

Southampton City Council

Year ending 31 March 2013

Annual Audit Letter

October 2013



Building a better
working world

The Members
Southampton City Council
Civic Centre
Southampton
Hampshire
SO14 7 LY

25 October 2013

Dear Members,

Annual Audit Letter

The purpose of this Annual Audit Letter is to communicate to the Members of Southampton City Council and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to their attention.

We have already reported the detailed findings from our audit work to those charged with governance of Southampton City Council in the following reports:

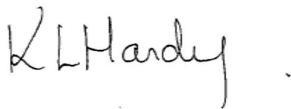
Southampton City Council Audit Results
Report for the year ended 31 March 2013

Issued 11 September 2013 and presented to
members of the Governance Committee on
23 September 2013

The matters reported here are the most significant for the Authority.

I would like to take this opportunity to thank the officers of Southampton City Council for their assistance during the course of our work.

Yours faithfully



Kate Handy
For and behalf of Ernst & Young LLP
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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's 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 Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission.

The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

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

1. Executive summary

Our 2012/13 audit work has been undertaken in accordance with the Audit Plan we issued on 28 June 2013 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Authority reports publicly on an annual basis on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period. The Authority is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- ▶ forming an opinion on the financial statements;
- ▶ reviewing the Annual Governance Statement;
- ▶ forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources; and
- ▶ undertaking any other work specified by the Audit Commission.

Summarised below are the conclusions from all elements of our work:

| | |
|---|--|
| Audit the financial statements of Southampton City Council for the financial year ended 31 March 2013 in accordance with International Standards on Auditing (UK & Ireland) | On 30 September 2013 we issued an unqualified audit opinion in respect of the Authority. |
| Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources. | On 30 September 2013 we issued an unqualified value for money conclusion. |
| Issue a report to those charged with governance of the Authority (the Governance Committee) communicating significant findings resulting from our audit. | On 11 September 2013 we issued our report in respect of the Authority. We presented our report to the 23 September 2013 committee meeting. |
| Report to the National Audit Office (NAO) on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts. | We reported our findings to the NAO on 3 October 2013. There were no issues to highlight to the NAO. |
| Consider the completeness of disclosures in the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance. | No issues to report. |

Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit. No issues to report.

Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act. No issues to report.

Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission. On 3 October 2013 we issued our audit completion certificate.



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2. Key findings

2.1 Financial statement audit

We audited the Authority's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission. We issued an unqualified audit report on 30 September 2013.

Authority's financial statements

In our view, the quality of the process for producing the accounts, including the supporting working papers was of a high standard.

We did not identify any significant risks in relation to our 2012/13 audit. The findings in relation to the one area of risk included in our Audit Plan are set out below.

Other financial statement risks:

Risk of misstatement due to fraud and error:

Issue:

- ▶ Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk

Finding:

- ▶ We carried out the procedures highlighted in our Audit Plan, and had no findings to report.
-

There were a few identified numeric and typographical errors in the draft financial statements. All of these were adjusted during the course of our work. We do not consider any of these to be significant and therefore we have not provided further details of these amendments.

We reported a non-material uncorrected error within the financial statements which Management decided not to amend. In our view the £556k included in the New Deal for Communities creditor in the 2011/12 accounts rather than earmarked reserves, is not sufficiently material to justify a Prior Period Adjustment. The Governance Committee agreed with Management, and approved the financial statements without this correction.

The working papers presented in support of your financial statements were of a high standard.

2.2 Value for money conclusion

We are required to carry out sufficient work to conclude on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In accordance with guidance issued by the Audit Commission, in 2012/13 our conclusion was based on two criteria:

- ▶ The organisation has proper arrangements in place for securing financial resilience; and

- ▶ The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We did not identify any significant risks in relation to the value for money conclusion. We are also required to evaluate whether any information has come to our attention that indicates a lack of proper arrangements for corporate performance and financial management against the criteria in the Audit Commission's Code of Audit Practice.

We issued an unqualified value for money conclusion on 30 September 2013.

| Areas of focus: | Key findings |
|--|--|
| Financial resilience | <ul style="list-style-type: none"> ▶ The Authority has managed its financial performance during 2012/13, delivering savings totalling £13.6m and a surplus of £7.4m for the year. It has a clear view of the size of the financial challenge it faces. Budget savings to be delivered in 2013/14 total £16.5m. The published medium term financial plan predicts a budget gap of £19.3m in 2014/15, increasing by £17.4m to £36.7m in 2015/16. The projections take account of future changes in funding and the financial impact of new legislation. ▶ However, a recent review by a corporate peer challenge team concluded that while "there is an appetite from members and staff to make things better; there is limited clarity about how to change, and a lack of urgency". ▶ The Authority has identified savings, efficiencies and additional income to meet its budget gap in 2013/14. However, the peer challenge team recommended that you introduce a three year priority led financial planning horizon. ▶ Therefore, while you have proper arrangements for securing financial resilience for the foreseeable future you need to take action to secure financial resilience over the medium term to longer term. ▶ The Authority has responded positively to the peer review, holding meetings with the Cabinet before developing a three year financial plan. |
| Economy, efficiency and effectiveness | <ul style="list-style-type: none"> ▶ The Authority monitors the performance of its services and continues to seek alternative ways of service delivery that meet users needs in an efficient and effective manner. ▶ Consultation has been held with users, partners and stakeholders to help shape the delivery of services that are relevant and effective. ▶ The Authority continues to challenge itself, public and private sector partners on service performance and costs, for example through contract negotiations with Capita and by inviting the LGA to carry out a peer review. ▶ Nevertheless, the peer review team concluded that you need to "refocus your transformation programme so it is council wide and enables the organisation to deliver the Council Plan and medium term financial plan". |

2.3 Objections received

We have received no objections to the Authority's 2012/13 financial statements from members of the public.

2.4 Whole of government accounts

We reported to the National Audit Office on 3 October 2013 in relation to the accuracy of the consolidation pack the Authority is required to prepare for the whole of government accounts.

We did not identify any areas of concern.

2.5 Annual governance statement

We are required to consider the completeness of disclosures in the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with CIPFA/ SOLACE guidance.

We completed this work and did not identify any areas of concern.

2.6 Use of other powers

We identified no issues during our audit that would necessitate using powers under the Audit Commission Act 1998, including reporting in the public interest.

3. Control themes and observations

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we communicate to those charged with governance at the Authority, as required, significant deficiencies in internal control.

There were no matters that we identified during the 2012/13 audit that we concluded are of sufficient importance to merit being reported.

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