

Southampton City Council

Governance Committee Summary

For the year ended 31 March 2013

Audit results report – ISA 260

September 2013



Building a better
working world

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Executive Summary

Key findings

Audit results and other key matters

The Audit Commission's Code of Audit Practice (the Code) requires us to report to 'those charged with governance' on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified.

This report summarises the findings from the 2012/13 audit which is substantially complete. It includes the messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial Statements

- ▶ As of 23 September 2013, we expect to issue an unqualified opinion. Our audit demonstrates that the Council has prepared its financial statements well and this is reflected in the low number of issues to bring to your attention.

Value for Money

- ▶ We expect to conclude that you have made appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources.

Whole of Government Accounts

- ▶ We expect to issue an unqualified confirmation to the National Audit Office (NAO) regarding the Whole of Government Accounts submission. (work to be completed)

Audit Certificate

- ▶ The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit have been discharged for the relevant audit year. We expect to issue the audit certificate at the same time as the Audit Opinion.

Extent and purpose of our work

The Council's responsibilities

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

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

Purpose of our work

Our audit was designed to:

- Express an opinion on the 2012/13 financial statements
- Report on any exception on the governance statement or other information included in the foreword
- As a component auditor for the purposes of WGA, follow the group instructions and send to the National Audit Office our group assurance certificate, audit results report and auditor's report on the consolidation schedule
- Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the Value for Money conclusion)

This report contains our findings related to the areas of audit emphasis, our views on the Council's accounting policies and judgments and material internal control findings.

This report is intended solely for the information and use of the Council. It is not intended to be and should not be used by anyone other than this specified party.

Addressing audit risks

Significant Audit risks

We did not identify any significant risks for the audit. The following general audit risks were identified during the planning phase of our audit, and reported in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Audit Risk identified within our Audit Plan	Audit Procedures performed	Assurance gained and issues arising
Audit risks		
<p>1. Risk of misstatement due to fraud and error</p> <p>Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.</p> <p>Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.</p>	<p>Based on the requirements of auditing standards our approach focused on:</p> <ul style="list-style-type: none"> •Identifying fraud risks during the planning stages. •Inquiry of management about risks of fraud and the controls put in place to address those risks. •Understanding the oversight given by those charged with governance of management’s processes over fraud. •Consideration of the effectiveness of management’s controls designed to address the risk of fraud. •Determining an appropriate strategy to address those identified risks of fraud. •Performing mandatory procedures regardless of specifically identified fraud risks. <p>We considered the results of the National Fraud Initiative and may make reference to it in our reporting to you.</p>	<p>We have gained the expected level of assurance over the risks of fraud, the oversight exercised by those charged with governance, the internal control framework and the operation of controls designed to prevent and detect fraud or error.</p> <p>We have completed our mandatory tests of detail on the financial statements and concluded that the risk of material misstatement remains low. We have not identified any material errors or omissions in the financial statements.</p> <p>The Council has taken action in respect of a number of reported frauds related to housing and council tax benefits in 2012/13. No other instances of fraud has been reported to us.</p> <p>We have completed the Audit Commission’s National Fraud Initiative survey which required an assessment of how much work had been performed on the NFI data. The Council were rated a amber risk due to the existence of high quality reports that had not been opened at the time of the survey.</p>

Financial Statements audit

Issues and errors arising from the audit

Progress of our audit

- Subject to receipt of your Letter of Representation and the completion of the audit, we propose to issue an unqualified audit report on the financial statements.
- We will provide an update of progress at the Governance Committee meeting

Uncorrected Errors

- Management identified that the New Deal for Communities creditor disclosed in the 2011/12 accounts included £556k which should have been classified as an Earmarked Revenue Reserve. A correction has been made as a prior period adjustment in the 2012/13 accounts. We believe that the sum involved is not sufficiently material to justify a prior period adjustment. Management have declined to reverse the amendment.

Corrected Errors

- My audit identified a limited number of minor numeric and typographical errors which my team have highlighted to management for amendment. All of these have been adjusted during the course of our work. We do not consider any of these to be significant and therefore we have not provided further details of these amendments.

Other Matters

- As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following:
 - ▶ Qualitative aspects of your accounting practices;
 - ▶ Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
 - ▶ Other audit matters of governance interest

The working papers presented in support of your financial statements were of a high standard. We have no matters we wish to report.

