



Southampton City Council

**Auditor's Annual Report
Year ended 31 March 2021**

02 February 2022



EY

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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.

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 Hywel Ball, 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.

Section 1

Executive Summary



Executive Summary: Key conclusions from our 2020/21 audit

Area of work	Conclusion
Opinion on the Southampton City Council:	
Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Southampton City Council as at 31 March 2021 and of its expenditure and income for the year then ended. The financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21. We issued our auditor's report on 25 November 2021.
Going concern	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.
Consistency of the Southampton City Council Statement of Accounts and other information published with the financial statements	Financial information in the Southampton City Council Statement of Accounts and published with the financial statements was consistent with the audited accounts.

Area of work	Conclusion
Reports by exception:	
Value for money (VFM)	We had no matters to report by exception on the Council's VFM arrangements. We have included our VFM commentary in Section 04.
Consistency of the annual governance statement	We were satisfied that the annual governance statement was consistent with our understanding of the Council.
Public interest report and other auditor powers	We had no reason to use our auditor powers.

Executive Summary: Key conclusions from our 2020/21 audit

As a result of the work we carried out we have also:

Outcomes	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	We issued an Audit Results Report dated 22 September 2021 to the Governance Committee.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2020 Code of Audit Practice.	We have not yet issued our certificate for 2020/21 as we have not yet performed the procedures required by the National Audit Office on the Whole of Government Accounts submission. The guidance for 2020/21 has not yet been issued.

Fees

We carried out our audit of the Council's financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2018)". As outlined in the Audit Results Report we were required to carry out additional audit procedures to address audit risks in relation to the valuation of property, plant and equipment and investment property, and other additional procedures as included in this report. As a result, we are to agree an associated additional fee with the Section 151 Officer, and for approval by PSAA Ltd. We include details of the proposed audit fees in Appendix 1.

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

Kevin Suter

Associate Partner
For and on behalf of Ernst & Young LLP

Section 2

Purpose and responsibilities



Purpose and responsibilities

This report summarises our audit work on the 2020/21 financial statements.

Purpose

The purpose of the auditor's annual report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on VFM arrangements, which aims to draw to the attention of the Council or the wider public relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

Responsibilities of the appointed auditor

We have undertaken our 2020/21 audit work in accordance with the Audit Plan that we issued on 9th July 2021. We have complied with the NAO's 2020 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the NAO.

As auditors we are responsible for:

Expressing an opinion on:

- The 2020/21 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the annual report.

Reporting by exception:

- If the governance statement does not comply with relevant guidance or is not consistent with our understanding of the Council;
- If we identify a significant weakness in the Council's arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

Responsibilities of the Council

The Council is responsible for preparing and publishing its financial statements, and governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Section 3

Financial Statement Audit



Financial Statement Audit

We have issued an unqualified audit opinion on the Council's 2020/21 financial statements.

Key issues

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

On 25 November 2021, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the 4 October 2021 Governance Committee meeting. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan.

Significant risk

Conclusion

Misstatements due to fraud or error - management override of controls

An ever present risk that management is in a unique position to commit 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.

Our audit work has provided assurance that:

- 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 transaction which appeared unusual or outside the Council's normal course of business.

Inappropriate capitalisation of expenditure

Under ISA 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 identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund.

We did not identify any instances of inappropriate capitalisation of revenue expenditure.

Financial Statement Audit (continued)

Significant Risk	Conclusion
<p>Valuation of investment properties and land & buildings valued using Existing Use Value (EUV) and Fair Value.</p> <p>The fair value of Investment Property and Land & Buildings valued using EUV or Fair Value 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 balance recorded in the balance sheet. ISA's (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p> <p>Covid-19 has brought significant market volatility.</p>	<ul style="list-style-type: none"> • No issues were identified through our work on these valuations, which was informed by a review of the valuation methodology and results by our internal specialists. • No issues were identified through our consideration of the work of the Council's valuer, or through our review of accounting entries.
Other area of audit focus	Conclusion
<p>Valuation of Land and Buildings</p> <p>The Value of Land & buildings at DRC, and HRA properties, also represent significant balancers in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balances sheet.</p>	<p>We identified three audit differences as a result of our work which management chose not to adjust. These were:</p> <ul style="list-style-type: none"> • A projected understatement of the valuation of HRA council dwellings of £7.5m, • A judgemental difference of the overstatement of assets not revalued of £6.2m; and • A judgemental overstatement of £3m of the depreciation charge on HRA assets and their components. <p>No other issues were identified from testing of land and building valuations and no further issues were identified through our consideration of the work of the Council's valuer, or through our review of accounting entries.</p>

