



**Southampton City
Council
Final Audit results
report**

Year ended 31 March 2022

August 2023



EY

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working world



21 September 2023

Dear Governance Committee Members

2022 Audit results report

We are pleased to attach our final audit results report. We previously reported progress to the April meeting of the Governance Committee, and this final report summarises the key conclusions from any outstanding matters at that time.

The audit is designed to express an opinion on the 2022 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 Council, and senior management. It is not intended to be and should not be used by any one other than these specified parties.

Yours faithfully

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

Kevin Suter

Associate Partner

For and on behalf of Ernst & Young LLP

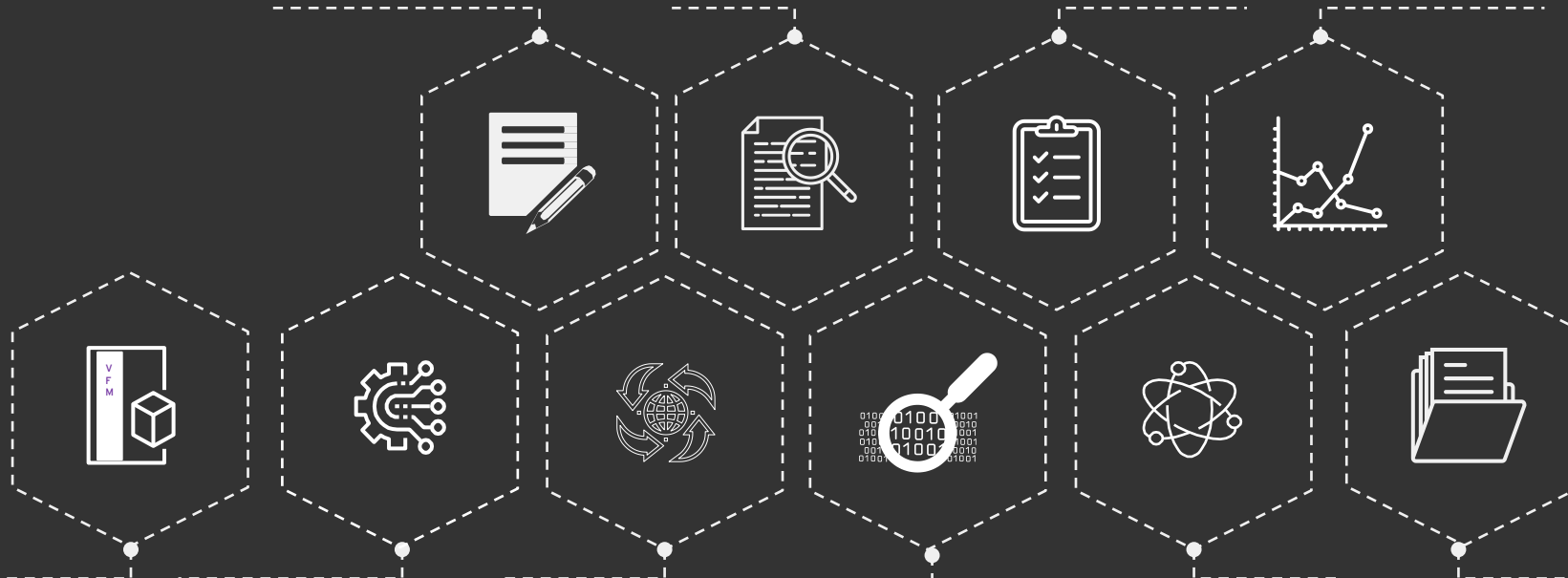
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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities 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 25 April 2022 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.

Status of the audit

We have substantially completed our audit of Southampton City Council's financial statements for the year ended 31 March 2022 and have performed the procedures outlined in our audit planning.

Our report to the Committee in April 2023 included two significant matters to be completed. These are set out below.

The Council published its medium term financial plan in February 2023. This highlighted that the Council was failing to achieve its planned savings for 2022/23, needs to use significant reserves (£23.73m) to balance the budget for 2023/24 and is forecasting significant budget gaps from 2024/25 onwards. An update was then published in July 2023. As a result, we have requested that the Council update its going concern assessment and disclosure, so that we could consider the impact on our audit report.

