 high.	1/4/5	1/2/3
Allocation Policy	Full	Scope of the review to include of key controls.	1/4/5	1/2/3
Compliance with Grant Conditions (PH)	Full	Scope of the review will focus on compliance across the authority.	All	All
Contract Review	Full	Review at the request of the Executive Director.	1/4/5	1/3
Contract Management ICU	1st Follow Up	Follow up required on raised exceptions, 1 high and 1 medium risk exceptions.	1/4/5	1/3
Damp & Mould	Full	Scope of the review to include of key controls.	1/4/6/8	1/3
Deprivation of Liberty	1st Follow Up	Follow up required on raised exceptions, 4 high.	1/4/5	1
Domestic Violence	2nd Follow Up	Follow up required on raised exceptions, 2 high.	4/6/8	1/2/3
Emergency Procedures	1st Follow Up	Follow up required on raised exceptions, 1 high and 1 medium risk exceptions.	4/6/8	1/3
Funding Pathways	1st Follow Up	Follow up required on raised exception, 1 high.	1/4/5	1/2
Public Health Outcomes	1st Follow Up	Follow up required on raised exceptions, 1 high and 1 medium risk exceptions.	1/2/8/9	1
Residential Units	1st Follow Up	Follow up required on raised exceptions, 1 high and 2 medium risk exceptions.	1/4/5	1/2/3
Section 75	Full	Scope of the review to include of key controls.	1/4/5	1/2
Stock Condition Surveys	Full	Scope to include a review of key controls.	1/4/6/8	2/3
Temporary Accommodation	Full	Scope of the review to include of key controls.	1/4/5	1/2/3
Voids	1st Follow Up	Follow up required on raised exceptions.	1/4	3

Wellbeing & Housing & Wellbeing (Children & Learning)				
Audits	Type	Provisional Scope	Strategic Risks	Corporate Goals
Transition Children's to Adults	1st Follow Up	Follow up required on raised exceptions.	1/4/5/6/7	1/2

Wellbeing (Children & Learning)				
Audits	Type	Provisional Scope	Strategic Risks	Corporate Goals
Cantell Secondary School	Full	Scope of the review to include of key controls.	6/7	1
Child Protection Planning	1st Follow Up	Follow up required on raised exceptions, 6 high and 1 medium risk exception.	6/7	1
Compass - Alternative Learning	Full	Scope of the review to include of key controls.	6/7	1
Direct Payments Children's	1st Follow Up	Follow up required on raised exceptions, 6 high.	1/6/7	1
Elected Home Education	1st Follow Up	Follow up required on raised exceptions, 1 high.	6/7	1
Families Matter Grant	Grant	Annual grant verification.	1/4/5/6/7	1/2
Fostering	1st Follow Up	Follow up required on raised exceptions, 3 high and 1 medium risk exceptions.	6/7	1
Hardmore School	1st Follow Up	Follow up required on raised exceptions, 6 high and 4 medium risk exceptions.	6/7	1
Mansbridge Primary School	2nd Follow Up	Follow up required on open or in progress exceptions, 3 high and 1 medium exceptions.	6/7	1
Shirley Warren Primary	2nd Follow Up	Follow up required on open or in progress exceptions, 2 high risk exceptions.	6/7	1
St Marks Primary	Full	Scope of the review to include of key controls.	6/7	1
Unregulated Placements	Full	Scope of the review to include of key controls.	1/6/7	1/3
Vermont School	1st Follow Up	Follow up required on raised exceptions, 3 high and 3 medium risk exceptions.	6/7	1

Strategic Risks (as of 31st March 2023)

Ref	Risk
1	Failure to address the significant and ongoing financial pressures in a sustainable way.
2	Major incident or service disruption (including serious health protection threats) leading to delivery failure that significantly impairs or prevents the Council's ability to deliver key services and/or statutory functions
3	Major IT incident or IT service disruption leading to delivery failure that significantly impairs or prevents the Council's ability to deliver key services and/or statutory functions.
4	Failure to design and implement an effective new delivery model for Adult Social Care which results in improved outcomes for residents within available resources in a sustainable way.
5	Failure to provide high quality, cost effective Adult Social Care services and to achieve positive outcomes from CQC inspections.
6	Failure to safeguard children resulting in a preventable incident.
7	Failure to ensure an effective and sustainable children's social care system.
8	Failure to meet our health and safety responsibilities.
9	Failure to ensure the City Council's information is held and protected in line with Information Governance policies and procedures.
10	Failure to ensure delivery of statutory air quality standards.
11	Failure to have in place up to date skills audits across all service areas to identify the range of skills and technical / professional expertise required to deliver services.
12	Contractor refuses to accept/recognise its contractual and, or full financial obligations in respect of the required fire protection compliance work in certain high rise residential blocks.
13	Failure to deliver the key actions and commitments, at address climate emergency and biodiversity, as set out in the Green City Charter.