Financial Statement Audit (continued)

Other area of audit focus	Conclusion
<p>Pension Liability valuation</p> <p>The Pension Fund liability is a material balance in the Balance Sheet. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. 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.</p> <p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council.</p>	<p>As a result of our work, we identified one audit difference of £1.6m which management chose not to adjust. This was in relation to the understatement of Pension assets. This difference was not material.</p>
<p>Restatement of CIES, EFA and related disclosure notes.</p> <p>Under CIPFA's "Telling the Story" agenda, the Council is required to disclose its income and expenditure in accordance with the structure used for internal reporting, rather than the previous presentation as prescribed by SERCOP. The Council has changed its internal reporting structure in 2020/21, which 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.</p>	<p>As a result of our work we did not identify any audit differences.</p> <p>We were satisfied that the Comprehensive Income and Expenditure Statement, the Expenditure and Funding Analysis and related disclosure notes were restated appropriately following the changes to the internal reporting structures.</p>
<p>New Fixed Asset Register</p> <p>The Council has used the new fixed asset module of Business World to record its property, plant and equipment and investment property for the first time in 2020/21. The Council needs to ensure opening asset balances are fully and accurately transferred to this system.</p>	<p>Through our testing we have not identified any issues with the use of the new Fixed Asset Register.</p> <p>We have not identified any issues with the completeness and accuracy of information transferred to the new system from the previous fixed asset register.</p>

Financial Statement Audit (continued)

Other area of audit focus	Conclusion
<p>Going concern disclosures The Council is required to carry out an assessment of its ability to continue as a going concern for the foreseeable future, being at least 12 months after the date of the approval of the financial statements. There is a risk that the Council's financial statements do not adequately disclose the assessment made, the assumptions used and the relevant risks and challenges that have impacted the going concern period.</p>	<p>We concluded that based on the evidence available it appears reasonable for the financial statements to be prepared on the going concern basis without material uncertainties in respect of going concern as there is no identified impact on services which is the key consideration and assumption made in the 'continuation of services' approach underpinning the CIPFA accounting framework.</p> <p>The disclosure provides adequate information for the statement of accounts, and context for the interpretation by the reader in the LG context.</p> <p>In our judgement there is no material uncertainty to disclose, as there is no likely impact on the level of statutory services provided..</p>
<p>Accounting for Covid-19 related grant funding The Council received government funding in relation to Covid-19. Whilst there is no change in the CIPFA Code or accounting standard (IFRS 15) in respect of accounting for grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment in 2020/21.</p>	<p>Our testing focussed on whether covid grants had been properly treated as agent or principal, and consequently removed or included within the CIES respectively.</p> <p>We concluded from our testing that covid grants have been correctly treated as agent or principal in the financial statements, with no audit differences identified.</p>

Financial Statement Audit (continued)

Audit differences

In addition to the differences identified in the previous pages, we identified a small number of misstatements in disclosures which management corrected. However, management disagreed that 3 items in our findings were a misstatement and did not adjust the accounts. These were regarding:

- The Financial Instruments disclosure where Pooled Property Funds should be marked as a level 2 investment instead of a level 1.
- 2 differences in relation to Prior Period Adjustments. Management made changes to the prior period values for income from investment properties, and the trade debtors value within the financial instruments disclosure notes. Neither were material, and therefore, in our view should not have been made.

Our application of materiality

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

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £12.4m as 1.8% of gross revenue expenditure reported in the accounts. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Governance Committee that we would report to the Committee all audit differences in excess of £621k.