Findings and issues

Internal Control, Written Representations & Whole of Government Accounts

Internal Control

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

We have tested the controls of the Council only to the extent necessary for to complete the audit. We are not expressing an opinion on the overall effectiveness of internal control.

We have reviewed the Annual Governance Statement and can confirm that:

- ▶ it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- ▶ it is consistent with other information that we are aware of from our audit of the financial statements.

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

Request for written representations

We have requested a management representation letter to gain management's confirmation in relation to a number of matters, for which we do not currently have sufficient audit evidence.

In addition to the standard representations, we request that you also confirm:

- ▶ that the Council is satisfied that the information provided to the actuary in relation to the Hampshire Pension Fund, is accurate and appropriate;
- ▶ the reasons why management has decided not to amend the treatment of the 2011/12 error as a prior year adjustment. That the comparative amounts have been correctly restated and that an appropriate disclosure note has been added for the amendments in the current year's financial statements.

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 are specified by the National Audit Office.

We are currently concluding our work in this area and will report any matters that arise to the Governance Committee.

Arrangements to secure economy, efficiency and effectiveness

The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that Southampton City Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Council's corporate performance management and financial management arrangements, we have regard to the following criteria and focus specified by the Audit Commission.

Criteria 1 - Arrangements for securing financial resilience

- ▶ *“Whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future”*
- ▶ The Council has managed its financial performance during 2012/13, delivering savings totalling £13.6m and a surplus of £7.4m for the year. It has a clear view of the size of the financial challenge it faces. Budget savings to be delivered in 2013/14 total £16.5m. The published medium term financial plan predicts a budget gap of £19.3m in 2014/15, increasing by £17.4m to £36.7m in 2015/16. The projections take account of future changes in funding and the financial impact of new legislation.
- ▶ However, a recent review by a corporate peer challenge team concluded that while “there is an appetite from members and staff to make things better, there is limited clarity about how to change, and a lack of urgency”.
- ▶ The Council has identified savings, efficiencies and additional income to meet its budget gap in 2013/14. However, the peer challenge team recommended that you introduce a three year priority-led financial planning horizon.
- ▶ Therefore, while you have proper arrangements for securing financial resilience for the foreseeable future you need to take action to secure financial resilience over the medium term to longer term.
- ▶ The Council has responded positively to the peer review, holding meetings with the Cabinet before developing a three year financial plan.

Arrangements to secure economy, efficiency and effectiveness

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Criteria 2 - Arrangements for securing economy, efficiency and effectiveness

- ▶ *“Whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.”*
 - ▶ The Council monitors the performance of its services and continues to seek alternative ways of service delivery that meet users needs in an efficient and effective manner.
 - ▶ Consultation has been held with users, partners and stakeholders to help shape the delivery of services that are relevant and effective.
 - ▶ The Council continues to challenge itself, public and private sector partners on service performance and costs, for example through contract negotiations with Capita and by inviting the LGA to carry out a peer review.
- ▶ Nevertheless, the peer review team concluded that you need to “refocus your transformation programme so it is council wide and enables the organisation to deliver the Council Plan and medium term financial plan”.

Independence & Audit Fees

Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 28 June 2013.
- ▶ We complied with the Ethical Standards for Auditors and the requirements of the Audit Commission's Code and Standing Guidance and in our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.
- ▶ We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.
- ▶ We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Governance Committee on 23 September 2013.
- ▶ We confirm that we have met the reporting requirements to the Governance Committee, as 'those charged with governance' under International Standards on Auditing (ISA) 260. Our communication plan to meet these requirements were set out in our Audit Plan of 28 June 2013.

Audit fees

The table below sets out the scale fee and our final proposed audit fees.

	Proposed final fee 2012/13	Scale fee 2012/13	Variation comments
	£s	£s	£s
Total Audit Fee - Code work	189,620	189,216	414
Certification of claims and returns	32,950	32,950	-
Non-Audit work	n/a	n/a	-

- ▶ Our actual fee is in line with the agreed fee at this point in time, subject to the satisfactory clearance of the outstanding audit work. The additional £414 fees relate to correspondence from an elector.
- ▶ We confirm that we have not undertaken any-non-audit work outside of the Audit Commission's Audit Code requirements.

Ernst & Young LLP

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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's 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 Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

