

Annual governance report

Southampton City Council

Audit 2011/12



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Key messages

This report summarises the findings from the 2011/12 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

Subject to clearance of outstanding matters I plan to issue an unqualified audit opinion on your financial statements. Your accounts and supporting working papers were well prepared.

I have not yet identified any audit adjustments that were above my materiality threshold (£11.897 million) for 2011/12. I did identify a number of more minor errors and officers have made changes to your financial statements to amend each of these. None had an impact on the Council's general fund balance or other useable reserves at 31 March 2012.

I recognise that the preparation of the Council's financial statements requires considerable effort from the Head of Finance and his team. Therefore I wish to thank the finance staff for their positive approach and co-operation during my audit, without which the audit would not have been completed as smoothly or efficiently.

Value for money (VFM)

I expect to conclude that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

As a Council you have put in place proper arrangements to secure economy, efficiency and effectiveness. You have also recognised that you have limited resources and therefore now need to make tough decisions on the services that you will provide to the residents of Southampton. You have:

- delivered your 2011/12 budget, reporting a £6.9 million surplus after delivering more than the planned savings and receiving an unplanned VAT refund from HMRC (£4 million);
- approved a balanced budget for 2012/13 that included freezing the Council Tax and requiring savings totalling £13.8 million to be delivered. Plans have been developed to realise the savings and these have been robustly challenged;

- adopted a medium term financial plan that assumes a reduction in funding of 7 per cent in each year and requires total savings of £55 million, phased £25 million in 2013/14, and £15 million in both 2014/15 and 2015/16. You have recognised that the scale of these savings requires a more radical approach to redesigning services and reducing costs. Continued engagement with staff and citizens is critical to this, alongside your change programme, efficiencies programme and planned 'lean' review;
- prepared well for the implementation of the new Housing Revenue Account (HRA) finance regime and the implications of the Localism Act, although you have not yet modelled the implications of the retention of business rates because the department of Communities and Local Government's consultation process has not ended and the final guidance on the changes has still to be issued by the Department; and
- made progress with partnership working through the Street Lighting and Highways Maintenance contracts and continuing to work closely with the Primary Care Trust. This learning on partnership working arrangements should prove invaluable when delivering services over the medium term.

It is important that you now:

- deliver the efficiencies and savings included in your financial plans through your change programme, efficiencies programme and lean review; and
- continue to engage with staff and citizens and capitalise on the learning from partnership working as the Council makes difficult decisions about the services that it delivers in the future.

Certificate

I expect to be able to certify the closure of your 2011/12 financial statements by 30 September 2012. I have not received any objections to the Council's 2011/12 financial statements from electors and I have no outstanding matters or correspondence with electors. Officers have also confirmed that electors did not exercise their right to inspect the Council's 2011/12 financial statements.

Before I give my opinion and conclusion

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence.

I am aware of the following relationships that might constitute a threat to independence and that I am required to report to you. I have therefore put in place the following safeguards to reduce the threat.

Table 1: **Threats and safeguards**

Threat	Safeguard
One of the members of my team has a relative working for the Council.	I have ensured that this officer is not involved in the audit of the payroll system or in service areas where his relative is employed. There were no transactions relating to or made by the relevant officer that were selected at random or tested.
A former employee of the Audit Commission is employed in your Finance Department. The Audit Manager was the line manager for this individual when he worked for the Audit Commission.	I have reviewed the Audit Manager's work, including any that involved this ex employee of the Audit Commission.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Authority during 2011/12.

I ask the Governance Committee to:

- take note of the adjustments to the financial statements included in this report; and
- approve the letter of representation (appendix 2), on behalf of the Council before I issue my opinion and conclusion.

Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As elected Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

Corrected errors

I am required to report to you those corrections made during my audit to your accounts that are, in my opinion, both important and relevant to your oversight of the financial reporting process.

I have carefully considered each of the adjustments made to your financial statements during the audit. None of these adjustments are above my materiality level (£11,897k) or impact on the Council's general fund and other useable reserves at 31 March 2012. The adjustments were needed to correct more minor errors, omissions, misstatements or typographical errors in the notes to the core statements, and some inconsistencies between primary statements and supporting notes. A few other minor presentational amendments to text and disclosures were made to ensure your statements fully comply with the accounting code of practice. Errors of this type are not unusual within the general accounts production process and in my view should not overly concern those charged with governance in approving the accounts.

Audit risks and my findings

In my July 2012 Audit Plan, I reported to you the additional risks that I identified relevant to my audit of your financial statements. In Table 2 I report to you my findings against each of these risks.