Section 4

Value for Money



Value for Money (VFM)

Scope and risks

We have complied with the NAO's 2020 Code and the NAO's Auditor Guidance Note in respect of VFM. We presented our VFM risk assessment to the Governance Committee meeting on 26 July 2021 which was based on a combination of our cumulative audit knowledge and experience, our review of Council and committee reports, meetings with the Governance Committee and evaluation of associated documentation through our regular engagement with Council management and the finance team.

We reported that we had identified a risk of significant weakness in the Council's VFM arrangements in relation to the financial sustainability criteria.

We identified a risk of significant weaknesses in the Council's VFM arrangements for 2020/21.

Financial Sustainability:

We have identified a risk that the Council's general fund reserves would need to be used to meet budget gaps, arising largely from factors linked to Covid-19. Were this to occur, it would create a risk that future budget gaps or financial shocks could not be met.

We performed the following procedures:

- Reviewed the actions taken by the Council to manage the financial pressures arising from Covid-19
- Assessed the outturn position for 2020/21 and compared this with in-year forecasts
- Reviewed the Council's latest Medium Term Financial Strategy and the key assumptions within it

We set out the key findings and conclusions from our work to address this risk on pages 19-21.

We had no matters to report by exception in the audit report.

Reporting

We completed our planned VFM arrangements work in September 2021 and did not identify any significant weaknesses in the Council's VFM arrangements including from the work undertaken to address our significant risk. As a result, we had no matters to report by exception in the audit report on the financial statements.

Value for Money (VFM)

Our VFM commentary highlights relevant issues for the Council and the wider public.

VFM Commentary

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

- **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.
-

Introduction and context

The 2020 Code confirms that the focus of our work should be on the arrangements that the audited body is expected to have in place, based on the relevant governance framework for the type of public sector body being audited, together with any other relevant guidance or requirements. Audited bodies are required to maintain a system of internal control that secures value for money from the funds available to them whilst supporting the achievement of their policies, aims and objectives. They are required to comment on the operation of their governance framework during the reporting period, including arrangements for securing value for money from their use of resources, in a governance statement.

We have previously reported the VFM work we have undertaken during the year including our risk assessment. The commentary below aims to provide a clear narrative that explains our judgements in relation to our findings and any associated local context.

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

For 2020/21, the significant impact that the Covid-19 pandemic has had on the Council has shaped decisions made, how services have been delivered and financial plans have necessarily had to be reconsidered and revised.

We have reflected these national and local contexts in our VFM commentary.

Financial sustainability

How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them

The Council regularly reviews the overall short, medium and longer-term financial position. There is a Medium Term Financial Strategy, a medium term Capital Programme and quarterly monitoring of revenue and capital. The Council's medium term financial model is updated regularly throughout the year and includes a 4-year financial projection which is reviewed annually and informs savings and budget reporting.

During the year key areas such as the collection fund were frequently reviewed for any COVID impact. As well as maintaining a "business as usual" forecast, the Council also included a detailed General Revenue Fund & HRA Forecast to consider the additional impact from Covid-19.

The in-year budget position is reported monthly to the Executive Management Team (consisting of the Executive Directors). This covers both revenue and capital. This also includes discussing budget implications going forward and the latest medium term projections, as a part of the future budget setting process.

Financial sustainability (continued)

Quarterly reports to Cabinet on in-year financial monitoring also provide an update on a range of financial health indicators, such as collection rates for council tax, speed of collection of other income and creditor payment efficiency levels.

Cabinet Member Briefings are held monthly for each Portfolio area, which include an agenda item for the latest budget position to ensure this is discussed by the Cabinet Member and Executive Director with support from a Finance Business Partner.

Treasury Management forms a part of the quarterly report to cabinet, and this includes an update on the Prudential Indicators adopted by the Council. Treasury Management is also reported twice yearly to the Governance Committee – in February and November. This provides for setting out and agreeing the strategy for the year ahead and onwards, plus a mid-year update compared with the agreed strategy, and information on the prudential indicators as well as treasury activity and performance (with benchmarking information comparing SCC to other local authorities).

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Government announcements on the Settlement or Spending Review are monitored and the financial implications highlighted in briefings to Executive Directors and Cabinet Members. Business case and option appraisal is applied to major areas of investment decisions.