Corporate Plan - Goals & Focus

Ref	Corporate Goals
1. Strong Foundations for Life	
1a	<p>Improving health and wellbeing of all residents, with a focus on reducing health inequalities within Southampton:</p> <ul style="list-style-type: none"> • Make Southampton’s cultural and leisure offer more accessible to all ages, abilities and backgrounds, with a particular focus on areas of high deprivation. • Improve mental health and reduce levels of loneliness. • Reduce childhood obesity levels in Southampton by increasing take-up and expanding scope of Healthy Early Years and Healthy High 5 Award schemes. • Reduce number of smokers, drug use and alcohol consumption by commissioning public health prevention initiatives and focusing on targeted support. This includes identifying and supporting more families where children are living with alcohol-dependent adults. • Ensure there is a vibrant local market to deliver health and care services, by working with partners and third-sector colleagues.
1b	<p>Facilitating life-long learning and skills development to encourage higher-skilled, higher-paid jobs:</p> <ul style="list-style-type: none"> • Deliver the School Attendance Action Plan aimed to improve school attendance and attainment, which results in better education outcomes and greater opportunities to succeed for young people in Southampton. This will involve working with young people to better understand and tackle root causes. • Increasing the number of care leavers and those still in care into education, employment, and training. • Help more of our city residents to get the qualifications and skills that are right for them. This includes supporting them to get ready for work and helping them understand how to access opportunities.
2. A Proud and Resilient City	
2a	<p>Create cleaner, more attractive, and welcoming green and open spaces, to improve the experience of those living, working, studying and visiting Southampton:</p> <ul style="list-style-type: none"> • Host ‘Love Where You Live’ events in areas of deprivation, delivered with local communities, focused on addressing local needs. • Ensure our parks and open spaces remain accessible and increase the number of Green Flags in the city from six parks to ten. • Reduce litter and fly-tipping and improve recycling rates through our Waste Management Plan. • Install 240 solar bins across Southampton.
2b	<p>Give communities more influence over local decision-making and create child-friendly neighbourhoods:</p> <ul style="list-style-type: none"> • Work towards Southampton becoming accredited as a UNICEF Child Friendly City

	<ul style="list-style-type: none"> • Create a Southampton Youth Council that allows young people to influence decision-making. • Improve the condition of children’s play areas within neighbourhoods and work towards introducing more play equipment within neighbourhoods that do not have any. • Support Southampton’s Cultural Education Partnership to enhance creative opportunities for children. • Start to develop a neighbourhood model of working, so that support is available closer to where people live, through greater community action, family and neighbourhood hubs.
2c	<p>Help communities feel safer within their neighbourhoods with a sense of belonging:</p> <ul style="list-style-type: none"> • Work closely with Hampshire Constabulary and city partners on Safe City Partnership Plan. • Deliver a Safer Neighbourhoods Fund. • Work with businesses, voluntary agencies, libraries, and community centres to grow our local network of safe places, places of sanctuary, and hate crime reporting centres. • Improve awareness of crime reporting through increased communications, in partnership with Hampshire Constabulary. • Achieve more inward investment into Southampton’s creative and cultural organisations to help deliver for local communities, as part of Southampton’s UK City of Culture 2025 bid legacy work. • Champion Southampton’s City of Sanctuary status and encourage more city organisations to become places of sanctuary to ensure refugees and asylum seekers are welcomed into our diverse city.
2d	<p>Create more resilient communities by coordinating support for those in need and enabling people to live independently for longer:</p> <ul style="list-style-type: none"> • Support information, advice and guidance organisations in the city to offer support where needed. • Reduce food poverty by supporting the voluntary and third sector to establish a strong food distribution network. • Establish ‘warm spaces’ network within Southampton, using local libraries. • Deliver an improved Southampton Information Directory so people have better access and can choose how best to help themselves. • Increase the number of accessible homes in Southampton that support independent living. • Work with partners to support more people to remain at home following discharge from hospital. • Provide support so people can be more independent in their own home. This includes creating better access to their local community and making best use of digital tools including Telecare.
3. A Prosperous City	
3a	<p>Work with partners to support and grow emerging businesses, help existing business and attract new business into the city:</p> <ul style="list-style-type: none"> • Champion sustainable growth, encouraging innovation to tackle the challenges of climate change, with a particular focus on marine and maritime. • Bring in new skills and employment opportunities for local people.

