



Southampton City  
Council  
Audit results report

Year ended 31/03/2021

September 2021



**EY**

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working world



22/09/2021

Dear Governance Committee Members

2021 Audit results report

We are pleased to attach our audit results report, summarising the status of our audit for the forthcoming meeting of the Governance Committee. We will update the Committee at its meeting, scheduled for 04 October 2021, on further progress to that date and explain the remaining steps to the issue of our final opinion.

The audit is designed to express an opinion on the 2021 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on SCC's accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process.

This report is intended solely for the use of the Governance Committee, other members of the Authority, and senior management. It is not intended to be and should not be used by any one other than these specified parties.

We welcome the opportunity to discuss the contents of this report with you at the Governance Committee meeting on 04 October 2021.

Yours faithfully

A handwritten signature in blue ink that reads "Kevin Suter".

Kevin Suter

Associate Partner

For and on behalf of Ernst & Young LLP

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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). 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 and further guidance (updated April 2018)" 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 Executive Summary



# Executive Summary

## Scope update

In our audit planning report presented at the 26 July 2021 Governance Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan.

A summary of our approach to the audit of the balance sheet including any changes to that approach from the prior year audit is included in Appendix A.

## Status of the audit

We expect to have substantially completed our audit of Southampton City Council's financial statements for the year ended 31 March 2021 and have performed the procedures outlined in our audit planning report by the time of the Governance Committee meeting. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise:

- Property, Plant and Equipment and Investment Property – principally work regarding valuations
- Pension asset/liability valuation testing
- Residual elements of other testing - principally on disclosures and related parties
- Residual elements of Value for money risk-based work
- Completion of our review of the Council's going concern assessment
- General audit procedures, including completion of internal review processes

Given that the audit process is still ongoing, we will continue to challenge the remaining evidence provided and the final disclosures in the narrative report and accounts which could influence our final audit opinion.

The following are to be completed as part of the normal process for conclusion of the audit:

- review of the final version of the financial statements
- completion of subsequent events review
- receipt of the signed management representation letter

We do not expect to issue the audit certificate at the same time as the audit opinion. We have not yet been able to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. This is because HM Treasury are continuing to review the online 2020-21 WGA Data Collection Tool and update the guidance that is available for preparers. Based on the last available update the data collection tool and guidance was not expected to be available until December 2021. Therefore the 2020-21 WGA component data will not be available for auditors to review until later in the year. Group Audit Instructions and the timetable for 2020-21 will necessarily follow any changes HMT make to the DCT and process. The audit certificate will be issued once this work is complete.

## Auditor responsibilities under the new Code of Audit Practice 2020

Under the Code of Audit Practice 2020 we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Authority a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability:  
How the Council plans and manages its resources to ensure it can continue to deliver its services;
- Governance:  
How the Council ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness:  
How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

## Status of the audit - Value for Money

In the Audit Plan presented to the Governance Committee on 26 July 2021, we reported that our value for money (VFM) risk assessment was ongoing, and we had identified a risk of significant weakness in respect of the financial sustainability criteria. We communicated our planned procedures which included evaluating the processes that the Council had in place to manage financial pressures arising from Covid-19, comparing the 2020/21 outturn position with in-year forecasting, and reviewing the Council's Medium Term Financial Strategy. We have completed our risk assessment and have not identified any new risks of significant weakness in VFM arrangements.

Our value for money conclusion work is in progress at the time of writing this report. We will provide an update at the Governance Committee meeting on 04 October.

# Executive Summary

## Audit differences

There are no adjusted differences above our performance materiality level, arising from work completed to date.

We have identified two audit differences in the draft financial statements which management has chosen not to adjust.

- The first is in relation to Property, Plant and Equipment (PPE) assets not revalued in 2020/21, understating the balance by £2.4m,
- The second is in relation to the assumptions used by the actuary of Hampshire Pension Fund to determine their estimate of the Council's defined benefit pension liability, overstating the pension liability by £1.6m

We ask that a rationale as to why these are not corrected be approved by the Governance Committee and included in the Letter of Representation. We agree with management's assessment that the impact is not material.

As our audit work is ongoing at the time of writing this report, further adjusted and unadjusted misstatements may be identified. We will update the Governance Committee at the meeting on 04 October 2021 if we identify any issues from the work that remains outstanding at the time of writing this report.

## Other reporting issues

We review the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. Subject to review, have no matters to report as a result of this work.

We will perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission following the completion of the financial statements audit and provide an update to the Committee on the outcome of this work. Currently, the issue of the template submission by HM Treasury has been delayed, meaning that this work cannot be performed until December at the earliest. This does not affect our ability to sign the audit opinion on your financial statements.

We have no other matters to report.

## Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.

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.

There are no matters we wish to report.