The HRA operates within a 40 year time horizon for its Business Plan. This is published as part of the formal budget report papers considered by Council, but also during the year less formally at Cabinet Member Briefings and in discussion with the relevant Executive Director, as well as at Directorate Management Team meetings as part of the annual business plan cycle leading up to budget preparation.

The HRA is also captured as part of in-year budget monitoring work and reported formally in the quarterly cycle to Cabinet, both for revenue and capital.

The Council maintains a Strategic Risk Assurance Report that is reviewed quarterly by the Executive Management Board. This report includes the risk of “Failure to address the significant and ongoing financial pressures in a sustainable way and to enable service provision to reflect key strategic outcomes and be aligned with the associated budget envelopes”. This includes consideration of any financial pressures and how these reflect on key strategic outcomes and the associated budgets. The Council’s risk monitoring records the key financial risks over the short term and medium-term, and the mitigating actions that have been implemented to address the identified issues.

Financial sustainability (continued)

How the body plans to bridge its funding gaps and identifies achievable savings

The Council has a Medium Term Financial Forecast (MTFF) which includes a 4-year forecast of planned savings.

In the budget setting for 2021/22 and beyond, the Council acknowledged that extensive work will be undertaken to identify savings and mitigations to address the gaps.

How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The Council's vision focuses on:

- I. Customers – residents, business and visitors. To deliver high quality customers experiences and to deliver quality public services
- II. Communities, culture & Homes. To help communities to develop into thriving neighbourhoods that reflects Southampton as a vibrant and diverse city. To celebrate diversity of cultures within Southampton and to enhance cultural offer.
- III. Green City. To provide sustainable, clean and healthy and safe environment. To support economic growth and to obtain sustainable environment, resilient to effect of climate change.
- IV. Place Shaping. To deliver city of future generations and to continue the grow of local economy
- V. Wellbeing. To ensure that customers and residents get the right help at the right time.
- VI. Successful and Sustainable Business. To build sustainable, agile and flexible services with people

The Council set out its longer-term strategic plan within the Council Strategy 2015-2025, underpinned by the Corporate Plan 2020-2025, wherein the Council sets out its priorities. This provides the strategic framework for its decision making, and informs the Medium Term financial forecast and annual budget setting.

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Financial sustainability (continued)

How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system

The Council's Medium Term Financial Forecast (MTFF) outlines the issues that affect Council services and finances and how these factors are considered in the planning and completion of MTFF. Key financial strategies such as the capital strategy, treasury management, investments and borrowings are considered in the MTFF.

The Council's annual financial budget is aligned to activity plans, to ensure there is consistency and triangulation between all elements of the organization. Through the regularly quarterly financial monitoring including the General Fund

Forecast, Capital Programme and Key Financial Risks, the Council can identify the significant financial and business risks that might affect the performance of the Council in the future, and act to address them.

How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

The Council maintains a Strategic Risk Assurance Report and Key Financial Risks Report which are reported quarterly to Cabinet. These reports outline all the risks identified including risks in financial pressures, service disruptions, and risks in sustainable adult social care system among others. The Council also acknowledges the risk of significant and ongoing financial pressures. Mitigations by the Council include:

- Medium term financial modelling and monitoring, which are reviewed quarterly
- Having service budgets and financial forecasts that are aligned with the Council outcomes
- Identifying and addressing significant in-year budget variances by monitoring of Capital and Revenue Monthly budgets
- Identifying delivery of new savings/income opportunities

The Council's Executive Management Board (EMB) review quarterly the Strategic Risk Assurance Report. The Risk and Insurance Service will support the EMB in identification, management and review of Council's strategic risks. The Governance Committee also provide oversight.

Through these mechanisms, Council can identify significant business risks including key financial risks that might affect the financial performance of the Council in the future. The risk register is updated regularly to include the summary of financial risks, how likely they are to occur, and the mitigations, process and plans the Council is putting in place to address and manage these risk areas. These mitigations are also reflected through regular update of budgets. Budgets are also updated with latest assumptions e.g. updated CPI, RPI, % change in council tax and business rates and other financial considerations including expected grants to be received, and probable financial pressures.

