

A high-angle, close-up photograph of several people's hands and forearms gathered around a white table. They are looking at and pointing to various documents and papers spread across the surface. One person in the foreground is wearing a white shirt, another in the middle is wearing a yellow long-sleeved shirt, and a third in the background is also wearing a yellow shirt. A smartphone is visible on the table near the bottom left. The overall scene suggests a collaborative meeting or audit process.

Southampton City Council Audit progress report

Year ended 31 March 2018
April 2018



Private and Confidential
Governance Committee Members
Southampton City Council
Civic Centre
Southampton, Hampshire, SO14 7LY

April 2018

Dear Governance Committee Members

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 2017/18 audit plan, reported to you in February 2018. 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

For and on behalf of Ernst & Young LLP

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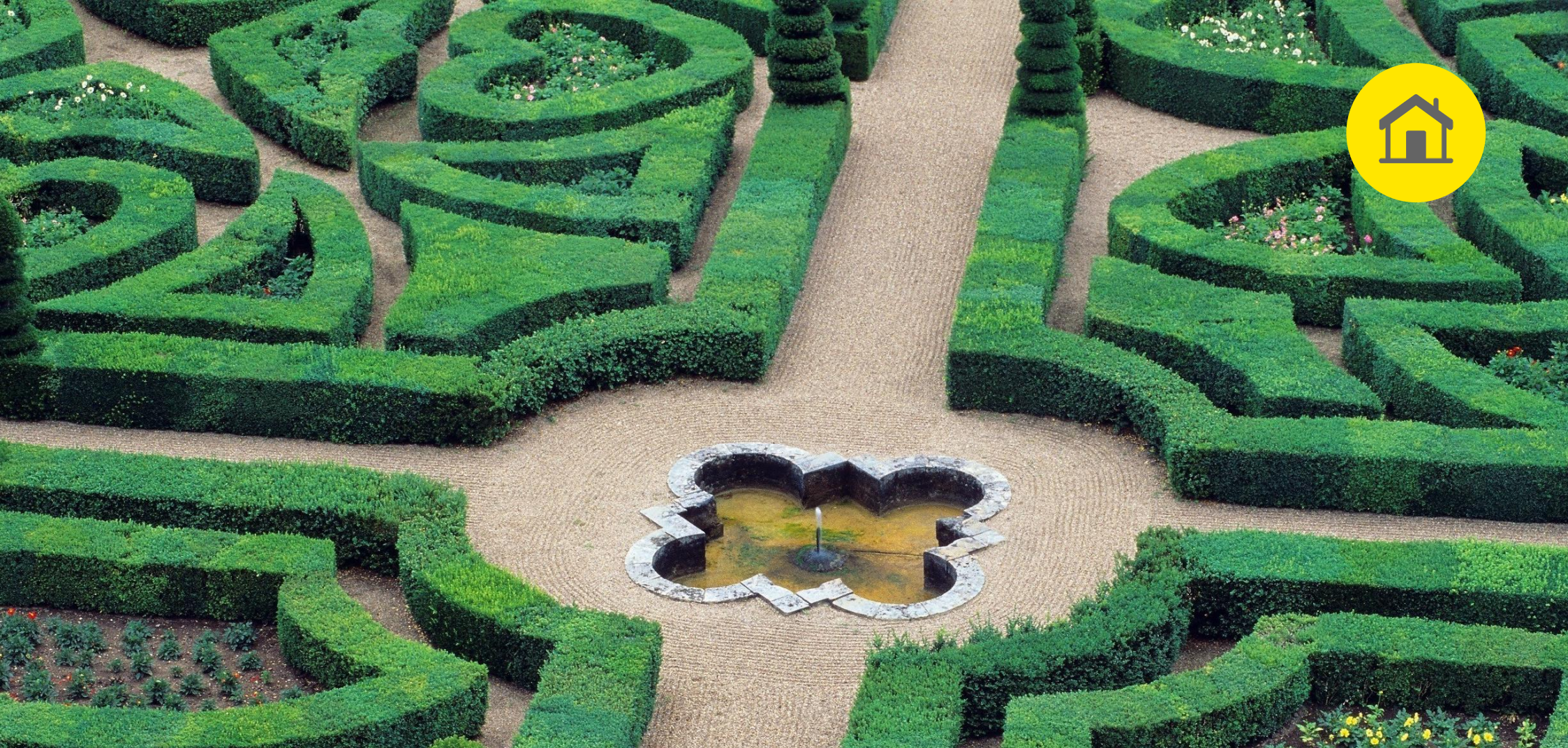
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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk). The Statement of responsibilities serves as the formal 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 February 2017)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Governance Committee and management of Southampton City Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Governance Committee, and management of Southampton City Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Governance Committee and management of Southampton City Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Progress Update



Progress on 2017/18 Audit

The following 'dashboard' summarises the progress of the 2017/18 audit after our interim audit visit. It seeks to provide the Governance Committee with an overview of the progress of the audit to date, and any issues arising.