# Executive Summary

## Areas of audit focus

Our audit planning report identified key areas of focus for our audit of Southampton City Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Areas of Audit Focus" section of this report. The areas of focus were as shown below. Where work is ongoing at the time of writing this report, a verbal update will be provided at the Governance Committee meeting on 04 October.

- Misstatements due to fraud or error – no issues have been identified from our work to address this risk at the time of writing this report
- Risk of fraud in revenue and expenditure recognition: inappropriate capitalisation of revenue expenditure – no issues have been identified from our work to address this risk at the time of writing this report
- Valuation of Investment Property and Land and Buildings (valued using EUV & FV method) – no material audit differences have been identified from our work to address this risk at the time of writing this report, but as noted above, this is one of the key areas remaining to be fully completed. One unadjusted audit difference has been identified as set out on page 7.
- Valuation of Land and Buildings valued at Depreciation Replacement Cost (DRC), and Housing Revenue Account (HRA) Properties – no material audit differences have been identified from our work to address this risk at the time of writing this report, but as noted above, this is one of the key areas remaining to be fully completed.
- Pension Liability Valuation – as noted above, this is one of the key areas remaining to be fully completed. One unadjusted audit difference has been identified from the work performed to date, as set out on page 7.
- Restatement of the Comprehensive Income and Expenditure Statement (CIES), Expenditure and Funding Analysis (EFA) and related disclosure notes – no issues have been identified from our work to address this risk at the time of writing this report
- Accounting for Covid-19 related government grants - no issues have been identified from our work to address this risk at the time of writing this report
- New fixed asset register - no issues have been identified from our work to address this risk at the time of writing this report
- Going concern disclosure – as noted above, this is one of the key areas remaining to be fully completed.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Governance Committee.

## Independence

Please refer to Section 9 for our update on Independence. We have no independence issues to report.





## 02 Areas of Audit Focus



# Areas of Audit Focus

## Significant risk

### Misstatements due to fraud or error

#### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 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.

#### What judgements are we focused on?

Our assessment of risk led us to create a series of criteria for the testing of journals, focusing specifically on areas that could be open to management manipulation. We have also focused specifically on capitalisation of expenditure as a potential area of manipulation, which is recorded as a separately identified significant risk on the previous page of this report.

Our work on estimates focussed on PPE and Investment Property valuation, and IAS19 pension estimates, which we have identified as areas of significant or higher inherent risk. Our findings on these areas are set out on the subsequent pages in this section of our report.

#### What did we do?

Our approach focused on:

- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.
- Assessing accounting estimates for evidence of management bias.
- Evaluating the business rationale for significant unusual transactions.

Further to this, we have:

- Inquired of management about risks of fraud and the controls put in place to address those risks, as well as gaining an understanding of the oversight given by those charged with governance of management's processes over fraud.
- Considered the effectiveness of management's controls designed to address the risk of fraud.

#### What are our conclusions?

Our work in relation to this risk is ongoing at the time of writing this report. To date:

- We have not identified any evidence of material management override.
- We have not identified any instances of inappropriate judgements being applied or other management bias both in relation to accounting estimates and other balances and transactions.
- We have not identified any other transactions which appeared unusual or outside the Authority's normal course of business

We will provide an update at the meeting of the Governance Committee on 04 October 2021.



## Significant risk

### Risk of fraud in revenue and expenditure recognition – inappropriate capitalisation of revenue expenditure

#### What is the risk?

Under ISA (UK) 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We have assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure, as there is an incentive to reduce expenditure which is funded from Council Tax. This could then result in funding of that expenditure, that should properly be defined as revenue, through inappropriate sources such as capital receipts, capital grants, or borrowing.

The value of Property, Plant & Equipment (PPE) additions in 2020/21 was £73m, and the value of Investment Property (IP) additions was £1m.

#### What judgements are we focused on?

Our work has focussed on any judgements exercised in determining whether expenditure is capital in nature, and therefore appropriate to be capitalised rather than charged to the Comprehensive Income and Expenditure Statement.

#### What did we do?

Our approach focused on:

- We selected a sample of additions, using lowered testing thresholds, to test and confirm the item was appropriate to capitalise through agreement to evidence such as invoices and capital expenditure authorisations.
- When performing journals testing, we challenged entries that could be indicative of inappropriate capitalisation, and any significant journals transferring expenditure from non-capital codes to PPE/IP additions or from revenue to capital codes on the general ledger at the end of the year.

#### What are our conclusions?

Subject to completion of internal review, we expect to conclude that no issues indicating material capitalisation of revenue expenditure has been identified through our testing of PPE/IP additions and journal entries.



