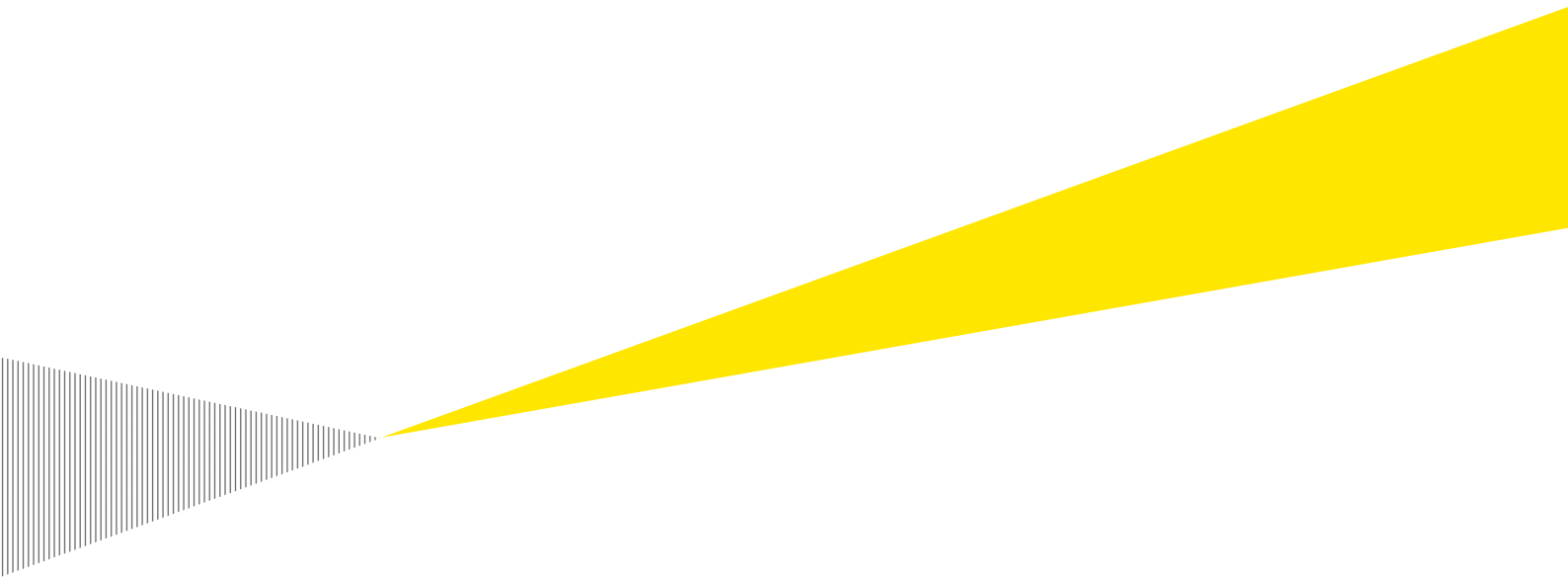


Southampton City Council

Governance Committee Progress Report

April 2017



Building a better
working world

Governance Committee
Southampton City Council
Civic Road
Southampton
SO14 7LY

28 March 2017

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 our progress against the Council's 2016/17 audit plan, reported to you in February 2017. 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.

2016/17 audit

1.0 Financial Statements

High level planning, risk assessment and setting of scope of audit

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:

- ▶ January 2017 – liaison meeting with the Chief Internal Auditor;
- ▶ January 2017 – our quarterly meeting with the Chief Executive, Chief Strategy Officer and Service Director Finance & Commercialisation to update our understanding of the challenges and risks the wider Council is facing;
- ▶ January 2017 & March 2017 – our monthly meeting with the Service Director Finance & Commercialisation (and her team) to update our understanding of the challenges and risks the finance team are facing; and
- ▶ January 2017, February 2017 & March 2017 – our Monthly Audit Operational Meeting with the finance team to track progress on individual audit queries and operational matters.

We reported our initial risk assessment and audit approach to you in February 2017 through our Audit Plan. Our continuous planning has identified no additional significant risks or other risks that we need to report to you.

Testing of routine processes and controls

We have completed our walkthroughs of the key financial systems. We have progressed our testing of key IT controls which is due to be completed in early April 2017.

We have progressed our testing of key systems controls:

- ▶ testing on accounts payable, housing benefit, income collection & banking and non-domestic rates are all substantially complete;
- ▶ we have deferred testing to accounts receivable until April 2017 when the results of internal audit's work, on which we plan to rely, will be available; and
- ▶ payroll testing is progressed and awaiting further information from the Council's payroll provider Capita. The detail of outstanding information has been communicated to the Council through the Monthly Audit Operational Meetings.

There are no significant matters arising that we need to bring to your attention at this stage. We will report the final output of our work to you in our Audit Results Report scheduled to be brought to the Committee in July 2017.

Year-end audit

Our year-end visit is planned for June and July 2017, we have agreed dates with the Council and agreed the working papers required in support of the audit. The key areas of focus will be those risks reported to you in our Audit Plan.

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.

We will report the final output of our work to you in our Audit Results Report scheduled to be brought to the Governance Committee in July 2017.

2.0 Value for money conclusion

We have completed our initial risk assessment and identified one significant risk, namely 'Sustainable resource deployment - The Council's ability to deliver the savings required to support the sustainable delivery of services.' Our audit approach was communicated to you in February 2017 through our Audit Plan. We have agreed with officers to commence our work in this area in April 2017.

3.0 Other matters of interest

Highways Network Assets

In our progress report in December 2016, we reported that the CIPFA (Chartered Institute of Public Finance Accountants) / LASAAC (Local Authority (Scotland) Accounts Advisory Committee) Code Board had decided to postpone the full implementation of the move to measuring Highways Network Assets at Depreciated Replacement Cost in local authority financial statements with a view to implementation in 2017/18.

At its meeting on March 8th, the CIPFA / LASAAC Code Board decided not to proceed with the introduction of the Highways Network Asset Code into the financial reporting requirements for local authorities. The Board decided that, currently and in particular in the absence of central support for key elements of the valuation, the benefits are outweighed by the costs of implementation for local authorities. The Board determined that it will give further consideration to this issue only if provided with clear evidence that benefits outweigh costs for local authorities.

Housing Benefit Certification

We have agreed that the Council will perform some of the initial testing itself in 2016/17, in return for a 20% reduction in our fee. We will do sufficient checking to satisfy ourselves that this testing has been performed appropriately. This is an arrangement that has worked well at other clients.

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	Completed
Testing of routine processes and controls	February - April 2017	Progress Report	April 2017	In progress (see above)
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	July 2017	Work is planned to start in June 2017.
Annual audit letter	July – August 2017	Annual audit letter to those charged with governance.	September 2017	

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