	<ul style="list-style-type: none"> Identify and support development of the skills and specialisms needed to deliver a local talent pool that can help existing and new business to the city succeed. This includes improving links between employers and education providers and introducing initiatives such as the Good Work Charter and delivering our Future of Work Action Plan. Establish a City Renaissance Board, which will oversee the future growth and development of key sites in the city, including master-planning of city and district centres, aligning wider city investment and partnership plans. Strengthen international partnerships to encourage trade and global collaborations. Ensure start-ups and existing businesses can access affordable support and advice and maximise financial opportunities to ensure we retain local talent and enable growth.
3b	<p>Work with business to improve social and environmental impact:</p> <ul style="list-style-type: none"> Increase number of businesses signed up to Safe Places Network. Increase number of Real Living Wage Employers within Southampton. Champion the 'Southampton Pound' with the aim of keeping more local spend within the city. Ensure the business community engages with the Southampton's Citizens Assembly on becoming a Zero Carbon City by 2035, so they can be part of the solution to tackling climate change.
3c	<p>Become a destination place to be proud of that puts Southampton on the map, encouraging more visitors to visit, enjoy and spend within Southampton:</p> <ul style="list-style-type: none"> Support Southampton's Cultural Trust to help deliver the Cultural Strategy, Destination Management Plan, and Festival and Events Strategy to grow our citywide destination aspirations and increase visitor numbers. Maximise economic and social benefits by working with partners to build on the legacy of being finalists in the City of Culture 2025 bid. Invest in Southampton's heritage, helping to tell Southampton's story.
3d	<p>Better infrastructure, with safer, more affordable and accessible modes of travel options around Southampton:</p> <ul style="list-style-type: none"> Deliver on the Transforming Cities Programme and become better connected, however, you choose to travel. Work to make public transport cheaper, particularly bus travel. Explore further sustainable transport options, including water-taxis and metro-rail. Adopt recommendations from the Accessibility Scrutiny Enquiry. Deliver digital infrastructure so that residents and businesses can evolve and grow. Promote and improve access to Southampton waterfront.
3e	<p>More good quality, affordable housing in Southampton that local residents can benefit from:</p> <ul style="list-style-type: none"> Adopt Affordable Housing Framework. Ensure better standards of rental properties by completing a Conditions Survey of private rented homes in Southampton.

	<ul style="list-style-type: none"> Invest at least £6 million to improve energy efficiency of council homes, including insulating homes
4. A Successful, Sustainable Organisation	
4a	<p>Be an employer of choice:</p> <ul style="list-style-type: none"> Deliver on our People Plan. Develop talent and offer opportunities to staff. Support employees and invest in their health and wellbeing. Deliver on the council's Diversity and Inclusion Pledge, to promote and champion diversity throughout the organisation.
4b	<p>Work effectively, focusing on the things that make the most difference:</p> <ul style="list-style-type: none"> Identify and use the right data to make better, more informed decisions. Target support to people who need it the most. Regularly review what we do to make sure we are always focused on our customers.
4c	<p>Deliver the transformation of services and workplace:</p> <ul style="list-style-type: none"> Ensure all services are designed to support best outcomes for our residents. Drive efficiencies through focusing on what creates real value, streamlining processes, reducing bureaucracy, and increasing productivity. Challenge ourselves to be future-focused and think differently, to identify opportunities and better ways of working.
4d	<p>Work with, and not just for, our customers and the communities we serve:</p> <ul style="list-style-type: none"> Embed a culture of listening to our residents, community groups, partner organisations and businesses so their voices can shape our actions. Work with our children and young people and fulfil the council's pledge as a signatory of the Good Youth Employment Charter. Work to make sure Southampton gets its fair share of resources, securing more external funding. Maintain collaborative partnerships with public and private sector organisations. Support our communities and the voluntary sector to make the greatest impact possible. Ensure council properties and spaces are well managed and maintained.

Introduction

1. On 1st April 2013 the 'Public Sector Internal Audit Standards' (PSIAS) were formally adopted in respect of Local Government across the UK. The PSIAS replace the CIPFA Code of Practice for Internal Auditors in Local Government in the UK and encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF).
2. The PSIAS apply to all internal service providers, whether in-house, shared services or outsourced. The requirements of the Standards are covered in this Internal Audit & Charter & Code of Ethics. The Standards have been revised from 1 April 2016 to incorporate the mission of Internal Audit and Core Principles for the Professional Practice of Internal Auditing.