## Areas of Audit Focus

### Significant risk

#### Valuation of Investment Property and Land and Buildings (valued using EUV & FV method)

#### What is the risk?

The value of Investment Property (IP) and Land and Buildings (valued using EUV/FV method) within property, plant and equipment (PPE) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews, and market fluctuations. PPE is also depreciated. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Given the nature of Covid-19 and the fact that 2020/21 was predominantly influenced by local and national lockdowns, we anticipated that the valuer may not be able to conduct site visits due to the restrictions that are in place and that the valuer will have to perform a remote approach to valuing the properties which may further increase the risk around these valuations. The market volatility brought about by the advent of Covid-19 in the last quarter in the prior year and throughout the 2020/21 year relates primarily to assets carried at a market value – either fair value (investment property and surplus assets) or Existing Use Value (EUV) as a proxy for FV (some of land and buildings). Assets carried at depreciated replacement cost (DRC) and EUV-SH (Council housing) are not considered to be impacted in the same way.

The value of IP in the draft accounts at 31/03/2021 was £113.1m. The value of PPE valued at existing use value was £64m.

#### What did we do?

We:

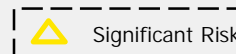
- Considered the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Sample tested key input information used by the valuer in performing the valuations and challenged the key assumptions used by the valuer.
- Commissioned EY Real Estates, our internal specialists on asset valuations, to consider the valuation approach in more detail for a smaller sub-set of the sample of assets.
- Tested whether valuations have been correctly processed in the financial statements.
- Considered the annual cycle of valuations to ensure that assets have been valued within a suitable rolling programme as required by the Code for PPE, and annually for IP. We also considered if there are any specific changes to assets that have occurred and whether these have been communicated to the valuer.
- Reviewed assets not subject to valuation in 2020/21 to confirm the remaining asset base was not materially misstated.

#### What are our conclusions?

Our work on valuations is in progress at the time of writing this report. We have involved our internal specialists in testing a representative sample of investment property and land and buildings (valued using EUV & FV method), with the remainder of the sample being tested by the audit team. Information and explanations to support the valuations have been requested, and our review of the responses received to date is well progressed.

We have identified one unadjusted audit difference from the work completed to date, regarding the valuation of assets not valued within the year. No material misstatement is identified, but we identified a judgemental difference of £2.4m.

We will provide an update at the Governance Committee meeting on 04 October.







## Areas of Audit Focus

### Other areas of audit focus

#### Valuation of Land & Buildings valued at Depreciated Replacement Cost (DRC), and Housing Revenue Account (HRA) properties

##### What is the risk?

The value of Property, Plant and Equipment (PPE) represents a significant balance in the Authority's accounts and is subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

The net book value of PPE in the draft accounts at 31/03/2021 was £1.5bn. Of this total, £442m is subject to revaluation on the basis of DRC.

##### What did we do?

We:

- Considered the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample tested key asset information used by the valuers in performing their valuation and challenge the key assumptions used by the valuer;
- Tested whether valuations have been correctly processed in the financial statements;
- Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code; and
- Reviewed assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated.

##### What are our conclusions?

Our work on property, plant and equipment valuations is in progress at the time of writing this report. Information and explanations to support the valuations have been requested, and our review of the responses received to date is well progressed.

We will provide an update at the Governance Committee meeting on 04 October.



## Areas of Audit Focus

### Other areas of audit focus

#### Pension Liability Valuation

##### What is the risk?

The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council. The Authority's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Authority's balance sheet. The information disclosed is based on the IAS 19 report issued to the Authority by the actuary to the County Council.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

The net pension liability in the draft accounts at 31 March 2021 was £587m.

##### What did we do?

We:

- Liaised with the auditors of Hampshire County Council Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Southampton City Council.
- Assessed the work of the Pension Fund actuary (Aon Solutions) including the assumptions they used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all local government sector auditors, and considered any relevant reviews by the EY actuarial team.
- Reviewed and tested the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19.

##### What are our conclusions?

At the time of writing of this report, our planned work in this area is largely complete, but an issue has arisen across all local government audits that needs to be resolved prior to us being able to fully conclude our work. This is in relation to the impact of the new auditing standard on accounting estimates. We planned to take an audit approach to this estimate based on procedures to evaluate management's process.

Our work to assess the assumptions applied by the actuary, and the data used in making the IAS19 estimate, is substantially complete. We have identified one unadjusted audit difference from this work, which is a difference in the estimated value of the pension asset of £1.6m. No other issues have been noted.

The new auditing standard requires auditors to test the method of measurement of accounting estimates to determine whether the model is appropriately designed, consistently applied and mathematically accurate, and that the integrity of the assumptions and the data has been maintained in applying the model. Neither we, nor PWC as consulting actuaries commissioned by the NAO for all local government sector audits, are able to access the detailed models of the actuaries in order to evidence these requirements. Therefore, we have been required to modify our planned approach and undertake alternate procedures to create an auditor's estimate, to provide a different method of gaining assurance. We will provide the Committee with a verbal update on progress at the 04 October 2021 meeting.