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Addressing our identified risk:

From our review of Council papers and reports, and through discussion with key officers in the finance department, we can see that the Council has appropriate arrangements in place to draw up and keep under review its financial plans:

- There is an appropriate mix of involvement of officers at the detailed departmental level, and those in positions of overall management and oversight, and there is regular reporting to members, with detailed financial information and forecasts provided to support decision making.
- Review and updating of financial plans is sufficiently regular to allow for emerging pressures to be identified and work to be undertaken to address these, and the sources of information and inputs into forecasts are those we would expect in a local government context.
- The Council took an appropriate, cautious approach to its initial expectations around the impact of C-19 during 2020/21, and revised these as the year progressed. In common with much of the sector, the overall effects within the year were less severe than expected as a result of greater than anticipated levels of government support in some areas; however, the Council's approach of caution is judged to have been proper in the circumstances arising from the uncertainty which existed at the start of the year. Additionally, a higher proportion than first anticipated of excess costs relating to Adult Social Care was met by Southampton CCG, meaning that a major area of potential pressure was significantly mitigated. Again, early caution was the right approach, as this was arguably the area of service provision with greatest potential impact on the Council's financial plans.

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

The overall outturn position of the Council for 2020/21 was a surplus of £8.6m. This included surpluses for both "business as usual" (BAU) and Covid-19-specific income and expenditure. Whilst the outcome for C-19 was in part due to the levels of government funding received, the Council had ensured this was carefully monitored throughout the year and worked with local partnership organisations – principally Southampton CCG - to mitigate risks arising from increased C-19 related costs. The Council's BAU outturn accounted for the bulk of the positive outcome, which in our judgment provides corroborative evidence of the existence of appropriate arrangements to plan and manage the Council's finances.

We undertook a forecast analysis of the impact of factors that impact the Council's Medium Term Financial Strategy and associated resilience, including:

- A base Medium Term outlook and review of underlying assumptions
- Testing sensitivities driving income and expenditure
- Applying locally-specific economic forecasts to the financial outlooks presented in the MTFS

Addressing our identified risk continued:

Within our analysis the individual indicator with the highest risk outcome is increases in expenditure on Children's Social Care. Further areas of medium risk have been identified around Adult Social Care, Homelessness Services and savings requirements.

There is an increasing pressure with regard to Children's and Adult and Social Care services in SCC. These are common to many upper tier authorities. Children's social care services have been a recent area of focus of the Council as a result of adverse OFSTED findings and there has therefore been a drive to improve provision in this area. We know from regular discussion with the s151 officer and Head of Finance over the year that these are known areas of cost pressure and subject to ongoing review to enable control measures to be put in place. We have also noted that the Council have established Social Care Demand Risk reserve amounting to £7.4mil to help mitigate these pressures.

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

We looked at three scenarios:

- i. Scenario 1 –utilizing average forecasts for service demand pressures and key funding elements. The assessment quantifies the financial challenge of the Council until 2024/25 as £94.8m, compared to the Council's assessment within the MTFs of £76.4m
- ii. Scenario 2 – This presented increased demand for services and inflationary pressures, with consequential increased pressure on service expenditure. With this scenario the Council will face £117.4m pressures over the MTFs period
- iii. Scenario 3 – presented a position which incorporates the factors from scenario 2 along with assumption based on the national and local economy recovering at a slower rate than what is currently forecast and a flattened funding position, which will result in further increased pressure on both service expenditure and the Council's overall position. The pressures marginally increased further to a potential £118.7m

The analysis of the key areas of Council activity, and the potential scenarios over the medium term, re-emphasises that the Council needs to constantly review its Medium-Term Financial Strategy (MTFS) to identify risks and mitigations, and to plan ahead for closing the forecast deficits. We have noted from the work performed that the Council does have appropriate processes in place to compile and update its MTFs on a regular basis. The Council also has a good recent track record of closing budget gaps which in the early stages of the process are significant, to produce balanced budgets. Further, the arrangements the Council has to monitor income and expenditure against budget during the year have also been shown to be appropriate, with a surplus achieved in 2020/21 despite the challenge of C-19, with a consistency of surpluses being achieved in each of the 2 prior years as well.