Table 2: Risks and findings

Risk	Finding
<p>Equal pay claims, assessment of the provision and accounting</p> <p>The Council will need to determine the level of its provision for equal pay claims. It will need to determine how to account for payments made during 2011/12 and the disclosure of the provision in its 2011/12 financial statements.</p>	<p>The Council has decided to make full disclosure of its provision for equal pay claims in its 2011/12 financial statements and to restate its prior year comparatives. It will also account for all of the compensation payments that have been made during 2011/12.</p> <p>I am satisfied with the Council's assertion that the payments that have been made to staff in respect of equal pay claims are 'compensation' and not arrears of pay. I have reviewed the disclosures that are made in the 2011/12 financial statements and the accounting treatment of the compensation payments that have been made during 2011/12.</p> <p>There are no matters arising that I need to bring to your attention.</p>
<p>Heritage Assets</p> <p>The 2011/12 Code adopts the requirements of Financial Reporting Standard (FRS) 30 Heritage Assets. There is a risk that the Council may be unable to identify and account for all heritage assets due to the number and different locations, collections and other items involved.</p> <p>A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. For Southampton City Council this is likely to include your art and museum collections.</p>	<p>My testing of how you have recognised, valued and disclosed material heritage assets has not revealed any significant matters that I should bring to your attention.</p>

Risk

New Housing Revenue Account (HRA) financing regime

Following the implementation of the new HRA financing regime the Council has borrowed in excess of £73.8 million in March 2012, in order to finance the payment of the settlement to the CLG on 28 March 2012.

Existing PFI schemes

The Council has a number of material PFI schemes in operation that it continues to disclose in its financial statements.

Valuation of property, plant and equipment

The valuation of property, plant and equipment (PPE) may be misstated due to inaccurate valuations, the misclassification of assets or applying an incorrect valuation method or basis.

Accounting for schools

Property, plant and equipment maybe materially misstated due to the incorrect inclusion or omission of schools in the balance sheet.

Finding

I have substantively tested the borrowing of these funds and payment made to the CLG. I have also reviewed the disclosure of these transactions in your 2011/12 financial statements and there are no significant matters arising. Officers have added a brief summary of the implementation of the new HRA regime to the 'Accounting Issues And Developments' section of the financial foreword to the financial statements.

I have reviewed the treatment of PFI schemes and Non-PFI partnerships in your 2011/12 financial statements. There are no issues that I need to bring to your attention.

I did find some misstatements but these have been corrected:

I have reviewed the valuation of property, plant and equipment (PPE). There were five properties totalling £4.93 million that have been reclassified as 'Assets held for sale' because they meet the requirements of the accounting standard (IFRS5). These had been disclosed as 'surplus assets'.

The transfer of assets from 'investment properties' to 'PPE' totalling £7.18 million has been reversed, because the specific assets are held for investment purposes. Similarly a transfer of a £1.3 million property in previous years has now been reversed because that asset too is held for investment purposes.

I have reviewed the Council's approach to the inclusion of schools in its financial statements and have no matters that I need to bring to your attention.

Significant weaknesses in internal control

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

I have tested the controls of the Council only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

The following weaknesses in internal control identified in previous audits have been followed up during the audit and are relevant to the preparation of the financial statements.

Table 3: **Internal control issues and my findings**

Description of weakness	Findings	Management action
<p>1. Heating charges to tenants and leaseholders</p> <p>In 2009/10 I made four recommendations in respect of the tenant and leaseholder heating charges the Council raises and in particular the Council's meter record, which is used to calculate these charges. Last year I identified three key areas where additional work was required.</p> <p>I have therefore continued to work with your Internal Auditors and Housing officers to review the progress the Council has made in addressing each of my recommendations.</p>	<ul style="list-style-type: none"> ■ Officers have evaluated the effectiveness of the new 'System link' meter record, and consider the implementation as a success. The installation of smart meters into properties has also been started with 91 per cent of the first phase of 747 landlord meters now installed; ■ The designations of five of the meters in the remaining six properties have been determined. The recovery of any overcharges from energy suppliers is being addressed through the final meter readings and invoices; and ■ The annual gas servicing cycle continues to be used to review gas meters. Ninety nine per cent had been completed by 31 August 2012. 	<p>Officers need to:</p> <ul style="list-style-type: none"> ■ ensure that the implementation of smart meters is completed in all Council owned properties; and ■ confirm the designation of the remaining meter as part of the Automatic Meter Reading (AMR) installation works.

Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following.

- Qualitative aspects of your accounting practices.
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest

I have reported my findings in table 4 below. I have no other matters I wish to report.

Table 4: **Other matters**

Issue	Finding
Accounting policy 1(u) – Property ,Plant and Equipment: Depreciation	I have reviewed the Council's accounting policies for depreciation of property, plant and equipment (PPE) and checked the application of the policies on a sample of PPE. I found the Council had not consistently applied its accounting policy in respect of assets under construction. The inconsistencies that I noted have been addressed in the revised financial statements.