Authority

3. The Accounts and Audit Regulations 2015 Section 5, define the requirement for an internal audit function within Local Government stating that:
'A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'

Responsibility

4. The responsibility for maintaining an adequate and effective internal audit function within Southampton City Council lies with the Executive Director of Corporate Services and S151 Officer.
5. For the Council, the internal audit function is provided in collaboration with Portsmouth City Council ('PCC') with the service being delivered under the direction and control of a shared Chief Internal Auditor (the Chief Internal Auditor for PCC).
6. The Chief Internal Auditor is responsible for effectively managing the internal audit activity in accordance with the '*Definition of Internal Auditing*', the '*Code of Ethics*' and '*the Standards*'.

Definitions

7. In accordance with the PSIAS the definition of internal auditing is.

'Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes'.

8. Internal Audit is not an extension or a substitute for good management although it can advise management on risk and control issues. It is the duty of management to operate adequate systems of internal control and risk management.
9. The Internal Audit section will consider the adequacy and effectiveness of the internal control framework detailed below which aid in supporting the Authority's vision.
 - Achievement of organisation's strategic objectives.
 - Reliability and integrity of financial and operational information.
 - Effectiveness and efficiency of operations and programmes.
 - Safeguarding of assets; and
 - Compliance with laws, regulations and rules, policies, procedures and contracts.
10. In accordance with the PSIAS the definition of 'the board' and 'senior management' are.
11. *The Board* – the governance group charged with independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting. At the Council this shall mean the Governance Committee.
12. *Senior Management* – those responsible for the leadership and direction of the Council. At the Council this means the Executive Management Team, Chief Executive and Executive Directors, of the council.

Purpose and scope

13. The Internal Audit section at Southampton City Council will provide an Annual Internal Audit Opinion based on an objective assessment of the Authority's framework of governance, risk management and control. It will also provide advice and consultancy services at the specific request of the Authority, with the aim of improving governance, risk management and control whilst contributing to the overall Annual Opinion.
14. The Annual Internal Audit Opinion must incorporate.
 - The Opinion.
 - A summary of the work that supports the Opinion; and
 - A statement on conformance with PSIAS and the results of the quality assurance and improvement programme.
15. The Internal Audit section will not be restricted to the audit of financial systems and controls but will cover all operational and management controls. There are therefore no scope limitations, in that all of the Authority's activities fall within the remit of the Internal Audit section; however, consideration will always be given to the

competency, qualification and experience of those auditors tasked with carrying out the individual assignments. For example, Internal Audit will not make judgements or evaluations on care or academic assessments; equally it is not in the section's remit to give an opinion on the appropriateness of policy decisions.

16. Consultancy activities (i.e., advice, facilitation, counsel and training) the nature and scope of which will be agreed with the client and are intended to add value and improve the Council's governance, risk management and control processes without the Internal Audit section assuming responsibility.
17. Special reviews may be conducted at the request of Members, the Chief Executive and the Executive Director of Corporate Services and s151 Officer. The Internal Audit section may also conduct investigations as requested by the Investigation Steering Panel - ISP (consisting of the Monitoring Officer, Executive Director of Corporate Services and s151 Officer and the Chief Internal Auditor (or deputy), provided such reviews (special or investigation) do not compromise its objectivity or independence.
18. The impact on the Audit Plan must be assessed and, if necessary, the Plan reprioritised by the Chief Internal Auditor. Any significant changes must be reported to the Executive Director of Corporate Services and s151 Officer as well as the Members of the Governance Committee (the Board) in their next reporting cycle.
19. Fraud prevention and detection is the responsibility of managers. However, if Internal Audit detects any suspected irregularities during the course of their activities they will report them to ISP. The Chief Internal Auditor may review the system for control weaknesses, but any investigation will be under the direction of ISP.

Organisational Independence

20. The Internal Audit section has operational responsibilities for the auditing of Direct Payments (Adults). It may at times provide advice on control implementation and risk mitigation where relevant and throughout the design and implementation stages of new systems. All other areas of organisational independence is maintained.
21. The Chief Internal Auditor will be free from interference (although have due regard for the Authority's key objectives and risks and consult with Members and Officers charged with governance) when setting the priorities of the annual audit plan, for example, in determining the scope and objectives of work to be carried out and in performing the work and communicating the results of each audit assignment. There must be no compromise on the ability of Internal Audit to provide an independent assurance on the control framework.