Addressing our identified risk continued:

Therefore, whilst the financial challenges facing the Council over the medium term should not be understated, in our judgment the Council has appropriate arrangements in place with respect to financial planning and monitoring to mean it can plan to meet these challenges. We do not judge it necessary to make specific recommendations to the Council as a result of the work performed.

Our overall assessment is that the Council's arrangements in this area are sufficient and appropriate, and we have no matters to report in relation to our value for money conclusion

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Governance

How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

Internal controls are monitored and assessed by the Governance Committee to ensure that they are appropriate and effective. An Internal Audit plan is agreed on an annual basis with the results of internal audit work and the embedding of recommendations reviewed by the Governance Committee. The Committee also considers assurance in respect of the risk processes in place across the organization.

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

How the body approaches and carries out its annual budget setting process

The Council meets every February, to set the Budget and Council Tax. The Budget and MTFF will be presented to the Council based on an assessment at a granular level of income, expenditure workforce, capacity and efficiency plans. The impact of these plans is triangulated with operational, performance and workforce lead officers.

In our previous section on Financial Sustainability we set out various processes the Council uses to set the strategic framework and provide a medium term financial forecast from which the annual budget derives.

It continuously monitors the financial position through the year for any additional costs that need to be considered. The Council updates budgets as new information and data becomes available. These are considered when rolling forward the MTFF model, which is then revised in light of pressures, assumptions, and policy decisions, and how these are expected to impact costs, income & savings.

There is also a regular monitoring of levels of reserves to ensure these are sufficient to meet unexpected costs. They will then be reflected in the budget forecasts made by the finance team, which are reported monthly to the Senior Management Team – and are discussed on a monthly basis with the relevant Business Partners.

The annual budgeting process then engages the services at the detailed level to determine the impacts and specifics for their specific budgets.

Governance (continued)

How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed.

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

Decisions are made by the Executive Body being the Leader and Cabinet, within the overall policy and budgetary framework approved by Full Council. Any decisions the Executive wishes to take outside of the framework must be referred to Full Council to decide. The Cabinet will develop and propose to Council corporate strategies and plans, and will prepare proposals for the annual budget, which it will recommend to Full Council. The Cabinet will also keep under review the allocation of resources necessary to meet the Council's responsibilities. Scrutiny committees monitor the work of the Executive Body.

The Governance Committee is independent of the executive (Cabinet) and scrutiny functions and is embedded as a key part of the Council's overall governance framework. Its terms of reference are aligned to CIPFA's best practice standards for audit committees. This Committee ensures that the Council is managing risks properly and that proper audit arrangements are in place.

The Council and Cabinet receive quarterly updates on Financial performance. These take the form of update reports that summarize the overall position during the year to date and projections against the budget. They also include financial health (balance sheet) indicators, and Treasury Management reports.

Management teams receive more detailed monthly reports that examine the income and expenditure of the directorate and associated services on a line by line basis. The information is drawn from the financial ledger, and management place reliance on the controls established through the financial rules and procedures within those specific transaction systems, and on the annual programme of work undertaken by internal audit.

We note that within the Constitution of the Council there are processes and procedures in place to ensure the body has effective processes and systems in place to ensure budgetary control, to communicate relevant, accurate and timely management information; to support its statutory financial reporting requirements and to ensure the body is taking corrective action where needed

Governance (continued)

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee.

The Council has a number of Committees in place, established through its Constitution. The Constitution includes the roles and responsibilities of the Executive, Committees, Full Council and chief officers. It also sets out the rules under which they operate; in particular how decisions are made and how procedures are to be followed to ensure that actions are efficient, legal, transparent and accountable to the community. Officers prepare reports for each of the Committees to enable decision making, as evidenced by the relevant section of the Council website. Resource implications are factored into all decisions, with a dedicated section in reports both to Councillors and to the Executive Management Team

The Council is made up of 48 Councillors which meet regularly to make key decisions including setting the Budget and Council Tax, while Cabinet reviews activity and portfolios to ensure operations are in accordance with the Budget and strategic plans.

Overview and scrutiny arrangements are in place to review decision making.

