

Southampton City Council

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

July 2016

Ernst & Young LLP



Building a better
working world

Contents

1. Executive summary	1
2. Responsibilities and purpose of our work.....	4
3. Financial statements audit	5
4. Value for money	9
Appendix A – Uncorrected and corrected audit differences	11
Appendix B – Independence.....	12
Appendix C – Auditor fees	13
Appendix D – Draft audit report.....	14
Appendix E – Management representation letter.....	17
Appendix F – Required communications with the Governance Committee.....	21

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

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

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

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

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

1. Executive summary

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

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

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

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

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

Significant audit risks

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

- **Financial statements:** risk of management override: As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.
- **Value for money:** reductions in central government funding, coupled with demand led pressures on its services, mean the Authority is continuing to experience financial pressures. We identified the risk that the Authority will not be able to plan its finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

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

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

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

Other reporting issues

We have no other matters we wish to report.

Control observations

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

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

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

2. Responsibilities and purpose of our work

The Authority's responsibilities

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

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

Purpose of our work

Our audit was designed to:

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

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

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

3. Financial statements audit

Addressing audit risks

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

Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
<p>Risk of management override</p> <p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<ul style="list-style-type: none"> • Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; • Reviewed accounting estimates for evidence of management bias; • Evaluated the business rationale for any significant unusual transactions; and • Evaluated the appropriateness of accounting policies against CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and for changes from the prior period. 	<ul style="list-style-type: none"> • At the point of drafting this report we have not found any indications of management override. Our work on journals remains in progress, but those tested to date have been supported by appropriate evidence; • We have reviewed the material accounting estimates and not found any instances of management bias; • We have not identified any transactions we would consider to be outside of the Authority's normal course of business; and • We have not identified any inappropriate accounting policies.

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

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

Better Care Fund (BCF)

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

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

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

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

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

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

Other matters

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

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

We have no matters we wish to report.

Control themes and observations

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

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

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

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

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

Request for written representations

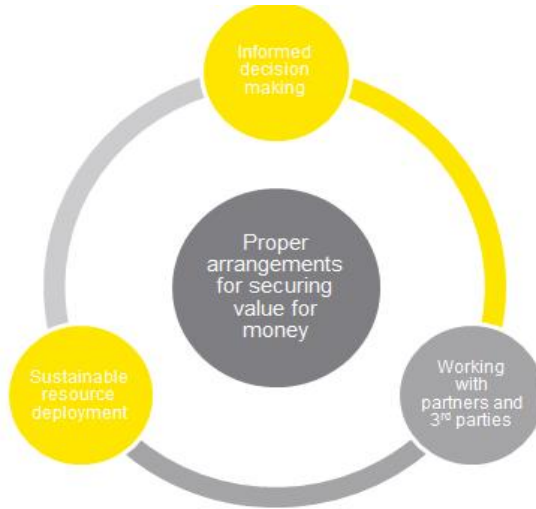
We have requested a management representation letter to gain management's confirmation in relation to a number of matters, as outlined in Appendix E.

Whole of Government Accounts

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

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

4. Value for money



We are required to consider whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

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

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

Overall conclusion

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

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

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

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

Significant risks

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

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

Findings

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

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

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

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

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

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

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

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

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

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

Appendix A – Uncorrected and corrected audit differences

Uncorrected audit differences

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

Balance sheet and Statement of comprehensive income and expenditure

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

Corrected audit differences

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

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

Appendix B – Independence

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

We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Public Sector Audit Appointments Ltd (PSAA)'s Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.

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

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

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

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

Appendix C – Auditor fees

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

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

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

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

Appendix D – Draft audit report

Independent auditor's report to the members of Southampton City Council

Opinion on the Authority's financial statements

We have audited the financial statements of Southampton City Council for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The financial statements comprise the Movement in Reserves Statement; the Comprehensive Income and Expenditure Statement; the Balance Sheet; the Cash Flow Statement and related notes 1 to 40, the Housing revenue Account Comprehensive Income and Expenditure Statement, the Statement of Movement on the Housing Revenue Account Balance and related notes 1 to 11 and the Collection Fund and the related notes 1 to 8.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

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

Respective responsibilities of the Section 151 Officer and auditor

As explained more fully in the Statement of the Section 151 Officer's Responsibilities set out on page 18, the Section 151 Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Section 151 Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Financial Statements 2015/16 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Southampton City Council as at 31 March 2016 and of its expenditure and income for the year then ended; and

- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Opinion on other matters

In our opinion, the information given in the Financial Statements 2015/16 for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

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

Authority's responsibilities

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

Auditor's responsibilities

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in

November 2015, as to whether Southampton City Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The C&AG determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Southampton City Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

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

Conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2015, we are satisfied that, in all significant respects, Southampton City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Until we have completed these procedures we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the NAO.

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

Appendix E – Management representation letter

[To be prepared on the entity's letterhead]

XX July 2016

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

This representation letter is provided in connection with your audit of the financial statements of Southampton City Council ("the Council") for the year ended 31 March 2016. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of Southampton City Council as of 31 March 2016 and of its expenditure and income for the year then ended in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

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

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

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations (England) 2011 and CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.
2. We acknowledge, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, and of its expenditure and income of the Council in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. We believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 that are free from material misstatement, whether due to fraud or error.
5. We believe that the effects of any unadjusted audit differences, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both

individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because the capital expenditure has been recognised in the 2016/17 financial statements and it is our assessment that this does not impact on the readers understanding of the financial statements.

B. Fraud

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

C. Compliance with Laws and Regulations

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

D. Information Provided and Completeness of Information and Transactions

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

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

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

E. Liabilities and Contingencies

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

F. Subsequent Events

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

G. Accounting Estimates

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

H Retirement benefits

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

I. Comparative information – corresponding financial information

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

J. Use of the Work of an Expert

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

Yours Faithfully,

Service Director of Finance and Commercialisation

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

Chairman of Governance Committee

Appendix F – Required communications with the Governance Committee

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

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

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

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