We have completed this work and concluded that although the Council is aware of their financial position and has put in place actions to address the situation, the actions are still to be embedded and the outcomes are not yet assured to avoid the need for a s114 notice. Therefore, there is material uncertainty in respect of the council's ability to continue as a going concern for the period of 12 months from the date of approval of these financial statements.

We have separately reported our concerns on the Council's value for Money arrangements in our interim Value for Money arrangements report to the April 2023 Governance Committee, and an update to the July 2023 Governance Committee.

The triennial valuation of the local government pension fund for the year ended 31 March 2022 was published by 31 March 2023. The Council obtained an updated IAS19 actuarial valuation from its actuary, taking account of this triennial valuation. This resulted in material adjustments to the accounts. We gained assurance over the amended assumptions, and via the Hampshire Pension Fund, obtained assurance over the accuracy of the underpinning membership data submitted to the actuary. We ensured the adjustments were appropriately made within the final set of the Council's accounts.

Subject to satisfactory completion of the following outstanding items we do not expect to modify our opinion for any issues other than the going concern issue described above. However until work is complete, further amendments may arise:

- ▶ 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 performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission for 2021/22. However, we cannot certify the audit as complete until the NAO have confirmed that no further assurances will be required from us. The audit certificate will be issued once this confirmation is received.

Executive Summary

Auditor responsibilities under the 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 25 April 2022, we reported that our value for money (VFM) initial risk assessment was complete and there were no risks identified.

We have completed our risk assessment and review procedures through to the date of this report. During the course of our audit, information came to our attention regarding your arrangements for Value for Money in 2022/23. We concluded that this information did not affect our risk assessment for 2021/22 and we do not expect to have any matters to report by exception in our audit report on the financial statements for 2021/22. However, we have identified a significant weakness in the Council's arrangements for Value for Money in 2022/23 and action points for the Council. We reported this to the April 2023 Governance Committee, with an updated report to the July 2023 Governance Committee.

Further detail on this is included in section 5 of this report.

Executive Summary

Audit differences

We identified one adjusted difference above our performance materiality level in relation to the updated IAS 19 disclosures following receipt of the triennial valuation of £42.4m.

We have identified five audit differences in the draft financial statements which management has chosen not to adjust. Uncorrected misstatements decrease the deficit on of provision of service by £1.3m, being an increase of £1.7m relating to current year differences and decrease of £3.0m relating to prior year differences.

- Management perform a rolling revaluation programme for Property, Plant and Equipment (PPE), meaning that not all assets are revalued in the current year. We applied an index to the assets which were not revalued to assess whether they could be material misstatements. This indexation exercise identified that the assets not revalued in 2021/22 are overstated by £2.7m.
- Council Dwellings valuation were understated by £4.2m due to differences in the indexation applied to the assets.
- Investment assets valuation is understated by £1.7m, due to management applying a 0.15% 'cost of disposal' to the recorded valuation.
- Gross income and Gross expenditure were both understated by £6.8m due to how schools income and expenditure are reflected in the CIES. This error has no impact on the net expenditure of the Council.
- We performed sample testing on receipts in advance, and identified a classification error in an item from our representative sample. The error identified was ~2% of the £14m receipt in advance balance. However, as the error identified was part of our representative sample, we extrapolated the error over the untested population. The total extrapolated error was £8m. This error has no impact on the net expenditure of the Council.
- Turnaround impact on the income statement of the overstatement of the depreciation on HRA dwellings in 2020/21 of £3m.

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.

Other reporting issues

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

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission for 2021/22. However, we do not expect any issues in performing this work as the Council falls below the threshold set within the guidance from HM Treasury and the group audit instructions for 2021/22 on which our work is based.

We have no other matters to report.

Independence

Please refer to Section 9 for our update on Independence. We have no independence issues 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 2 October.

- ▶ Misstatements due to fraud or error - no issues have been identified from our work to address this risk
- ▶ 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
- ▶ Valuation of Investment Property and Land and Buildings - no material audit differences have been identified from our work to address this risk
- ▶ Pension Liability Valuation - As stated on page 5, completed additional procedures as a result of the publication of the triennial valuation of the local government pension fund as at 31 March 2022.
- ▶ 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
- ▶ Infrastructure assets valuation - our work is complete and we are satisfied that the approach taken by management is reasonable and in line with the CIPFA Code amendment

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.