## Areas of Audit Focus

### Other areas of audit focus

#### Restatement of Comprehensive Income and Expenditure Statement, Expenditure and Funding Analysis, and related disclosure notes

##### What is the risk?

Under CIPFA's "Telling the Story" agenda, the Council is required to disclose its income and expenditure in accordance with the structure used for internal reporting, rather than the previous presentation as prescribed by SERCOP.

The Council has changed its internal reporting structure in 2020/21, which means the prior period comparators in the Comprehensive Income and Expenditure Statement, the supporting Expenditure and Funding Analysis, and related disclosure notes, will need to be restated in line with the new structure.

##### What did we do?

We:

- Agreed the restated comparative figures back to the Council's prior year financial statements and supporting working papers
- Reviewed the analysis of how these figures are derived from the Council's ledger system

##### What are our conclusions?

Subject to completion of internal review, we expect to conclude that the Comprehensive Income and Expenditure Statement, Expenditure and Funding Analysis, and related disclosure notes, have been restated appropriately following the change to internal reporting structures.



## Areas of Audit Focus

### Other areas of audit focus

#### Accounting for Covid-19 related government grants

##### What is the risk?

The Council has received a significant level of government funding in relation to Covid-19. Whilst there is no change in the CIPFA Code or accounting standard (IFRS 15) in respect of accounting for grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment in the 2020/21 statements.

##### What did we do and what judgements did we focus on?

We considered the Council's judgement on material grants received in relation to whether it is acting as:

- Agent, where it has determined that it is acting as an intermediary; or
- Principal, where the Council has determined that it is acting on its own behalf.

We sought to determine whether conditions were attached to the grant funding received and whether those conditions were met or not.

Considering the outcome of the above we considered the appropriateness of the accounting treatment for the grants, in particular whether the grants were correctly classified, and whether associated disclosure were also accurate.

##### What are our findings & conclusions?

Our work on COVID-19 government grant is complete subject to final review

Based on our work we are satisfied that the accounting treatment adopted for Covid-19 related government grants accorded with the Council's assessment of whether it was acting as agent or principal, the underlying conditions of the grant and whether those conditions had been met.





## Areas of Audit Focus

### Other areas of audit focus

#### New fixed asset register

##### What is the risk?

The Council has used the new fixed asset module of Business World to record its property, plant and equipment and investment property for the first time in full in 2020/21. The Council needs to ensure opening asset balances are fully and accurately transferred to this system, and that the system is correctly processing in-year movements in asset balances.

##### What did we do?

Our approach focused on:

- Agreeing the opening balances in the new system to the closing balances in the previous fixed asset register
- Considering the outcome of our wider testing of PPE and Investment Property to assess the accuracy of transactions processed in the new system

##### What are our conclusions?

Our work in relation to this risk is substantially complete, subject to final review. We expect to conclude that:

- We have not identified any issues regarding the completeness and accuracy of FAR data transferred to the new asset module.
- We have not identified any issues from our wider PPE and IP testing regarding the accuracy of transactions processed in the new system.



## Areas of Audit Focus

### Other areas of audit focus

#### Going Concern Disclosure

##### What is the risk?

There is a presumption that the Council will continue as a going concern for the foreseeable future, based on the continuation of services principle in the public sector. However, the Council is required to carry out a going concern assessment that is proportionate to the risks it faces, which in the current circumstances of the global pandemic should continue to include the forecast impact of Covid-19.

The Council is also required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified.

In addition, the auditing standard in relation to going concern (ISA570) has been revised with effect for the 2020/21 accounts audit.

##### What did we do?

We:

- Challenged management's identification of events or conditions impacting going concern.
- Tested management's resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias).
- Reviewed the Council's cashflow forecast covering the foreseeable future to ensure that it has sufficient liquidity to continue to operate as a going concern, including an assessment of any underlying need to borrow.
- Undertook a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, in drawing our conclusions on going concern.
- Challenged the disclosure made in the accounts in respect of going concern and any material uncertainties.

##### What are our conclusions?

Our work on going concern is ongoing at the time of writing this report. We will provide an update at the Governance Committee meeting on 04 October. Our work is well progressed; we are awaiting an updated Cash flow forecast which covers the period through to October 2022.



# 03 Audit Report

# Audit Report

## Draft audit report

### Our opinion on the financial statements

#### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTHAMPTON CITY COUNCIL

##### Opinion

We have audited the financial statements of Southampton City Council for the year ended 31 March 2021 under the Local Audit and Accountability Act 2014. The financial statements comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet, Cash Flow Statement, the related notes 1 to 40 and the Expenditure and Funding Analysis, the Housing Revenue Account Income and Expenditure Statement, the Statement of Movement on the Housing Revenue Account and the related notes 1 to 5, and the Collection Fund and the related notes 1 to 4. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

In our opinion the financial statements:

- give a true and fair view of the financial position of Southampton City Council as at 31 March 2021 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

##### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Section 151 Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the authority's ability to continue as a going concern for a period of at least twelve months from the date when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Section 151 Officer with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the authority's ability to continue as a going concern.