22. Internal Audit is supported by the Authority and its independence is seen as key to providing Southampton City Council with an effective service.
23. The Internal Audit section will have free and unfettered access to the Senior Management, defined as, Executive Director of Corporate Services and s151 Officer, Chief Executive, Monitoring Officer, Executive Directors and Service Directors. In addition, the Internal Audit section will have free and unfettered access to the Leader of the Council and the Chair of the Governance Committee.

Responsibilities of Individual officers

Chief Internal Auditor

24. The Chief Internal Auditor must ensure that:
 - (1) They identify the overall remit of audit activity.
 - (2) They carry out an audit needs risk assessment and prioritise the results into an annual plan in consultation with the Executive Director of Corporate Services and s151 Officer, Chief Executive, Monitoring Officer, Executive Directors and Service Directors, and Chair of Governance Committee.
 - (3) The Internal Audit resources are appropriate and sufficient i.e., in skills and knowledge and are effectively deployed to achieve the approved annual audit plan. Any inadequacies will be raised with the Executive Director of Corporate Services and s151 Officer and the Governance Committee.
 - (4) There are adequate policies and procedures in place to guide the Internal Audit activities and in accordance with PSIAS.
 - (5) The Internal Audit section complies with the PSIAS and Code of Ethics at all times.
 - (6) They periodically review the Internal Audit Charter and Audit Strategy for adequacy and effectiveness.
 - (7) Constructive working relationships are fostered and encouraged between auditors, auditees, managers, and external auditors.
 - (8) The Internal Audit section maximises the use of technology for an effective service delivery.
 - (9) Confidentiality is maintained at all times.
 - (10) Individual auditors do not audit activities for which they previously had responsibility within the last 12 months.
 - (11) They take all reasonable measures to ensure that all individual auditors have an objective frame of mind and be in a sufficiently independent position to be able to exercise judgement with impartiality.
 - (12) A follow-up process to monitor and ensure that management actions have been effectively implemented is undertaken promptly.

- (13) Where management has accepted a level of risk that may be unacceptable to the Authority that the matter is discussed with the Executive Director of Corporate Services and s151 Officer, Chief Executive, Monitoring Officer, Executive Directors and Service Directors as relevant, or escalated to the Governance Committee to resolve.
- (14) They continuously review the quality, effectiveness, and provision of the Internal Audit Section.
- (15) Access to audit records is controlled and only released in accordance with Freedom of information and Data Protection Act requirements.
- (16) All records relating to Internal Audit activities are retained for the required period and in line with the Authority's guidelines.
- (17) They assist the Governance Committee with their agenda and attend each meeting.

Individual Auditors

25. All individual auditors must ensure that they:

- (1) Maintain an impartial and unbiased attitude and avoid any conflict of interest.
- (2) Will refrain from assessing any activity to which they were previously responsible within the last twelve months, although they may provide consulting services.
- (3) Possess the knowledge, skills and other competencies needed to perform their individual responsibilities and that they enhance those skills through continuing professional development.
- (4) Exercise due professional care at all times.
- (5) Assist management in establishing or improving risk management processes, without managing those risks.
- (6) Give adequate notice of the start of a planned audit.
- (7) Develop and document a plan of each assignment detailing its objectives, scope and any limitations, timing and resource allocations.
- (8) Consider the objectives, risks, effectiveness of the control framework, value for money obtained, of the activity under review, when planning and setting the objectives of each assignment.
- (9) Develop and document a programme of works that achieves the audit objectives.
- (10) Document sufficient information on their identification, analysis and evaluation of risks and controls within the area of audit activities, i.e. that the evidence is reliable, factual and adequate.
- (11) Communicate their findings based on opinion ascertained from these evaluations, providing an overall conclusion/ assurance level, risk rating, recommendations (where relevant) and proposed action plans.
- (12) Communicate all findings in an accurate, objective, clear, concise, constructive, complete and timely manner in accordance with PSIAS.
- (13) Agree a plan of action with the Service to remedy control weaknesses.
- (14) Comply with the Audit Manual and PSIAS.

- (15) Maintain professional independence, objectivity, integrity and confidentiality.
- (16) Inform the Chief Internal Auditor of any areas where they could have a conflict of interest which could impair or be perceived to impair their objectivity.
- (17) Maintain proper documented files supporting conclusions via Audit Management Software.
- (18) Hold in safe custody any documents or property or other material obtained for audit use or investigation.
- (19) Act with due care to provide “reasonable” assurance on the adequacy of control.
- (20) Foster good working relationships with auditees, external auditors and service leads and managers.