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.



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.

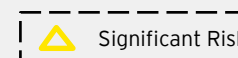
Further to this, we have:

- 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?

As a result of our procedures:

- 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





Areas of Audit Focus

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 2021/22 was £83.4m, and the value of Investment Property (IP) additions was £0.

The value of Revenue Expenditure financed by Capital Under Statute (REFCUS) was £15.4m

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.

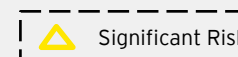
What did we do?

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.
- We selected a sample of REFCUS, testing whether the classification was appropriate as capital expenditure on an asset not owned by the Council,
- Perform an analytical review against the capital budget.

What are our conclusions?

We have not identified any indication of management inappropriately capitalising revenue expenditure, or incorrectly classifying expenditure as REFCUS.





Areas of Audit Focus

Significant Risk

Infrastructure asset valuation

What is the risk?

Where management incur subsequent expenditure to replace part of an asset, the CIPFA Code requires management to write out the value of the old part being replaced.

Nationally, audit firms have identified an issue with applying this accounting treatment to infrastructure assets. Across the country Authorities are not keeping sufficient detailed records of infrastructure spend to allow the value of the part being replaced to be written out.

What did we do?

Our approach focused on:

- ▶ Engaging with management on the changes to the guidance to understand the impact on Southampton City Council and 2021/22 financial statements
- ▶ Reviewing the draft financial statements to identify prima facie whether the Council is recording disposals of infrastructure assets, or components
- ▶ Making enquiries to understand management's current processes, including bringing forward our knowledge from previous year's audits
- ▶ Identifying whether the process is compliant with the Code
- ▶ Assessing the changes made following the update to the CIPFA Code and issue of the Statutory Instrument
- ▶ Assessing the reasonableness of the depreciation of the infrastructure assets.

What are our conclusions?

As outlined in our audit plan, nationally, audit firms have identified an issue with applying the CIPFA code accounting treatment to infrastructure assets. Where management incur subsequent expenditure to replace part of an asset, the CIPFA Code requires management to write out the value of the old part being replaced. Across the country Authorities have not kept sufficient detailed records of infrastructure spend to allow the value of the part being replaced to be written out.

Changes were made to the Local Authority Accounting Code by CIPFA, and DLUHC has issued a Statutory Instrument to temporarily change accounting rules in this area. Together they temporarily resolve the derecognition and existence issues identified above, and the Council has amended the disclosures in its financial statements to comply with the revised requirements. The amended disclosure requirements report infrastructure assets on a net book value basis, and require additional disclosures for when this is adopted by an authority. We are content with the changes made following further minor amendments to the updated disclosures as a result of our work.

A bulletin has also been issued by CIPFA which covers how infrastructure assets should be depreciated. Management produced an assessment of their approach to depreciating infrastructure assets. We reviewed the reasonableness of assets lives, and considered the sensitivity of the depreciation using the example asset lives within the CIPFA bulletin. We are satisfied that the approach taken by management is reasonable.

The Statutory Instrument and Accounting Code are only expected to provide a temporary solution to this issue, with the Code update only currently extending to 31 March 2025. We therefore raise the following recommendation for improvement.

Recommendation: Develop more granular accounting records and/or further supportable estimation techniques to allow for infrastructure assets and components to be derecognised when they are replaced, and to demonstrate the continued existence of assets accounted for.



Areas of Audit Focus

Other areas of audit focus

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

What is the risk?

The value of Investment Property (IP) and Land and Buildings valued using DRC/EUV/FV methods, represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews, and market fluctuations. 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.

The value of IP in the draft accounts at 31/03/2022 was £114m. The value of land and buildings was £1,213m.

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 2021/22 to confirm the remaining asset base was not materially misstated.

What are our conclusions?

We have completed our work in relation to Valuation of Investment Property and Land and Buildings.

Our internal specialist has completed their work on a sample of investment properties and no differences were noted on the valuation of the properties.

We have completed our work on Land & buildings and identified differences in relation to indexation applied to Council Dwellings resulting in an understatement of £4.2m.

We have also completed our work on assets not revalued. This identified the assets were overstated by £2.7m, again detailed in section 4.