##### Other information

The other information comprises the information included in the Statement of Accounts 2020/21, other than the financial statements and our auditor's report thereon. The Section 151 Officer is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is





# Audit Report

## Our opinion on the financial statements

a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Authority;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014;
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014;
- we are not satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have nothing to report in these respects.

## Responsibility of the Section 151 Officer

As explained more fully in the Statement of the Section 151 Officer's Responsibilities set out on page 27, the Section 151 Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Section 151 Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



# Audit Report

## Our opinion on the financial statements

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant are:

- the Local Government Act 1972;
- Local Government and Housing Act 1989 (England and Wales)
- Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992)
- the Local Government Act 2003;
- the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018 and 2020;
- the National Health Service Act 2006;
- Education Act 2002 and school Standards and Framework Act 1998 (England)
- the Local Audit and Accountability Act 2014; and
- the Accounts and Audit Regulations 2015.

In addition, the Authority has to comply with laws and regulations in the areas of anti-bribery and corruption, data protection, employment legislation, tax legislation, general power of competence, procurement and health & safety.

We understood how Southampton City Council is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, the monitoring officer, the head of internal audit and those charged with governance and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of the Authority's committee minutes, through enquiry of employees to confirm Authority policies, and other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.

We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures, we identified inappropriate capitalisation of revenue expenditure and management override of controls to be our fraud risks.

- To address our fraud risk of inappropriate capitalisation of revenue expenditure we tested the Authority's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine.
- To address our fraud risk of management override of controls, we tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; assessed accounting estimates for evidence of management bias; and evaluated the business rationale for any identified significant unusual transactions.



# Audit Report

## Our opinion on the financial statements

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General in April 2021, as to whether Southampton City Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Southampton City Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Southampton City Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Until we have completed these procedures we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Southampton City Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Kevin Suter (Key Audit Partner)  
Ernst & Young LLP (Local Auditor)  
Southampton





# 04 Audit Differences





## Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

### Summary of adjusted differences and unadjusted differences

We report to you any uncorrected misstatements greater than our nominal value of £0.621m.

We have identified two audit differences in the draft financial statements which management has chosen not to adjust.

- The first is in relation to Property, Plant and Equipment (PPE) assets not revalued in 2020/21, understating the assets by £2.4m
- The second is in relation to the assumptions used by the actuary of Hampshire Pension Fund to determine their estimate of the Council's defined benefit pension liability, understating the gross asset by £1.6m, leading to an overstatement of the net liability by that same value.

We agree with management's assessment that the impact is not material. We ask that a rationale as to why these are not corrected be approved by the Governance Committee and included in the Letter of Representation.

We have reviewed the prior period restatements set out in Note 5 to the financial statements. In our view, the restatements impacting investment property income, and trade debtors in the financial instruments note, do not meet the threshold for restatement under IAS 8. Management judge the restatements to be necessary on a qualitative basis to ensure comparability, and have declined to reverse them. However, as these are below our materiality level, this does not impact our ability to issue the audit opinion.

There are no adjusted differences above our performance materiality level, arising from work completed to date.

As our audit work is ongoing at the time of writing this report, further adjusted and unadjusted misstatements may be identified. We will update the Governance Committee at the meeting on 04 October 2021 if we identify any issues from the work that remains outstanding at the time of writing this report.





05

## Value for Money



# Value for money

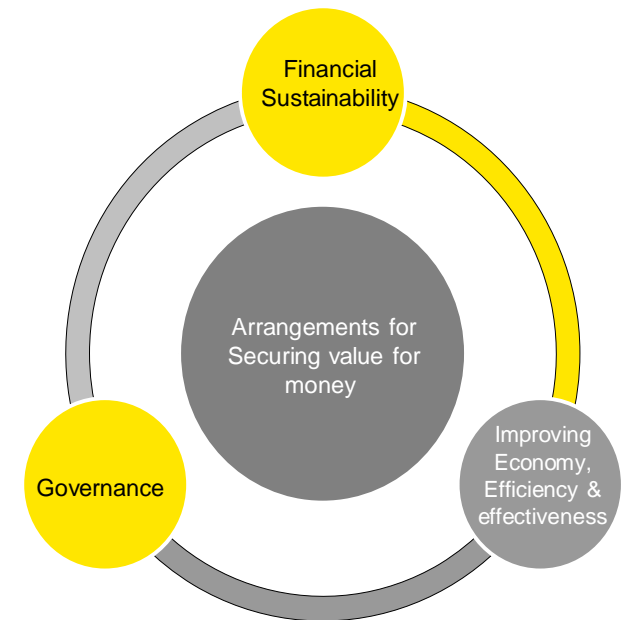
## The Council's responsibilities for value for money (VFM)

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the CIPFA code of practice on local authority accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

## Risk assessment

We have previously reported to the Governance Committee the outcome of our assessment of the risk of significant weaknesses in the Council's VFM arrangements - that we had identified a risk in relation to Financial Sustainability (please see the next slide) We have revisited our risk assessment and have not identified any additional risks.