Executive Director of Corporate Services and s151 Officer

26. The Executive Director of Corporate Services and s151 Officer has the authority to ensure that the provision of the Internal Audit section is sufficient to meet the s151 requirements.
27. The Executive Director of Corporate Services and s151 Officer must ensure that:
 - (1) Any suspected irregularities are properly and appropriately investigated and action taken.
 - (2) S/he is satisfied that the Annual Audit Opinion assurance statement either on its own or as part of the Annual Governance Statement, reflects accurately the position of the control framework.
 - (3) The Internal Audit section is sufficiently resourced and is effective and in the event that it is not that this is raised with the Executive Director of Corporate Services and s151 Officer and members of the Governance Committee.

Chief Executive

28. The Chief Executive carries the responsibility for the proper management of the Council and for ensuring that the principles of good governance are reflected in sound management arrangements.

Monitoring Officer

29. The Monitoring Officer is responsible for:
 - (1) Ensuring lawfulness and fairness in decision making
 - (2) Dealing with investigations into matters referred by the Governance Committee and making reports or recommendations in respect of them to the Governance Committee and
 - (3) Providing advice on:
 - the scope of powers to take decisions
 - maladministration
 - financial impropriety
 - probity.

Members

30. The Members as the corporate body 'the board', have the responsibility to ensure that there is a current and effective Internal Audit function. These responsibilities are delegated to the Governance Committee and include ensuring that:
31. They are satisfied 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.
32. They are satisfied that appropriate action is being taken on risk and internal control related issues identified by the internal and external auditors and other review and inspection bodies.
33. They receive, and make recommendations on, such reports as are required in relation to all audit matters including the Annual Audit Plan.
34. The Committee shall specifically have responsibility for oversight on the following functions:
 - (1) ensuring that Council assets are safeguarded.
 - (2) maintaining proper accounting records.
 - (3) ensuring the independence, objectivity and effectiveness of internal and external audit.
 - (4) the arrangements made for cooperation between internal and external audit and other review bodies.
 - (5) considering the reports of internal and external audit and other review and inspection bodies.
 - (6) the scope and effectiveness of the internal control systems established by management to identify, assess, manage and monitor financial and nonfinancial risks (including measures to protect against, detect and respond to fraud).

Auditees

35. In accordance with the Council's constitution (0.9 Part 4 – Financial Procedure Rules). All persons under the controls of SCC; staff, members, contractors, temporary and agency staff must ensure that:
 - (1) They maintain a constructive approach to Internal Audit.
 - (2) Must present any cash, stores or any other authority asset under his or her control if requested to do so by an Auditor.
 - (3) Must ensure that internal auditors are given access at all reasonable times to premises, personnel, documents and assets that the auditors consider necessary for the purposes of their work.
 - (4) Must ensure that auditors are provided with any information and explanations that they seek in the course of their work.

- (5) They respond promptly and formally to audit reports within the agreed timescale.
- (6) They implement agreed actions and within an agreed timed action plan.

External Auditors

36. The Internal Audit section is expected to co-operate and regularly liaise with the external auditors to ensure an efficient and effective use of resources is achieved and unnecessary over-lapping of work is avoided.
37. The external auditors have a responsibility to assess whether Internal Audit arrangements are adequate and will, where they are able, place reliance on Internal Audit work when forming their opinion on the Authority's accounts.

Reporting Structure

38. On a regular basis the Chief Internal Auditor will present for review and approval any changes to the Internal Audit Charter and Code of Ethics, the Internal Audit Strategy and the annual audit plan of activities, including resource requirements and any perceived deficiencies to the Governance Committee, following consultation with the, Executive Director of Corporate Services and s151 Officer, Chief Executive, Monitoring Officer, Executive Directors and Service Directors, and Chair of Governance Committee.
39. An update on progress and performance to the audit plan will be presented at each Governance Committee. This will include any significant risk exposure and control issues, including fraud and governance risks.
40. Where critical risks, or a significant number of high risks are identified as part of an audit review, (i.e. those control weaknesses that could have a significant impact on the achievement of the Authority's objectives) which result in a no assurance opinion, will be reported in summary as part of the 'progress to plan' reporting. All other findings will be summarised in a covering report.
41. It is for management to determine whether or not to accept the audit exceptions and to recognise and accept the risks of not taking action. They must formally respond giving reasons for their decisions. In the event that risks are accepted they may be raised with the Executive Management Team to ascertain whether such acceptance is in line with the strategic direction and risk appetite of the Council. As a result, they may also be reported to Members of the Governance Committee 'the Board' in their next reporting cycle. Where agreed action is proposed on critical/high risks but has not been taken within a reasonable timeframe the matter will be raised with the Executive Director concerned.
42. All reviews of the Annual Audit Plan will be presented for approval [to the Governance Committee] along with any significant consulting services not already included in the Audit Plan, prior to accepting the engagement.