We agreed the valuation of investment properties, but noted that the Council then applied a 0.15% reduction in value on the basis of disposal costs to all properties. We do not believe this is appropriate, understating the value by £1.7m.



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 2022 was £466m.

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?

We have assessed the work of the pension fund actuary on the pension liability. This included the use of Consulting Actuaries commissioned by the National Audit Office for all local government sector auditors & our EY actuary team. This showed the pension liability was fairly stated.

We reviewed and tested the accounting entries and disclosures made by the authority and confirmed they were in line with relevant account standards and The Local Authority Accounting Code of Practice.

The triennial valuation of the local government pension fund for the year ended 31 March 2022 was published in March 2023. There were significant movements compared to the roll forward valuation included in the actuarial report and the financial statements have been amended to reflect the updated position. Further details are on the following page.



Areas of Audit Focus

Other areas of audit focus

Pension liability valuation (continued)

Our findings and conclusions

The pension liability and related disclosures in the draft statement of accounts were based on an IAS19 report which included estimates based on roll forward of the information and assumptions in the March 2019 triannual valuation. The Council obtained an updated IAS19 report in March 2023 following release of the March 2022 triannual valuation. This has resulted in an amendment to the draft Statement of Accounts decreasing the pension liability by £42.4 million. Further details can be found in section 04 of this report.

We have completed our work in this area. We have:

- Reviewed the assessment of the Pension Fund actuary by PwC and EY Pensions and have followed up on relevant points and have not identified any issues. The assumptions updated by the actuary within the revised IAS19 report are judged to be reasonable, and appropriate to update based on the triennial valuation information;
- Completed our procedures to determine our own estimate for the Council's pension liability and found that the updated liability (based on the 2022 triennial valuation) calculated by the actuary fell within our reasonable range;
- Obtained assurance from the pension fund audit, specifically for the impact of the triennial valuation to include detailed testing on the membership data submitted to the actuary and the accuracy of that data; and
- Agreed the Council's IAS 19 disclosures to the updated actuaries' report and ensured these are fairly stated in the accounts.



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 2021/22, which will mean 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?

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

Going Concern

What is the risk?

The Council published its medium term financial plan in February 2023. This highlighted that the Council was failing to achieve its planned savings for 2022/23, needs to use significant reserves (£23.73m) to balance the budget for 2023/24 and is forecasting significant budget gaps from 2024/25 onwards. An update was then published in July 2023.

As a result, we have requested that the Council update its going concern assessment and disclosure, so that we could consider the impact on our audit report.

What did we do?

- We:
- Challenged management's identification of events or conditions impacting going concern;
 - Reviewed the Council's updated cashflow forecast through to the end of October 2024;
 - Assessed the impact of the medium term financial strategy update and the implications for the Council's reserves;
 - Undertook a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, to be able to draw our conclusions on going Concern; and
 - Challenged the disclosure made in the accounts in respect of going concern and any material uncertainties.

What are our conclusions?

In the public sector, and specifically under the CIPFA Code of Practice on Local Authority Accounting, the concept of going concern is linked to the continuation of services. There is a presumption that the accounts will be prepared on a going concern basis unless there is clear evidence that services will be discontinued. In this context we have concluded that:

The Council has sufficient liquidity over its going concern period (assessed to the end of October 2024), with headroom to borrow funds if necessary due to its previous internal borrowing to fund the capital programme, and within its prudential indicators. Therefore, we do not identify an uncertainty due to available cashflows.

Our concern is that the medium term financial strategy's deficit projections, made on a reported worst case basis, would indicate that the Council is likely to fall below the minimum level of reserves established by the s151 officer. This could trigger a s114 notice, as the Council already reported within its February 2023 budget report.

Management's assessment is that while they are working to mitigate via the actions summarised within their July 2023 medium term strategy update, informal discussions have commenced with Government to appraise them of the Council's financial position and the possible need for exceptional financial support. The prospect of a section 114 notice being required in the next 12 months remains real, which has the potential to impact on the level of service provision.

We have commented separately on the financial challenges within our interim value for money report to the Governance Committee in April 2023, and an update in July 2023. The Council faces a significant financial challenge and management have accepted it will take time to verify whether the mitigating actions they are putting in place will successfully address the challenge and avoid need for a s114 notice, or have to apply for financial support from central government. We will continue to assess the council's response to its financial challenges within our value for money work for the 22/23 audit, and beyond.

