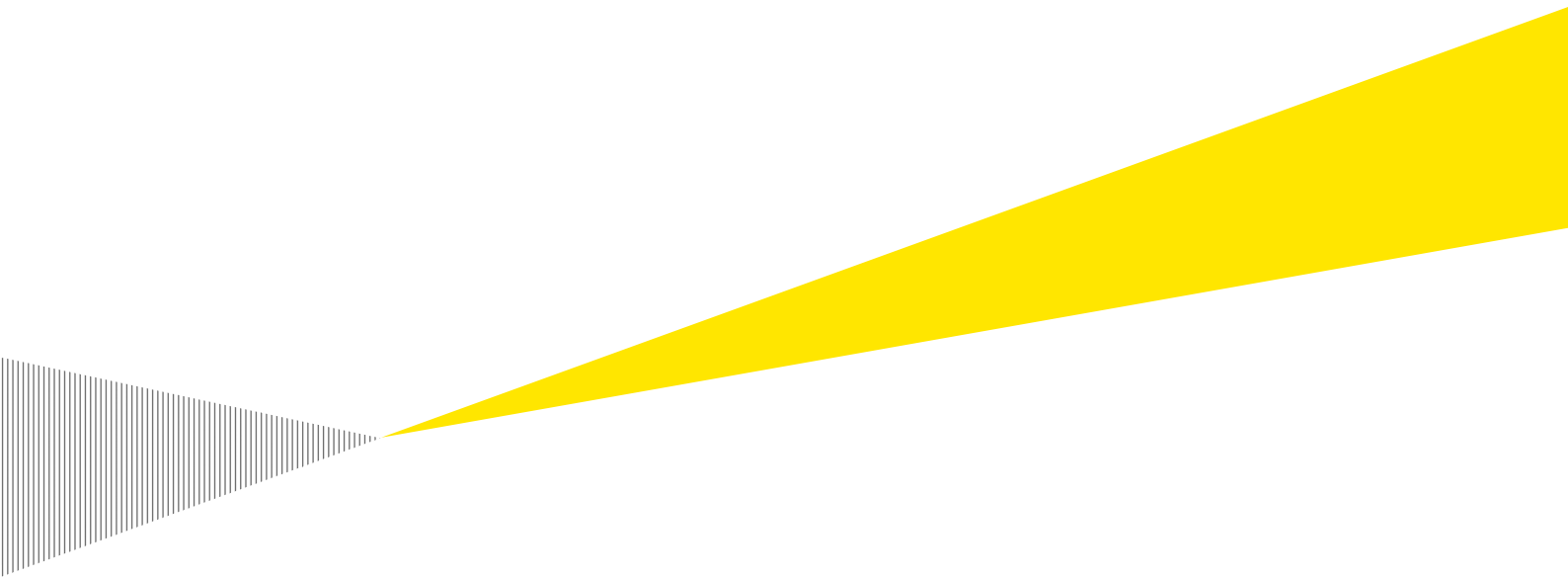


Southampton City Council

Governance Committee Progress Report

December 2016



EY

Building a better
working world

Governance Committee
Southampton City Council
Civic Road
Southampton
SO14 7LY

1 December 2016

Dear Committee Member

Audit Progress Report

We are pleased to attach our Audit Progress Report.

The purpose of this report is to provide the Committee with an overview of the final position against the Council's 2015/16 audit plan, and our initial plans for the 2016/17 audit. This report is a key mechanism in ensuring that our audit is aligned with the Committee's service expectations.

Our audit is undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

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

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Public Sector Audit Appointments Ltd (PSAA) has issued the “Statement of responsibilities of auditors and audited bodies”. 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’ (updated September 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 progress update is prepared in the context of the Statement of responsibilities. It is addressed to the Governance Committee, and is prepared for the sole use 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.

2015/16 work program

Our 2015/16 Annual Audit Letter was presented to the November 2016 Governance Committee.

This letter communicated to Members and external stakeholders, including members of the public, the key issues arising from our audit work. We had already reported the detailed findings from our audit work in our 2015/16 Audit Results Report to the July 2016 Governance Committee.

