

Southampton City Council

Annual Audit Letter for the year ended 31 March 2017

October 2017

Ernst & Young LLP



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Public Sector Audit Appointments Ltd (PSAA) have issued a “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 Annual Audit Letter 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.

A hand with white nail polish is writing on a document with a blue pen. In the background, there is a calculator, a laptop, and a white mug. A yellow rectangular box is overlaid on the left side of the image.

Executive Summary

Executive Summary

We are required to issue an annual audit letter to Southampton City Council (the Council) following completion of our audit procedures for the year ended 31 March 2017.

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

Area of Work	Conclusion
Opinion on the Council's: ▶ Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2017 and of its expenditure and income for the year then ended.
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
Reports by exception: ▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We had no matters to report.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was reported to the 24 July 2017 Governance Committee.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's Code of Audit Practice.	<p>Our audit report on the financial statements was issued on 31 July 2017.</p> <p>Our certificate was issued on 17 October 2017. We could only formally conclude the audit and issue an audit certificate once we had completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. Our certificate was issued on the same day that this work was concluded.</p>

Once the work is concluded, we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken.

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

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

Purpose



Purpose

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2016/17 Audit Results Report to the 24 July 2017 Governance Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.



Responsibilities

Responsibilities

Responsibilities of the Appointed Auditor

Our 2016/17 audit work has been undertaken in accordance with our Audit Plan and is conducted in accordance with the National Audit Office's Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ on the 2016/17 financial statements; and
 - ▶ on the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ if the annual governance statement is misleading or not consistent with our understanding of the Council;
 - ▶ any significant matters that are in the public interest;
 - ▶ any written recommendations to the Council, which should be copied to the Secretary of State; and
 - ▶ if we have discharged our duties and responsibilities as established by thy Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. We had no issues to report.

Responsibilities of the Council

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

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

A blurred office desk with a laptop, glasses of water, and financial documents. The background shows a window with blinds and a potted plant. The foreground features a wooden desk with a laptop, several glasses of water, and various papers, including one with a pie chart and another with a grid.

Financial Statement Audit

Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the National Audit Office's Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report. Our detailed findings were reported to the 24 July 2017 Governance Committee.

The key issue identified as part of our audit was as follows:

Significant Risk	Conclusion
<p>Management override of controls</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>	<p>We completed our planned procedures and identified no errors, omissions or inappropriate transactions.</p> <p>Our testing identified no indication of either management bias or the override of controls.</p>

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £12.6 million, which is 2% of gross revenue expenditure reported in the accounts. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Governance Committee that we would report to the Committee all unadjusted audit differences in excess of £0.63 million.

A blurred office desk scene featuring a laptop, several glasses of water, and documents. A yellow rectangular box is overlaid on the left side of the image, containing the text "Value for Money".