Therefore, while we have concluded that the accounts should continue to be prepared on a going concern basis in line with the CIPFA's Codes presumption, we have concluded that although the Council is aware of their financial position and has put in place actions to address the situation, the actions are still to be embedded and the outcomes are not yet assured to avoid the need for a s114 notice. Therefore, there is material uncertainty in respect of the council's ability to continue as a going concern for the period of 12 months from the date of approval of these financial statements.



03 Audit Report



Audit Report

Draft audit report

Our draft 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 (the Council) for the year ended 31 March 2022 under the Local Audit and Accountability Act 2014 (as amended). 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 Expenditure and Funding Analysis.
- ▶ Housing Revenue Account Income and Expenditure Statement, the Statement of Movement on the Housing Revenue Account, and the related notes 1 to 5
- ▶ 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 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

In our opinion the financial statements:

- ▶ give a true and fair view of the financial position of Southampton City Council as at 31 March 2022 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 2021/22

as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

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. We are independent of the Council 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.

Material uncertainty related 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.

We draw your attention to note 1 a of Accounting Policies, which indicates that there is a material uncertainty, which may cast significant doubt on the Council's ability to continue to operate the current planned operational services within available sources of funding. This is caused by the Council's revenue reserves being insufficient to cover the Council's risks and highlights the potential for a s114 notice being required within the next 12 months.

Our opinion is not modified in respect of this matter.



Audit Report

Draft audit report (cont.)

Our draft opinion on the financial statements

Other information

The other information comprises the information included in the Statement of Accounts 2021/22, other than the financial statements and our auditor's report thereon. The Section 151 Officer is responsible for the other information contained within the Statement of Accounts 2021/22.

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 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 Council
- ▶ we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 (as amended)
- ▶ we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014 (as amended)

- ▶ 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 (as amended)
- ▶ we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 (as amended)
- ▶ we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014 (as amended)
- ▶ we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

We have nothing to report in these respects

Responsibility of the Section 151 Officer

As explained more fully in the Statement of Responsibilities set out on page 25, the Section 151 Officer is responsible for the preparation of the Statement of Accounts 2021/22, 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 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), and for being satisfied that they give a true and fair view and for such internal control as the Section 151 Officer determines 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 Council'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 Council either intends to cease operations, or has no realistic alternative but to do so.

Audit Report

Draft audit report (cont.)

Our draft opinion on the financial statements

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

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 Council and determined that the most significant are:

- ▶ Local Government Act 1972,
- ▶ School Standards and Framework Act 1998,
- ▶ Local Government and Housing Act 1989 (England and Wales),
- ▶ Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992),
- ▶ Education Act 2002 and school Standards and Framework Act 1998 (England),
- ▶ Local Government Act 2003,
- ▶ The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018, 2020, and 2022,
- ▶ National Health Service Act 2006,
- ▶ The Local Government Finance Act 2012,
- ▶ The Local Audit and Accountability Act 2014 (as amended), and
- ▶ The Accounts and Audit Regulations 2015.

In addition, the Council 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 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 Council's committee minutes, through enquiry of employees to confirm Council policies, and through the inspection of other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our

Audit Report

Draft audit report (cont.)

Our draft opinion on the financial statements

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 Council'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 manipulation of reported financial performance through 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 Council's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine. We also tested a sample of revenue expenditure financed from capital under statute (REFCUS) items to confirm they were appropriately classified.

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.

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 2020, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General in December 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 2022.

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 (as amended) 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.



Audit Report

Draft audit report (cont.)

Our draft opinion on the financial statements

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until the NAO as group auditor has confirmed that no further assurances will be required from us as component auditors of Southampton City Council. We are satisfied that this work does not have a material effect on the financial statements or our work on value for money arrangements.

In addition, we cannot formally conclude the audit and issue an audit certificate until we have issued our Auditor's Annual Report for the year ended 31 March 2022. We have completed our work on the value for money arrangements and will report the outcome of our work in our commentary on those arrangements within the Auditor's Annual Report.

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 (as amended) 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 (as amended) 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 Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Kevin Suter (Key Audit Partner)
For and on behalf of Ernst & Young LLP
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 £0.669m.