Whole of Government Accounts

Alongside my work on the financial statements, I am also reviewing and reporting to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report were specified by the National Audit Office. I will complete my work by 30 September 2012.

Value for money

I am required to conclude whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is the value for money conclusion.

I assess your arrangements against the two criteria specified by the Commission. On 2 July 2012, in my 2011/12 Audit Plan, I reported to you the significant risks that were relevant to my conclusion. I have set out below my conclusion on the two criteria, including the findings of my work addressing each of the risks I identified.

I intend to issue an unqualified conclusion stating the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in appendix 1.

Table 5: **Value for money conclusion criteria and my findings**

Criteria	Risk	Findings
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2011/12:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>Without proper arrangements, the Council will not be able to model the resources available to it accurately, and divide them between services to deliver aims and priorities in a planned and sustainable manner.</p>	<p>Last year we reported the Council had a track record of strong financial management but that it faced a significant challenge over the medium term because of reducing funding from central government.</p> <p>The Council reported a surplus of £6.9 million for 2011/12; after delivering more savings than planned and receiving an unbudgeted refund of VAT from HMRC. The actual 2011/12 outturn was £4.8 million better than the Quarter 3 forecast. This was due to a combination of factors including conservatism in divisional forecasting, issues that only crystallised in Quarter 4, slippage in savings profiling, and a moratorium on spend towards the year end. Finance staff are working with departments to consider how they can ensure departmental forecasting is as robust as possible. This will allow the corporate centre to manage risk across the Council and take early enlightened decisions in the light of this.</p>

Criteria	Risk	Findings
		<p>The Housing Revenue Account reported a revenue surplus of £1 million and an under spend of £1.4 million on its capital programme. This evidences the strength of current arrangements.</p> <p>In 2012/13 the Council froze Council Tax and set a budget that required services to identify and deliver £13.8 million of savings. The plans to do this are fully developed and have been robustly challenged. Although it is early in the year, the Council's track record of strong financial management arrangements suggests this should be achieved.</p> <hr/> <p>The Council's funding over the medium term is uncertain, due to the local government resource review. This makes it more difficult for the Council to identify the scale of savings needed and to develop sufficient plans to deliver them.</p> <p>The medium term financial forecasts suggest the scale of challenge will increase in the years ahead, as it faces more falls in central government funding. The Council has forecast reductions in funding of 7 per cent a year, which means it needs to find £55 million in savings; £25 million in 2013/14 and then savings of £15 million in both 2014/15 and 2015/16.</p> <p>The Council recognises the scale of this will require a different more radical approach and it has launched a change programme to look at ways of redesigning services and reducing costs. Staff have been asked for ideas to reshape the Council and these will feed into an efficiencies programme, underpinned by a lean review of how services are delivered. Alongside this, departments have continued work started in 2011/12 to identify savings proposals for 2013/14.</p> <p>The continued engagement of staff and citizens will be critical in meeting this challenge, as the Council will have to make some difficult decisions over the next year about whether it can continue to offer the current range of services and, if so, how and to whom.</p>
<p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p>	<p>The current financial climate means the Council has to monitor performance closely and maximise the opportunity for cost reductions. Challenging</p>	<p>We have previously reported the Council's arrangements for securing economy, efficiency and effectiveness are fit for purpose and these have continued to work properly in 2011/12. The Council has prioritised spending on its corporate aims, but the financial position meant limited funds to support revenue investments. The Council found extra money to increase council tax discounts, improve safeguarding arrangements for children, and to expand the highways</p>

Criteria	Risk	Findings
<p>Focus for 2011/12:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>whether services are running economically, efficiently and effectively can reduce the need for unnecessary service cuts.</p>	<p>improvement programme.</p> <p>Residents were consulted on where to target savings and this showed a preference for concentrating on core services and reducing levels of service, rather than stopping them. The Council reduced pay and froze increments and identified £12 million of efficiency savings, service reductions and additional income. Service reductions reflected consultation responses and were principally focused on cessation of non-statutory services, staff cuts and cessation of grant funding for the voluntary sector.</p> <p>The value for money profile published by the Audit Commission in May 2012 indicates that net spend per head is in line with the average of other unitary councils. A comparison of services with other unitary councils indicates that the spend on adult social care per adult is in the lowest third, while environmental services and sustainable economy per head of population are at the average of other unitary councils. The comparison also highlighted that the:</p> <ul style="list-style-type: none"> ■ spend on council tax and housing benefits administration is in the highest third, which is influenced by the higher case load and number of dual benefit claims received by the Council; ■ planned spend on children's services per young person (aged 0 to 17) is in the highest 20 per cent reflecting the level of children in need or with special educational needs, and the level of respite care provided which has risen sharply from 140 in 2008/09 to over 600 by 2011/12; ■ spend on culture and sport per head of population in 2010/11 was in the highest third. The Council's spend on libraries is higher than the average of other unitary councils although this is matched by higher than average adult satisfaction levels. The higher spend on sports and recreation was measured before these services were outsourced through a competitive tendering exercise; and ■ spend on housing services is in the highest 20 per cent, the improvement of the housing stock across the city having been a priority area for the Council.