## Responding to a risk of significant weakness in VFM arrangements

What is the risk of significant weakness?	What arrangements did this impact?	What did we do?
<p>The Council's going concern disclosure in the 2019/20 financial statements indicated a risk that general fund reserves would need to be used to meet budget gaps, arising largely from factors linked to Covid-19, to the extent that these reserves could be depleted down to the minimum level set by Council policy (£10m). Were this to occur, it would create a risk that future budget gaps or financial shocks could not be met. This is judged to give rise to a potential weakness in arrangements to ensure financial sustainability, and has therefore been identified as a risk to our value for money conclusion for 2020/21.</p>	<p>Financial sustainability</p>	<p>Our approach focuses on:</p> <ul style="list-style-type: none"> <li>• Reviewing the actions taken by the Council to manage the financial pressures arising from Covid-19;</li> <li>• Reviewing the outturn position for 2020/21 and comparing this with in-year forecasts; and</li> <li>• Reviewing the Council's latest Medium Term Financial Strategy and the key assumptions on which it is based.</li> </ul>

## Status of our VFM work

Our work to address the above risk is in progress at the time of writing this report.

To date, we have reviewed financial monitoring updates and outturn reports to understand the ongoing process to mitigate Covid-19 related, and other, financial pressures, and to understand how the situation developed over the year. We have reviewed the Council's medium term financial strategy (MTFS) and undertaken scenario modelling to review the key assumptions used. We have supplemented this work with discussions with officers to understand the actions which are taken to respond to pressures, to review and report on financial performance, and to keep the MTFS updated for recent developments.

We currently do not expect to need to report by exception, subject to completion of the remaining work.

We will provide a further update at the Governance Committee meeting on 04 October.

We plan to issue the VFM commentary by November 2021 as part of issuing the Auditor's Annual Report.





## 06 Other reporting issues

## Other reporting issues

### Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the 2020/21 Financial Statements document with the audited financial statements

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Subject to final review, we expect to conclude that:

Financial information in the 2020/21 Draft Financial Statements document and published with the financial statements was consistent with the audited financial statements

The Annual Governance Statement is consistent with other information from our audit of the financial statements and we have no other matters to report.

### Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We have not yet been able to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. This is because HM Treasury are continuing to review the online 2020-21 WGA Data Collection Tool and update the guidance that is available for preparers. Based on the last available update the data collection tool and guidance was not expected to be available until December 2021. Therefore the 2020-21 WGA component data will not be available for auditors to review until later in the year. Group Audit Instructions and the timetable for 2020-21 will necessarily follow any changes HMT make to the DCT and process. The audit certificate will be issued once this work is complete.



# Other reporting issues

### Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

### Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council’s financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations; and
- Consideration of laws and regulations.

We have nothing to report.



07

## Assessment of Control Environment



# Assessment of Control Environment

## Financial controls

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have not tested the operation of controls.

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.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

We considered whether circumstances arising from COVID-19 resulted in a change to the overall control environment of effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention.





# 08 Data Analytics





# Use of Data Analytics in the Audit

## Data analytics – Income & expenditure testing, payroll testing and journals

### Analytics Driven Audit

#### Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2020/21, our use of these analysers in the Council's audit included testing selecting samples for general income and expenditure testing, testing payroll costs, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

#### Journal Entry Analysis

We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

#### Payroll Analysis

We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year from the payroll system and perform completeness analysis over the data, including reconciling the total amount to the General Ledger trial balance. We then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.





09

# Independence

## Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, senior management and its affiliates, including all services provided by us and our network to your Authority, senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1<sup>st</sup> April 2020 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

### Services provided by Ernst & Young

The table below sets out a summary of the fees for the year ended 31 March 2021 in line with the disclosures set out in FRC Ethical Standard and in statute. As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

	Final Fee 2020/21	Planned Fee 2020/21	Final Fee 2019/20
	£	£	£
PSAA Scale Fee	109,891	109,891	109,891
Scale fee rebasing (1)	68,235		68,235
<b>Revised proposed scale fee</b>	<b>178,126</b>		<b>178,126</b>
Scale fee variations (2,3)	tbc		27,752
<b>Total fees</b>	<b>178,126</b>		<b>205,878</b>

All fees exclude VAT

Notes:

(1) As detailed in our 2019/20 Annual Audit Letter we have submitted a proposed rebasing of the scale fee to reflect changes in work required to address professional and regulatory requirements and scope associated with risk. PSAA are yet to conclude on the rebasing.