43. All reports issued in relation to any audit or counter fraud activity will be issued in the name of the Chief Internal Auditor.

Access to records and personnel

44. All Internal Auditors have right of access to all premises, personnel, documents and information they consider necessary for the purpose of their reviews as specified in the Council's constitution (0.9 Part 4 – Financial Procedure Rules) and to obtain such information and explanations from any employee as necessary concerning any matter under review/investigation.
45. All Internal Auditors also have the power to require any council employee, agent or Member to produce cash, equipment, computers or other Council property under their control. Internal Audit can retain or seize these items in order to protect the Council's interest, or to preserve evidence, if a suspected irregularity has occurred before considering whether to refer the issue to the Police. Consultation with the Investigation Steering Panel will be carried out in advance of contacting the Police where possible.

Due Professional Care

46. Both the Chief Internal Auditor and Deputy Chief Internal Auditor must hold a professional qualification and current membership, CMIIA, CCAB or equivalent and be suitably experienced.
47. The Chief Internal Auditor will assess on an annual basis the knowledge, skills and other competencies required within the Internal Audit section in order for it to fulfil its purpose and effectively carry out professional duties in accordance with statutory requirements. This will include technology- based audit techniques to perform assignment work. Should there be insufficiencies identified these will be reported immediately to the Executive Director of Corporate Services and s151 Officer and reported to the Governance Committee if there is likely to be an impact on achieving either the Annual Audit Plan or a sufficient level of reviews to enable an effective annual audit opinion to be made.
48. All Internal Auditors will have sufficient knowledge through training and continued professional development to carry out their duties including evaluating the risk of fraud; however it remains the responsibility of management to detect and manage fraud.
49. Any impairment either in fact or appearance on any individual auditor's independence or objectivity will be escalated to the Executive Director of Corporate Services and s151 Officer, if the Chief Internal Auditor has been unable to resolve. Impairment may include, but is not limited to, personal conflict of interest, scope

limitation, restrictions on access to records, personnel and properties and resource limitation, such as funding. A record will be made of any action taken.

Quality Assurance & Improvement Programme

50. The Chief Internal Auditor will develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit & counter fraud activities. To achieve this, internal on-going supervision will be carried out after each audit assignment with the results recorded electronically. Along with the recording of one-to-one meetings and an Annual Performance Review on each individual auditor.
51. In addition to this the Chief Internal Auditor will carry out an annual self-assessment of the Internal Audit sections performance against PSIAS, measuring the compliance with the definition of Internal Audit and Code of Ethics.
52. External peer reviews will be conducted every five years against PSIAS. The scope of the external assessment will be agreed with the Executive Director of Corporate Services and s151 Officer and the Chair of Governance Committee. All results i.e., compliance or non-compliance with the standards, will be communicated to the Governance Committee along with an improvement plan if required and regular progress reports.
53. Any significant deviations from the Standards will be included in the Annual Governance Statement.
54. The effectiveness of the Internal Audit Section will be measured by.
 - (1) Risks to the Authority are identified and mitigated by agreed actions being implemented re critical and high-risk exceptions highlighted in Audit reviews.
 - (2) Compliance with the PSIAS and Code of Ethics (reviewed by Peer Review).
 - (3) Satisfactory External Audit reviews (when carried out).
 - (4) External Auditors are able to rely on the work of Internal Audit when forming their opinion on the Authority's accounts.
 - (5) Audits completed to plan (90% of high-risk audits completed).
 - (6) Satisfactory responses received from clients by means of end of year questionnaires.

Management of Internal Audit Activities

55. The Chief Internal Auditor will ensure that the work of the Internal Audit section is of value to the Authority. This will be achieved by ensuring that the work carried out

achieves its purpose as included in this charter and that all individual auditors have demonstrated conformance with the Code of Ethics and Standards.

56. The priorities of the Internal Audit section will be determined annually using a risk-based methodology and in consideration with the Authority's overall objectives. The risk-based approach will take into account the risk management framework and risk appetite levels along with each directorate's performance as reported to Governance Committee. Details of how the plan will be delivered are contained in the Internal Audit Strategy along with any reliance placed on other sources of assurance work.
57. The Annual Audit Plan will be reviewed in response to changes in the Authority's risks, operations, systems and controls at least once during the year.