Our 2015/16 Annual Audit Letter also informed Members that our work on the certification of the Council's claims and returns was ongoing in November 2016.

We are presenting our annual report on the certification of claims and returns to the Governance Committee today. This completes our work program in relation to the 2015/16 financial year.

2016/17 audit

Fee letter

We issued our 2016/17 fee letter to the Council on 7th April 2016. This was reported to the July 2016 Governance Committee.

Financial Statements

We adopt a risk based approach to the audit and, as part of our continuous planning we have held a number of meetings with key officers and other stakeholders to ensure the 2016/17 audit runs as smoothly as possible and to identify any risks and technical accounting issues that require our early consideration. Recent meetings include:

- October 2016 – attendance at the Monthly Audit Operational Meeting to reflect on what went well in 2015/16 and consider early preparation for the 2016/17 audit; and
- November 2016 – our monthly meeting with the Service Director Finance & Commercialisation, and her team, to update our understanding of the challenges and risks you are facing.

Planning and interim visit

We are scheduled to complete our initial planning work, including the walkthrough of the key financial systems in December 2016.

There are no significant matters arising from our initial planning meetings that we need to bring to your attention at this stage.

We will update the Committee when the testing of controls and early substantive testing has been completed. This work is scheduled for February 2017.

Internal Audit

Internal Audit is a key part of the Council's internal control environment that we review during our assessment process. This process helps us to assess the level of risk of material errors occurring in the financial statements and informs the level of testing that we are required to complete in support of the audit opinion. We consider Internal Audit's progress with their annual audit plan and the results of their testing of financial systems and, where it is appropriate to do so, we will undertake procedures to enable us to place reliance upon this testing.

Post statements visit

Our post statements visit is planned for June and July 2017. We have commenced early discussions on the working papers required in support of the audit.

We will continue to use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular payroll and journal entries. These tools facilitate our analysis of these data sets and allow us to focus our testing in areas of highest risk.

Our detailed audit plan, setting out the risks we have identified and the work we will undertake in response, will be presented to the Governance Committee in February 2017.

Value for money

Our initial risk assessment is ongoing. We will report any risks we identify and a proposed work program to address them in our audit plan that is scheduled for the February 2017 Governance Committee.

Other issues of interest

Highways Network Assets

At its meeting on 9 November, the CIPFA (Chartered Institute of Public Finance Accountants) LASAAC (Local Authority Accounting Code Board) decided to postpone the full implementation of the move to measuring Highways Network Assets at Depreciated Replacement Cost in local authority financial statements. It will issue an update to the 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom (the Code) to confirm this in due course. CIPFA / LASAAC will review this position at its meeting in March 2017 with a view to implementation in 2017/18.

When implemented, this fundamental change in approach will require new accounting and estimation approaches as well as amendments to existing systems, or implementation of new systems. The impact on the Council's balance sheet will be highly significant. The impact on the audit will also be significant, as auditors will need to obtain sufficient assurance over the material accuracy of the valuation of these assets.

We will continue to work closely with the Council at both the local level, regarding system implementation, valuation procedures and accounting, and at a national level through the continuation of our HNA Client Workshops.

Sector briefings

In addition to our formal reporting and deliverables we provide practical business insights and updates on regulatory matters through our Sector Briefings.

Timetable

We set out below a timetable showing the key stages of the audit, including the value for money work, and the deliverables we will provide to you through the 2016/17 Governance Committee cycle.

Audit phase	EY Timetable	Deliverable	Reported	Status
High level planning	Ongoing	Audit Fee Letter	Issued 7 th April 2016 Reported July 2016	Completed
Risk assessment and setting of scope of audit	Dec 2016 - January 2017	Audit Plan	February 2017	In progress
Testing of routine processes and controls	February 2017	Progress Report	April 2017	Work is planned to start in February 2017.
Year-end audit	June – July 2017	Audit results report to those charged with governance. Audit report (including our opinion on the financial statements and a conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources) Whole of Government Accounts Submission to NAO based on their group audit instructions. Audit Completion certificate	To be confirmed	Work is planned to start during June 2017.

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