(2) The 2019/20 Code work includes a proposed additional fee of £27,752, for additional work undertaken in relation to going concern, property valuations, VFM, new ledger system, CIES/EFA restatement and pensions. This additional fee has been agreed with the Section 151 officer; it remains subject to approval from PSAA.

(3) As noted in the previous sections of this report, we have identified new and continuing risks for 2020/21 that are not within the scale fee, the impact of amended auditing standards, and the changing requirements for our VFM responsibilities. Additional work has been required to address these. We will quantify these and provide an update following the conclusion of the audit.

## Other communications

### EY Transparency Report 2020

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2020:

[EY UK Transparency Report 2020 | EY UK](#)





# 10 Appendices

## Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- Existence: An asset, liability and equity interest exists at a given date
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

All material figures in the Balance Sheet have been substantively tested, as set out in our Audit Planning Report of July 2021. This is consistent with our audit approach in the prior year.

There were no significant changes to our audit approach apart from the additional work we were required to undertake to address the requirements of the new auditing standard on accounting estimates. This primarily impacted out audit procedures on:





- The revaluation of land and buildings classified as Property, Plant and Equipment (PPE), Investment Property (IP) and Surplus Assets.
- Pension liability and asset valuation. The most significant change was engaging our pension specialists to determine an auditors estimate for the pension liability.






## Appendix B

# Required communications with the Governance Committee




There are certain communications that we must provide to the audit committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

 Our Reporting to you		
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Governance Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report – 26 July 2021
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report – 26 July 2021
Significant findings from the audit	<ul style="list-style-type: none"> <li>• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>• Significant difficulties, if any, encountered during the audit</li> <li>• Significant matters, if any, arising from the audit that were discussed with management</li> <li>• Written representations that we are seeking</li> <li>• Expected modifications to the audit report</li> <li>• Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit results report – 04 October 2021




## Appendix B

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>• Whether the events or conditions constitute a material uncertainty</li> <li>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>• The adequacy of related disclosures in the financial statements</li> </ul>	Audit results report – 04 October 2021
Misstatements	<ul style="list-style-type: none"> <li>• Uncorrected misstatements and their effect on our audit opinion</li> <li>• The effect of uncorrected misstatements related to prior periods</li> <li>• A request that any uncorrected misstatement be corrected</li> <li>• Material misstatements corrected by management</li> </ul>	Audit results report – 04 October 2021
Subsequent events	<ul style="list-style-type: none"> <li>• Enquiry of the Governance Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	Audit results report – 04 October 2021
Fraud	<ul style="list-style-type: none"> <li>• Enquiries of the Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority</li> <li>• Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>• Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ol> </li> <li>• The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>• Any other matters related to fraud, relevant to Governance Committee responsibility.</li> </ul>	Audit results report – 04 October 2021

## Appendix B

		Our Reporting to you
Required communications	 What is reported?	  When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>• Non-disclosure by management</li> <li>• Inappropriate authorisation and approval of transactions</li> <li>• Disagreement over disclosures</li> <li>• Non-compliance with laws and regulations</li> <li>• Difficulty in identifying the party that ultimately controls the Authority</li> </ul>	Audit results report – 04 October 2021
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>• The principal threats</li> <li>• Safeguards adopted and their effectiveness</li> <li>• An overall assessment of threats and safeguards</li> <li>• Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Audit Planning Report – 26 July 2021</p> <p>Audit results report – 04 October 2021</p>
External confirmations	<ul style="list-style-type: none"> <li>• Management's refusal for us to request confirmations</li> <li>• Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	We have received all requested confirmations
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>• Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>• Enquiry of the Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Governance Committee may be aware of.</li> </ul>	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations

## Appendix B

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>Significant deficiencies in internal controls identified during the audit.</li> </ul>	Audit results report – 04 October 2021
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> <li>Written representations we are requesting from management and/or those charged with governance</li> </ul>	Audit results report – 04 October 2021
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	Audit results report – 04 October 2021
Auditors report	<ul style="list-style-type: none"> <li>Any circumstances identified that affect the form and content of our auditor’s report</li> </ul>	Audit results report – 04 October 2021
Fee Reporting	<ul style="list-style-type: none"> <li>Breakdown of fee information when the audit planning report is agreed</li> <li>Breakdown of fee information at the completion of the audit</li> <li>Any non-audit work</li> </ul>	Audit Planning Report – 26 July 2021 Audit results report – 04 October 2021



# Management representation letter

## Provisional Management Representation Letter

Ernst & Young LLP

Grosvenor House  
Grovesnor Square  
Southampton  
Hampshire  
SO15 2BE

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 31 March 2021. 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 31 March 2021 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 2020/21.