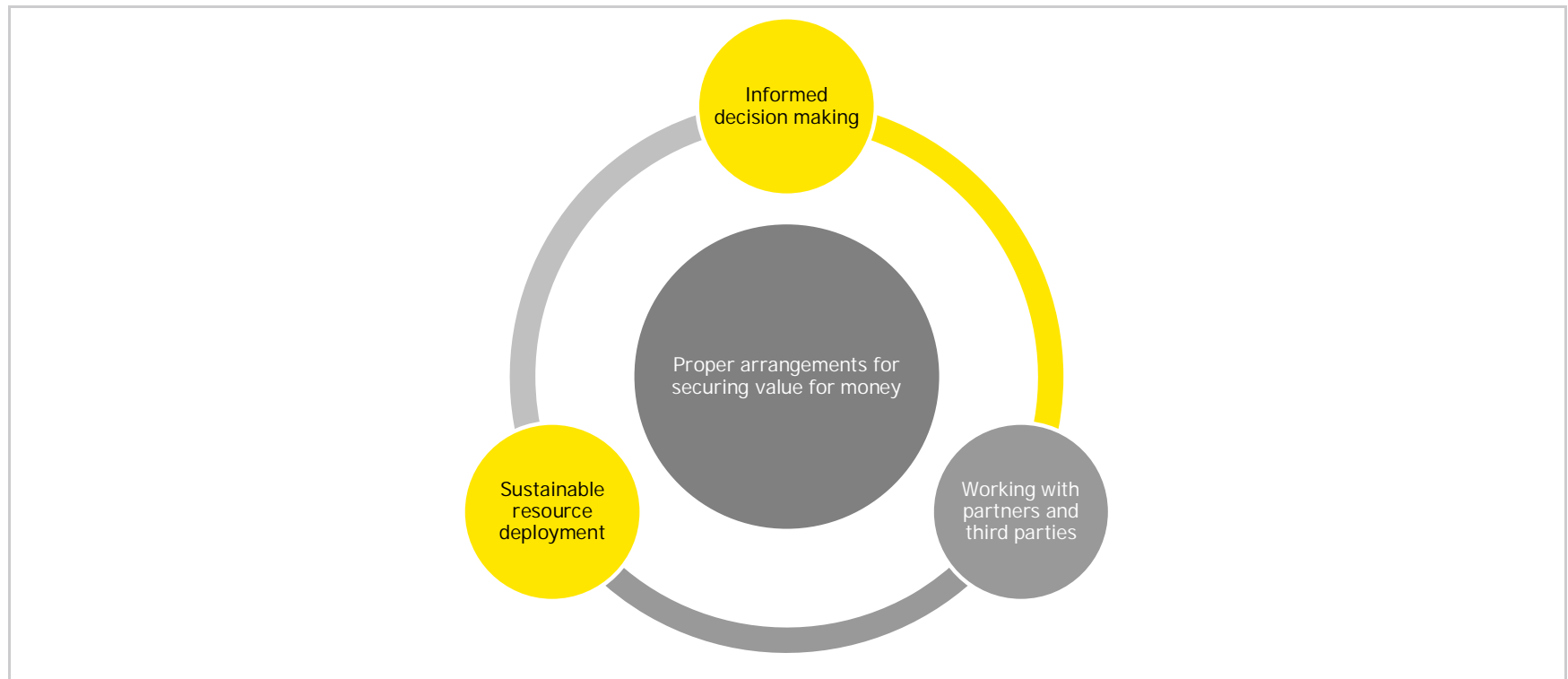
Value for Money

Value for Money

We are required to consider whether the Council 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.



Our audit identified the following key findings in relation to the Council's arrangements for deploying resources in a sustainable manner, namely the Council's ability to deliver the savings required to support the sustainable delivery of services.

Key Findings

The 2016/17 financial outturn reported a portfolio overspend against budget a draw from the General Fund of £0.35 million in 2017/18.

The largest portfolio overspend was in Health and Adult Social Care. This was consistently identified and monitored in corporate financial monitoring reports throughout the year. Appropriate linkages were in place with the risk register and mitigating actions and controls put in place to manage the overspend.

The Council achieved £25.4 million of its 2016/17 saving plan of £31.2 million. This represents 81% of the target. The Council's quarterly corporate financial monitoring reports, taken to Cabinet, consistently forecast an accurate projection of the expected savings: £23.8 million in Q1, £25.8 million in Q2 and £26.0 million in Q3. Progress against savings plans was appropriately monitored by Service Directors and the Council's Management Team. Scorecards were prepared monthly for both, including RAG rating of individual savings schemes. We have reviewed the most significant areas contributing to the £5.8 million shortfall and are satisfied that any implications have been appropriately built into the February 2017 Medium Term Financial Strategy (MTFS) and 2017/18 budget.

We have reviewed the Council's MTFS and arrangements to deliver its planned savings in 2017/18. The Council has identified a revised need for savings of £19.6 million in 2017/18. We have reviewed the process to identify and agree detailed savings plans for 2017/18 and found it to be robust. As in 2016/17, appropriate arrangements are in place to ensure accountability and good governance through monitoring of savings by Service Directors, the Council's Management Team and Cabinet. Any shortfall in delivering these savings plans could be offset against earmarked reserves held by the Council, such as the £26.7 million MTFS reserve that has prudently been set aside for this purpose.

Based on the factors and considerations set out above, we consider that the Council continues to have appropriate arrangements in place to deliver services sustainably.

We issued an unqualified value for money conclusion.



Other Reporting
Issues

Other Reporting Issues

Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes.

A malfunction with the validation processes in the DCLG's consolidation pack prevented the Council from electronically signing the return before the deadline of 30th September 2017. The Council had provided the draft return to the DCLG in advance of this deadline and requested their assistance to resolve the malfunction. Once the issue was resolved, we certified the return on 17 October 2017.

We had no issues to report.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

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

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We did not identify any issues that require statutory reporting under Section 24 of the Local Audit and Accountability Act 2014.

Objections Received

We did not receive any objections to the 2016/17 financial statements from member of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Governance Committee. 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 regulatory and professional requirements.

Control Themes and Observations

As part of our work, 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 are required to communicate to you significant deficiencies in internal control identified during our audit. We identified no significant deficiencies in internal control beyond those already reported by Internal Audit and included within the Annual Governance Statement.

A close-up photograph of a person's face, slightly out of focus, as they look through a pair of black binoculars. The person's hands are visible, holding the binoculars. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Focused on your future".

Focused on your
future

Focused on your future

Area	Issue	Impact
<p>Earlier statutory deadline for production and audit of the financial statements from 2017/18</p>	<p>The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.</p>	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>As auditors, nationally we have:</p> <ul style="list-style-type: none"> • Issued a thought piece on early closedown; • As part of the strategic Alliance with CIPFA jointly presented accounts closedown workshops across England, Scotland and Wales; and • Presented at CIPFA early closedown events and on the subject at the Local Government Accounting Conferences in July 2017. <p>To prepare for this change both we and the Council have targeted achievement of the earlier deadlines in 2016/17. This clearly represents significant progress.</p> <p>Moving forward, we will need to continue to work together collaboratively to ensure we streamline processes to allow us to more comfortably deliver to these timescales.</p>

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