We have identified five audit differences in the draft financial statements which management has chosen not to adjust. Uncorrected misstatements decrease the deficit on of provision of service by £1.3m, being an increase of £1.7m relating to current year differences and decrease of £3.0m relating to prior year differences.

- Management perform a rolling revaluation programme for Property, Plant and Equipment (PPE), meaning that not all assets are revalued in the current year. We applied an index to the assets which were not revalued to assess whether they could be material misstatements. This indexation exercise identified that the assets not revalued in 2021/22 are overstated by £2.7m.
- Council Dwellings valuation were understated by £4.2m due to differences in the indexation applied to the assets.
- Investment assets valuation is understated by £1.7m, due to management applying a 0.15% 'cost of disposal' to the recorded valuation.
- Gross income and Gross expenditure were both understated by £6.8m due to how schools income and expenditure are reflected in the CIES. This error has no impact on the net expenditure of the Council.
- We performed sample testing on receipts in advance, and identified a classification error in an item from our representative sample. The error identified was ~2% of the £14m receipt in advance balance. However, as the error identified was part of our representative sample, we extrapolated the error over the untested population. The total extrapolated error was £8m. This error has no impact on the net expenditure of the Council.
- Turnaround impact on the income statement of the overstatement of the depreciation on HRA dwellings in 2020/21 of £3m.

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.

There is one adjusted difference above our performance materiality level in relation to the updated IAS 19 disclosures following receipt of the triennial valuation of £42.4m.



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.

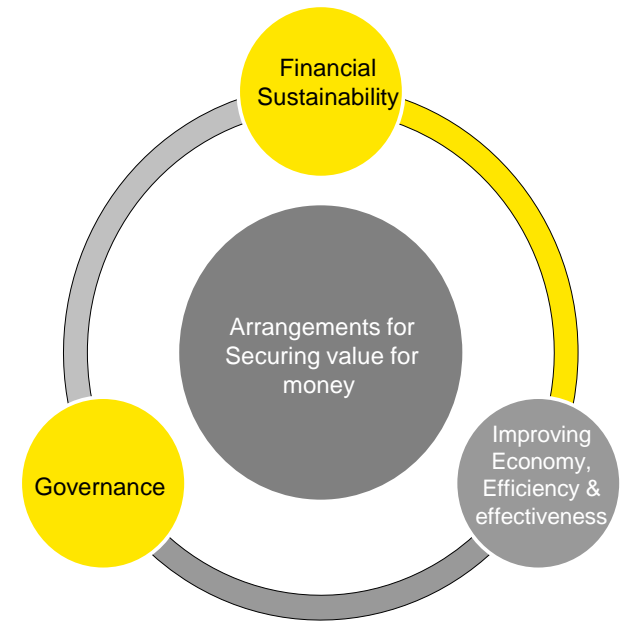
As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its 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 that following our initial planning procedures we have not identified a risk of significant weaknesses in the Council's VFM arrangements.

We have completed our risk assessment and review procedures through to the date of this report. During the course of our audit, information came to our attention regarding your arrangements for Value for Money in 2022/23. We concluded that this information did not affect our risk assessment for 2021/22 and we do not expect to have any matters to report by exception in our audit report on the financial statements for 2021/22. However, we have identified a significant weakness in the Council's arrangements for Value for Money in 2022/23 and action points for the Council to address.

More detailed reporting on the Council's arrangements is included within our Value for Money Arrangements 2021/22 report which we have provided for the Governance Committee meeting on 24 April 2023, and our subsequent update to the July 2023 Governance Committee meeting. This will also be included within our Auditor's Annual Report.





06 Other reporting issues

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 2021/22 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.

We have conclude that:

Financial information in the 2021/22 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 performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission for 2021/22. However, we cannot certify the audit as complete until the NAO have confirmed that no further assurances will be required from us. The audit certificate will be issued once this confirmation is received.

Other reporting issues

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.

During the audit we received an objection to the Council’s accounts. In our discretion we decided not to accept the objection.

The objection was in regard to issues raised in the area of Children’s Direct Payments awarded to families. We decided not to accept the objection as the area had already been reviewed by Internal Audit raising a number of concerns, and the Council had responded with an action plan. In our view, accepting the objection would only identify the same findings, and therefore be a duplication of effort at a cost to the public. We also took into consideration that Internal Audit would be following up the issues raised as part of their 2022/23 audit plan.