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 2020/21.

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 2020/21. 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 financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, 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 [\[specify reasons for not correcting misstatement\]](#).

### 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.

# Management representation letter

## Provisional Management Representation Letter

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 no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud 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;
    - 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 and the Cabinet held through the year to the most recent meeting on the following date: 04 October 2021.
  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 year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
  5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
  6. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
  7. 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.
  8. From the date of our last management representation letter (27 November 2020) through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

# Management representation letter

## Provisional Management Representation Letter

### 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 the financial statements all guarantees that we have given to third parties.

### E. Subsequent Events

1. Other than as described in Note 7 to the financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to year end which require adjustment of or disclosure in the financial statements or notes thereto.

### F. Other information

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

### G. 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, the valuation of the IAS19 pension fund liability, the valuation of the business rates appeals provision and financial instruments disclosures, and 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.

### H. Estimates

Revaluation of Property, Plant and Equipment (PPE) and Investment Property (IP), and Pension Liability Valuation

1. We confirm that the significant judgments made in performing the revaluation of PPE and IP, and in performing the pension liability valuation have taken into account all relevant information and the effects of the COVID-19 pandemic which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied in performing the revaluation of PPE and IP, and in performing the pension liability valuation.
3. We confirm that the significant assumptions used in performing the revaluation of PPE and IP, and in performing the pension liability valuation appropriately reflect our intent and ability to carry out the revaluation on behalf of the entity.
4. We confirm that the disclosures made in the financial statements with respect to the accounting estimates, including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
5. We confirm that appropriate specialized skills or expertise has been applied in undertaking the revaluation of PPE and IP, and in performing the pension liability valuation.
6. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the financial statements, including due to the COVID-19 pandemic.

# Management representation letter

## Provisional Management Representation Letter

### I. 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.

### J. Going Concern

1. Note 1(a) to the financial statements discloses all the matters of which we are aware that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

I confirm that this letter has been discussed and agreed by the Authority on 04 October 2021

Name: John Harrison

Position: Section 151 Officer

Name: Councillor David Fuller

Position: Chairman of the Governance Committee



## Appendix D

# Implementation of IFRS 16 Leases

In previous reports to the Governance Committee, we have highlighted the issue of new accounting standards and regulatory developments. IFRS 16 introduces a number of significant changes which go beyond accounting technicalities. For example, the changes have the potential to impact on procurement processes as more information becomes available on the real cost of leases. The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.

IFRS 16 does not come into effect for the Council until 1 April 2022. However, officers should be acting now to assess the Council's leasing positions and secure the required information to ensure the Council will be fully compliant with the 2022/23 Code. The following table summarises some key areas officers should be progressing.

IFRS 16 theme	Summary of key measures
Data collection	Management should: <ul style="list-style-type: none"> <li>Put in place a robust process to identify all arrangements that convey the right to control the use of an identified asset for a period of time. The adequacy of this process should be discussed with auditors.</li> <li>Classify all such leases into low value; short-term; peppercorn; portfolio and individual leases</li> <li>Identify, collect, log and check all significant data points that affect lease accounting including: the term of the lease; reasonably certain judgements on extension or termination; dates of rent reviews; variable payments; grandfathered decisions; non-lease components; and discount rate to be applied.</li> </ul>
Policy Choices	The council needs to agree on certain policy choices. In particular: <ul style="list-style-type: none"> <li>Whether to adopt a portfolio approach</li> <li>What low value threshold to set and agree with auditors</li> <li>Which asset classes, if any, are management adopting the practical expedient in relation to non-lease components</li> <li>What is managements policy in relation to discount rates to be used?</li> </ul>
Code adaptations for the public sector	Finance teams should understand the Code adaptations for the public sector. The Code contains general adaptations, (e.g. the definition of a lease); transitional interpretations (e.g. no restatement of prior periods) and adaptations that apply post transition (e.g. use of short-term lease exemption).
Transitional accounting arrangements	Finance teams should understand the accounting required on first implementation of IFRS 16. The main impact is on former operating leases where the authority is lessee. However, there can be implications for some finance leases where the Council is lessee; and potentially for sub-leases, where the Council is a lessor, that were operating leases under the old standard.
Ongoing accounting arrangements	Finance teams need to develop models to be able to properly account for initial recognition and subsequent measurement of right of use assets and associated liabilities. This is more complex than the previous standard due to more regular remeasurements and possible modifications after certain trigger events.
Remeasurements and modifications	Finance teams need to familiarise themselves with when the 'remeasurement' or 'modification' of a lease is required and what to do under each circumstance. A modification can lead to an additional lease being recognised. It is also important to know when remeasurements require a new discount rate is to be applied to the lease.

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ED None

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