Criteria	Risk	Findings
		<p>The Council has sound performance management arrangements in place. It has identified 14 'Critical Key Performance Indicators' (CKPIs) which are the focus for corporate level reporting. Directorates also prepare plans that include CKPIs and report quarterly against these. Where performance is below target action plans for improvement are established e.g. improving children's oral health.</p>
	<p>The Coalition introduced a number of changes to local government financing, alongside a localism agenda that sees greater devolution of power to local government. Implications need to be factored into financial plans to minimise budgetary risk.</p>	<p>The Council has prepared well for the changes to the HRA finance regime and the implications of the Localism Act. However it has not yet modelled the implications of business rate retention, because the Department of Communities and Local Government's (CLG) consultation process has not ended and the final guidance on the changes has still to be issued by the Department.</p>
	<p>My previous years' work has identified a number of areas where I judged that failure to take action could put at risk the Council's achievement of good value for money. They were partnership working, collaboration with the Primary Care Trust and estates regeneration.</p>	<p>To assess progress in strengthening partnership working, we reviewed the follow up work undertaken by internal audit on the actions agreed with management in their 2010/11 reports on Street Lighting and Highways Maintenance. The Council had made good progress implementing the actions relating to the management of the Highways Maintenance contract but progress had been slower on those for the Street Lighting contract.</p> <p>The Council has continued to work closely with the Primary Care Trust (PCT) to deliver adult health and social care services in the City, while retaining control of its budgets in 2011/12. The planned Adult Learning Disability pooled budget is still being developed with the PCT before being implemented.</p>

Criteria	Risk	Findings
		<p>The Council has continued to push ahead with its ambitious estate regeneration plans, which remain a strategic priority. Contracts have been awarded for three of the four lots in phase 2 and the decision has been made to start phase 3, which will involve redeveloping Townhill Park and the Weston shopping parade. A slight delay in initiating the Townhill Estate works was to allow the Council to work through the implications of increased rental values afterwards. A consultant has been engaged to consult with residents and stakeholders, and prepare a city-wide regeneration framework.</p> <p>In summary, the Council have made progress in the areas we identified as risks to achieving value for money. In particular, the learning on partnership working arrangements should prove invaluable as the Council reviews how it delivers services over the medium-term.</p>

Fees

I reported my planned audit fee in the July 2012 Audit Plan.

I will complete the audit within the planned fee.

Table 6: Fees

	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	315,360	315,360
Claims and returns [delete if not applicable]	66,000	66,000
Non-audit work	0	0
Total	381,360	381,360

Appendix 1 – Draft independent auditor’s report

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

Opinion on the Authority financial statements

I have audited the financial statements of Southampton City Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. 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 2011/12.

This report is made solely to the members of Southampton City Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Head of Finance Responsibilities, the Head of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Southampton City Council as at 31 March 2012 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 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects.

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

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.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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

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

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

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

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, Southampton City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Certificate

I certify that I have completed the audit of the accounts of Southampton City Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit commission.

K.L.Handy
Officer of the Audit Commission
Collins House
Bishopstoke Road
Eastleigh
Hampshire
SO50 6AD

September 2012

Appendix 2 – Draft letter of management representation

Southampton City Council - Audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Southampton City Council, the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2012.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Authority, for the completeness of the information provided to you, and for making accurate representations to you.

Supporting records

I have made available all relevant information and access to persons within the Authority for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Authority.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and

- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Related party transactions

I confirm that I have disclosed the identity of the Authority's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Comparative financial statements

A restatement of the Comprehensive Income and Expenditure account, the Balance Sheet, the Movement in Reserves Statement and the Cash Flow statement was made to:

- fully disclose the Equal Pay Provision;
- to reflect changes in the Cipfa Service reporting Code (Sercop) 2011/12;
- to correct the misclassification of some balances in previous years; and
- to amend lines in the cash flow statement that had incorrectly included the proceeds of short term investments that had been included elsewhere in the statement.

Written representations previously made in respect of the prior period remain appropriate.

Signed on behalf of Southampton City Council

- I confirm that this letter has been discussed and agreed by the Governance Committee on 25 September 2012.

Signed

Andrew Lowe
Head of Finance

Date: September 2012.

Appendix 3 – Glossary

Annual Audit Letter

Letter issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

Annual Governance Statement

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Group accounts

Consolidated financial statements of an Authority and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

Significance

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