Subsequently, Internal Audit have not been able to follow-up the issue because the action plan has not been completed. We are disappointed to note that the Council has not completed the agreed action plan on a timely basis.

Recommendation:

The Council should complete the action plan responding to the Internal Audit review of Children’s Direct Payments, without further delay.

Other reporting 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 further to report on these issues that is not contained within other sections of our 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 have included two recommendations within our report:

- 1. Develop more granular accounting records and/or further supportable estimation techniques to allow for infrastructure assets and components to be derecognised when they are replaced, and to demonstrate the continued existence of assets accounted for. (See page 15)**
- 2. The Council should complete the action plan responding to the Internal Audit review of Children's Direct Payments, without further delay. (See page 29)**



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 2021/22, 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.

Financial insights

We also noted the following insights from our review of the journal data we extracted;

- People making manual postings to unfamiliar accounts are less productive and more likely to make a mistake. There are 250 accounts that have an individual posting less than 5.0% of the total activity to that account by volume. There are 74 people making these infrequent postings
- There are 20,679 manual journals smaller than 500 in value posted across the period (47.0% of all manual journals). This is estimated to take around 3,446 hours to post to your accounts at 10 minutes per journal. Can these postings be grouped together, automated or eliminated?



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 1st April 2021 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 2022 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.

| | Planned Fee 2021/22 | Scale Fee 2021/22 | Final Fee 2020/21 |
|----------------------------|------------------------|----------------------|----------------------|
| | £ | £ | £ |
| PSAA Scale Fee | 109,891 | 109,891 | 109,891 |
| Scale fee rebasing (1) | 85,260 | N/a | 57,918 |
| Scale fee variations (2,3) | tbc | N/a | |
| Total fees | 195,151 | 109,891 | 167,809 |

All fees exclude VAT

Notes:

- As detailed in our 2020/21 Auditor's Annual Report we are submitting a proposed rebasing of the scale fee to reflect changes in work required to address professional and regulatory requirements and scope associated with risk.
- The 2020/21 Code work included a proposed additional fee of £35,853, for additional work undertaken in relation to property valuations, HRA depreciation, CIES/EFA restatement, new fixed asset register, Covid-19 grants, value for money, and pensions. This also includes the impact of amended auditing standards, and the changing requirements for our VFM responsibilities. PSAA has provided outline amounts to charge for the work required to address these latter areas.

For 2020/21, PSAA determined the total additional fee of £57,918, 51% of our submission.

- As noted in the previous sections of this report, we have identified new and continuing risks for 2021/22 that are not within the scale fee. Additional work has been required, and we will quantify the impact at this time after the audit is complete. These will include:
 - CIES/EFA restatement
 - Infrastructure Assets
 - Consideration of the objection received
 - Value for money additional risk assessment / Going Concern assessment
 - Triennial valuation of the pension fund

Other communications

EY Transparency Report 2022

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 2022:

[EY UK 2022 Transparency Report | EY UK](#)





A close-up photograph of a person's hand reaching into a filing cabinet to touch a folder. The cabinet is filled with numerous folders of various colors (yellow, blue, white) and sizes, each containing stacks of papers. The background is a textured, light-colored wall.

10 Appendices

Appendix A

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 - 25 April 2022 |
| Planning and audit approach | Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. | Audit planning report - 25 April 2022 |
| Significant findings from the audit | <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process | Audit results Report - 24 April 2023 and updated Audit Results Report issued August 2023 and updated Audit Results Report issued August 2023 |

Appendix A

| | | 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"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements | Audit results Report - 24 April 2023 and updated Audit Results Report issued August 2023 |
| Misstatements | <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management | Audit results Report - 24 April 2023 and updated Audit Results Report issued August 2023 |
| Subsequent events | <ul style="list-style-type: none"> ▶ Enquiry of the Governance Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. | Audit results Report - 24 April 2023 and updated Audit Results Report issued August 2023 |
| Fraud | <ul style="list-style-type: none"> ▶ Enquiries of the Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ 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"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to Governance Committee responsibility. | Audit results Report - 24 April 2023 and updated Audit Results Report issued August 2023 |