This Charter and Code of Ethics are agreed by

.....

Elizabeth Goodwin

Chief Internal Auditor

Date

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Mel Creighton

Executive Director of Corporate Services and s151 Officer

Date

.....

Cllr Dave Shields

Chair of Governance Committee

Date

Related Papers:

Audit Strategy and Audit Annual Plans

Public Sector Internal Audit Standards and Code of Ethics

Accounts and Audit Regulations (updated)

Annex 1

Code of Ethics

Extract from the Public Sector Internal Audit Standards 2016

Public sector requirement

Internal auditors in UK public sector organisations (as set out in the Applicability section) must conform to the Code of Ethics as set out below. If individual internal auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation.

The purpose of The Institute's Code of Ethics is to promote an ethical culture in the profession of internal auditing. A code of ethics is necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance about risk management, control and governance.

The Institute's Code of Ethics extends beyond the definition of internal auditing to include two essential components:

Components

- 1 Principles that are relevant to the profession and practice of internal auditing;
- 2 Rules of Conduct that describe behaviour norms expected of internal auditors. These rules are an aid to interpreting the Principles into practical applications and are intended to guide the ethical conduct of internal auditors.

The Code of Ethics provides guidance to internal auditors serving others. 'Internal auditors' refers to Institute members and those who provide internal auditing services within the definition of internal auditing.

Applicability and Enforcement

This Code of Ethics applies to both individuals and entities that provide internal auditing services. For Institute members, breaches of the Code of Ethics will be evaluated and administered according to The Institute's Disciplinary Procedures. The fact that a particular conduct is not mentioned in the Rules of Conduct does not prevent it from being unacceptable or discreditable and therefore, the member liable to disciplinary action.

Public sector interpretation

The 'Institute' here refers to the IIA. Disciplinary procedures of other professional bodies and employing organisations may apply to breaches of this Code of Ethics.

Public Sector Internal Audit Standards

1 Integrity

Principle

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.

Rules of Conduct

Internal auditors:

- 1.1 Shall perform their work with honesty, diligence and responsibility.
- 1.2 Shall observe the law and make disclosures expected by the law and the profession.
- 1.3 Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation.
- 1.4 Shall respect and contribute to the legitimate and ethical objectives of the organisation.

2 Objectivity

Principle

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined.

Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.

Rules of Conduct

Internal auditors:

- 2.1 Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation.
- 2.2 Shall not accept anything that may impair or be presumed to impair their professional judgement.
- 2.3 Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3 Confidentiality

Principle

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

Rules of Conduct

Internal auditors:

- 3.1 Shall be prudent in the use and protection of information acquired in the course of their duties.
- 3.2 Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.

4 Competency

Principle

Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

Rules of Conduct

Internal auditors:

- 4.1 Shall engage only in those services for which they have the necessary knowledge, skills and experience.
- 4.2 Shall perform internal auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing.
- 4.3 Shall continually improve their proficiency and effectiveness and quality of their services.

Public sector requirement

Internal Auditors who work in the public sector must also have regard to the Committee on Standards of Public Life's Seven Principles of Public Life, information on which can be found at www.public-standards.gov.uk

Annex 2

Assurance Services

Risk based audit: in which risks and controls associated with the achievement of defined business objectives are identified and both the design and operation of the controls in place to mitigate key risks are assessed and tested, to ascertain the residual risk to the achievement of managements' objectives. Any audit work intended to provide an audit opinion will be undertaken using this approach.

Developing systems audit: in which:

- the plans and designs of systems under development are assessed to identify the potential weaknesses in internal control and risk management; and
- programme / project management controls are assessed to ascertain whether the system is likely to be delivered efficiently, effectively and economically.

Compliance audit: in which a limited review, covering only the operation of controls in place to fulfil statutory, good practice or policy compliance obligations are assessed.

Quality assurance review: in which the approach and competency of other reviewers / assurance providers are assessed in order to form an opinion on the reliance that can be placed on the findings and conclusions arising from their work.

Fraud and irregularity investigations: Internal audit will also provide specialist skills and knowledge to lead on fraud/ irregularity investigations, and ascertain the effectiveness of fraud prevention controls and detection processes.

Advisory / Consultancy services: in which advice can be provided, either through formal review and reporting or more informally through discussion or briefing, on the framework of internal control, risk management and governance. It should be noted that it would not be appropriate for an auditor to become involved in establishing or implementing controls or to assume any operational responsibilities and that any advisory work undertaken must not prejudice the scope, objectivity and quality of future audit work.

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