Audit Area	Status	Details
Walkthroughs of key systems	Completed	<ul style="list-style-type: none"> - Accounts receivable - Council Tax - Financial Statement Close Process and Journals - Housing Benefits - Housing Rents - Income Collection and banking - Non Domestic Rates - Pensions - Property, Plant and Equipment - Purchase to pay - Treasury Management
Walkthroughs of key systems	In progress	<ul style="list-style-type: none"> - Payroll - supporting evidence was sent to us at a Southampton.gov.uk e-mail address after we had completed our Planning visit (November 2017) and left site. We do not have remote access to these e-mails. Our e-mail address was routinely deleted by IT (due to inactivity) before we returned to site and the data deleted. We have requested the evidence is resent.
Property, Plant and Equipment - additions (Month 1- Month 10)	Completed	<ul style="list-style-type: none"> - Additions testing has been completed. No issues arising, - We will need to 'top up' this sample at year so that we have tested the entire year.
Cost of service income and expenditure testing (Month 1 to Month 10)	In progress	<ul style="list-style-type: none"> - Our work in this area is ongoing. - For more detail please see Section 2, under data analytics
Payroll expenditure testing (Month 1 to Month 10)	In progress	<ul style="list-style-type: none"> - Our work in this area is ongoing. - For more detail please see Section 2, under data analytics



02

Areas to highlight



Areas to highlight

Issue	Points to note
Control weaknesses identified during our walkthroughs	<p>Our Income Collection and Banking walkthrough identified that vendor accounts were not being updated in a timely manner on receipt of payments.</p> <p>In November 2017, approximately £3m of receipts were held in a cash suspense account, unmatched to vendor accounts. This means that vendor accounts would appear to be in arrears when they had in actual fact been paid. This could lead to arrears recovery action being inappropriately taken.</p> <p>We reported this issue to the Service Director Finance & Commercialisation in November 2017 and the issue was promptly rectified.</p>
<p>Data analytics</p> <p>Relates to Section 2: Audit risks in our Audit Plan</p> <p>Specifically 'Earlier deadline for production of the financial statements.'</p>	<p>Data analytics is fundamental to our audit approach. Without being provided with the data we request, we will be unable to complete our audit.</p> <p>We provided the Council with the data analytics request for our interim visit in November 2017. We provided a working paper request for our interim visit in December 2017 which contained the full analytics request. We also offered to run a workshop for anybody preparing working papers.</p> <p><u>General ledger</u></p> <p>We requested that data be provided to us by 19th February 2018. Data was provided 10 days late, the data was also incomplete. It did not contain all transactions and had no mapping (a working paper linking general ledger account codes to areas of the financial statements).</p> <p>It is important to understand that:</p> <ul style="list-style-type: none"> - due to the transitional change within the finance team, no staff have prior experience of preparing this data. We have worked closely with staff who will be preparing the data moving forward to ensure they understand our requirements; and - the Council have made good progress simplifying the process of mapping their ledger to their financial statements (a recommendation we made last year). <p>Our analytics team schedule their work based on timely receipt of data. If data is not provided on time, a client goes to the 'back of the queue.' As a result. delay in providing the data was compounded by its processing taking longer than desirable.</p> <p>We were unable to complete our testing of income and expenditure during the interim audit visit. We have provided management with our samples and agreed to reallocate resource from planned Housing Benefit certification work in April 2018 to complete the testing.</p> <p><u>Payroll</u></p> <p>Our data analytics requests were made as above. The initial data was provided 18 days late. We experienced issues with the completeness of the data provided (gross pay less deductions did not equal net pay). We have worked with the Council to reduce the difference to an acceptably low level. This was an iterative process and was caused by all deductions not being included in the data provided to us. Similar to above, we plan to complete this work in April 2018.</p> <p>Moving forward, we have agreed a date of 4th May 2018 for general ledger and payroll data to be submitted to us for our final visit. If this data is not provided on time, it will put timely delivery of the audit at risk.</p>



Areas to highlight

Issue	Points to note
<p>Other areas of audit focus: Private Finance Initiatives (PFIs)</p> <p>Relates to Section 2: Audit risks and Section 6: Audit team (use of specialists) in our Audit Plan</p>	<p>We have identified an additional area of focus for the audit, that has not been classified as a significant risk, but is still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be a key audit matter that we will include in our audit report.</p> <p>Private Finance Initiatives (PFIs)</p> <p>The Council has two PFIs on its Balance Sheet: PFI Schools and PFI Street Lighting. Accounting for PFI is a complex area. The PFI Schools and PFI Street Lighting have not been reviewed by a specialist since EY took over as your external auditors. We have been relying on specialist reviews undertaken by the Audit Commission, updated by a work program completed annually by the audit team. Due to the time lapsed since these arrangements have been subject to specialist review, we have determined it is appropriate to have them reviewed this year. We have communicated this to management and arranged meetings to progress this area of work.</p>
<p>Materiality</p> <p>Relates to Section 4: Materiality in our Audit Plan</p>	<p>In our audit plan we communicated our initial planning materiality, performance materiality and audit differences level. We have recalculated these to:</p> <ul style="list-style-type: none"> - Planning materiality £13.3m (from £15.3m) - Performance materiality £10.0m (from £11.5m) - Audit differences £ 663k (from £ 763k) <p>We routinely reassess materiality throughout our audit and will confirm the final materiality used in our audit results report.</p>