Appendix A

| | | 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"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the Authority | Audit results Report - 24 April 2023 and updated Audit Results Report issued August 2023 |
| 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"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <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 - 25 April 2022</p> <p>Audit results Report - 24 April 2023 and updated Audit Results Report issued August 2023</p> |
| External confirmations | <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures. | We have received all requested confirmations |
| Consideration of laws and regulations | <ul style="list-style-type: none"> ▶ 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 ▶ 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. | We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations |

Appendix A

| | | 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"> Significant deficiencies in internal controls identified during the audit. | Audit results Report - 24 April 2023 and updated Audit Results Report issued August 2023 |
| Written representations we are requesting from management and/or those charged with governance | <ul style="list-style-type: none"> Written representations we are requesting from management and/or those charged with governance | Audit results Report - 24 April 2023 and updated Audit Results Report issued August 2023 |
| Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | <ul style="list-style-type: none"> Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | Audit results Report - 24 April 2023 and updated Audit Results Report issued August 2023 |
| Auditors report | <ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor's report | Audit results Report - 24 April 2023 and updated Audit Results Report issued August 2023 |
| Fee Reporting | <ul style="list-style-type: none"> Breakdown of fee information when the audit planning report is agreed Breakdown of fee information at the completion of the audit Any non-audit work | Audit Planning Report - 25 April 2022 Audit results Report - 24 April 2023 and updated Audit Results Report issued August 2023 |

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 2022. 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 Council financial position of Southampton City Council as of 31 March 2022 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 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).

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), 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 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).
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 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)), and are free of material misstatements, including omissions. 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.

Management representation letter

Provisional Management Representation Letter

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 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), 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. and the effects of the conflict and related sanctions in Ukraine, Russia and/or Belarus 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].
6. We confirm the Council does not have securities (debt or equity) listed on a recognized exchange.

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 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, any allegations by "whistleblowers"), including non-compliance matters:
 - ▶ involving financial improprieties;
 - ▶ 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.

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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 all material transactions, events and conditions are reflected in the financial statements, including those related to the COVID-19 pandemic. and including those related to the conflict and related sanctions in Ukraine, Russia and/or Belarus.
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 the year to the most recent meeting on the following date: 2 October 2023
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 31 March 2022. 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 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).

Appendix B

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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.
7. From 24 November 2021, the date of our last management representation letter through the date of this letter we have disclosed to you, to the extent that we are aware, any (1) 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, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount

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 to litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that we have given to third parties.

E. 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.

F. 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, , and including events related to the conflict and related sanctions in Ukraine, Russia and/or Belarus, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

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G. Other information

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

H. Climate-related matters

1. We confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation and disclosure of climate-related matters has been considered and reflected in the financial statements.
2. The key assumptions used in preparing the financial statements are, to the extent allowable under the requirements of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)), aligned with the statements we have made in the other information or other public communications made by us.

I. Ownership of Assets

1. Except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheet, and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral. All assets to which the Council has satisfactory title appear in the balance sheet.

J. Reserves

1. We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

K. Contingent liabilities

- L. We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the financial statements or as the basis of recording a contingent loss (other than those disclosed or accrued in the financial statements).
1. We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements, and there have been no communications from regulatory agencies or government representatives concerning investigations or allegations of non-compliance.

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L. 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 and investment property, the IAS19 pension liability, and the business rates appeals provision, and the disclosures regarding financial instruments 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.

M. Estimates

Valuation of property, plant and equipment and investment property, and IAS19 pension liability

1. We confirm that the significant judgments made in making the valuation of property, plant and equipment and investment property, and IAS19 pension liability have taken into account all relevant information and the effects of the COVID-19 pandemic of 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 or used in making the valuation of property, plant and equipment and investment property, and IAS19 pension liability.
3. We confirm that the significant assumptions used in making the valuation of property, plant and equipment and investment property, and IAS19 pension liability appropriately reflect our intent and ability to carry out specific courses of action 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 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).
5. We confirm that appropriate specialized skills or expertise has been applied in making the valuation of property, plant and equipment and investment property, and IAS19 pension liability.
6. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements, including due to the COVID-19 pandemic.

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N. 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,

Mel Creighton
(Section 151 Officer)

Councillor Andy Frampton
(Chairman of the Governance Committee)

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