

Letter of representations: Audit of Council only financial statements

[To be prepared on the entity's letterhead]

[Date]

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

This letter of representations is provided in connection with your audit of the financial statements of Southampton City Council ("the Council") for the year ended 31st March 2018. 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 31st March 2018 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

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 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
2. We acknowledge, as members of management of the Council, 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, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18. 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. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate

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financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, that are free from material misstatement, whether due to fraud or error.

5. We believe that the effects of the two unadjusted audit differences, summarised in the Audit Results Report, 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:

- They are below the materiality level;
- There is no overall material variance and no net impact on the General Fund or HRA reported position;
- In discussion with you, you have confirmed that these are not material items that need amending;
- Neither uncorrected amounts would have a material impact on the use and interpretation by users of the financial statements;
- Where necessary the amendments will be made in the 2018/19 financial statements;

PFI

- PFI's are closed with elements based on estimates;
- They are below the materiality level;
- Schools PFI - whilst agreeing that some of the costs should not have been capitalised, we are of the view that the impact on the 2017/18 accounts and those for future years is not material and therefore will not adjust the accounts; we propose to split out the contingent rent from costs of services in future years' accounts, but not make any adjustments to the 2017/18 accounts;
- Street Lighting PFI – in relation to recalculating finance interest costs, the cost for 2017/18 would reduce by less than £0.1M. We are of the view that the impact of this change on the 2017/18 accounts and those for future years is not material and therefore will not adjust the accounts;

Pensions

- Given the nature of the pension fund, and the possible fluctuations in value over such a large pension fund, along with our percentage being fairly small, this would not be a material difference;
- We pay for an early annual valuation from the actuary in order to meet the required closedown timetable and therefore would expect to use that

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figure, accepting that it is an estimate at a particular point in time. We are consistent with this approach; and

- The percentage variance identified is 0.5% which is below the 1.1% that the actuary has reported as the difference on the pension fund as a whole and would consider acceptable.

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. 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.
4. We have disclosed to you, and provided you full access to information and any internal investigations relating to, all instances of identified or suspected non-compliance with law and regulations, including fraud, known to us that may have affected the Council (regardless of the source or form and including, without limitation, allegations by "whistleblowers") including non-compliance matters:
 - involving financial statements;
 - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
 - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
 - involving management, or employees who have significant roles in internal controls, or others; or
 - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. 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;

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- 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, Cabinet and Governance Committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through 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 period end. These transactions have been appropriately accounted for and disclosed in the financial statements
 5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
 6. 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.

D. 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 in Notes 21 and 35 to the financial statements all guarantees that we have given to third parties.

E. Subsequent Events

1. Other than the matters 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.

F. Other information

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1. We acknowledge our responsibility for the preparation of the other information. The other information comprises: the preface, the Narrative Statement, the Statement of Responsibilities, the Glossary and the Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Prior period adjustments

1. Comparative amounts have been restated in Note 31.a), being the future minimum lease payments under operating leases. They have been restated following a review of the accounts preparation process.
2. The comparative amounts have been correctly restated to reflect the above matter and an appropriate note disclosing this restatement has also been included in the current year's financial statements.
3. There have been no significant errors or misstatements, or changes in accounting policies, other than the matters described above, that would require a restatement of the comparative amounts in the current year's financial statements.

I. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of:
 - property, plant and equipment;
 - investment properties; and
 - the defined benefit pension liability.

We have adequately considered the qualifications of the specialists 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 specialists 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 specialists.

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J. Estimates

Valuation of property, plant and equipment, investment properties and PFI (and similar arrangements)

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
2. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
3. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the financial statements due to subsequent events.

K. 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.

Yours faithfully,

(Service Director of Finance and Commercialisation)

(Chairman of the Governance Committee)