The Council has a Governance Committee which has responsibility for oversight of the scope and effectiveness of the internal control, and systems established by management to identify, assess, manage and monitor financial and non-financial risks (including measures to protect against, detect and respond to fraud).

Annually the Chief Internal auditor is required to produce an Annual Plan which sets the scope and detailed areas for review of the Authority's functions, with subsequent reporting to the Governance Committee.

The Governance Committee sees and comments on the Annual Governance Statement, which would highlight any overall concerns including those which may effect value for money. It is reviewed as both a draft and final document.

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).

The Council operates strict Standards of Business Conduct. All decision-making staff as described in the policy are required to adhere to this policy and make disclosures as required. A Register of Interests is held. In addition, there is a gifts and hospitality register to declare any gifts received or offered along with whether they have been accepted or declined.

Accountabilities and responsibilities are set out in authority's Financial Procedure Rules, including Chief Officers being responsible to achieve Value for Money.

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

Improving economy, efficiency and effectiveness

How financial and performance information has been used to assess performance to identify areas for improvement.

How the body evaluates the services it provides to assess performance and identify areas for improvement

We can observe from the minutes of meetings of the council that financial and performance information has been used to identify areas for improvement.

We have commented before on arrangements for financial monitoring and risk management, reviewed on a quarterly basis.

The most notable area for improvement from the prior year related to the Children's Services Department. In early 2020 the Council received a whistleblower report which followed on from an OFSTED report in 2019 which noted that the council required improvement across all areas of the service. We reviewed these issues on our previous year audit.

The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

In this financial year there is evidence of continued improvement. We note that OFSTED performed a 'focused visit'. This report noted a number of considerable improvements, and noted that senior leaders demonstrated a 'balanced, accurate self-assessment on the quality of frontline practice' and that an extensive workforce and practice transformation is in progress. The report also noted that there had been significant cultural change since the whistleblower report. A detailed improvement plan is in place and the improvements are being implemented. Whilst we note there are still points for improvement in this report, the changes made indicate that the authority has the arrangements in place to continue to improve and deliver value for money in this area

How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve.

We can see from published documents that the council has a number of strategies that involve working with key partners including local businesses, local police/fire services and local health services. These include a strategy for Health and Care which detailed its commitment to working with local NHS organizations.

Improving economy, efficiency and effectiveness (continued)

How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.

The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

The Council has a procurement policy which is publicly available and therefore available for public scrutiny. It clearly states a number of principles, as well as a number of strategic initiatives to further improve its procurement practices. This policy document details a number of the arrangements we would expect to see in good governance, and includes commitments to reduce spending with external suppliers, to maintaining up to date information on all procurement activity, centralization of buying activity over £1k, and maintaining a centralized contract register.

Adherence with procurement policies and best practice was identified as an area of weakness in the Council's arrangements in 2017/18, leading to a qualification of the VFM conclusion. A risk was then identified in this area in 2018/19, but our work in that year confirmed that sufficient progress had been made that the qualification could be lifted. This has been kept under review by internal audit in subsequent years, with no further risks to our VFM responsibilities identified.

No material inappropriate spending has been identified through our financial statement audit.

We have no recommendations to make for the Council.

Recommendations

As a result of the VFM procedures we have carried out we have no recommendations to make.

The Council faces further challenge and change beyond 2021 which will form part of our 2021/22 VFM arrangements work.

Forward look

As noted within our commentary, the Council continues to work on arrangements to review and address its financial sustainability.

We will continue to review the Council's progress in addressing these challenges as part of our 2021/2022 Value for Money risk assessment and procedures

A woman with blonde hair, wearing a dark business suit, is leaning her chin on her hand and looking intently at a document on a wooden table. Other people in business attire are visible in the background, some standing and some seated. A large yellow rectangular overlay covers the left side of the image.

Section 5

Other Reporting Issues

Other Reporting Issues

Governance Statement

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

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

Whole of Government Accounts

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts consolidation pack submission. The guidance for 2020/21 is yet to be issued. We will liaise with the Council to complete this work as required.

Report in the Public Interest

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

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

Other powers and duties

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

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

Our audit did not identify any controls issues to bring to the attention of the Governance Committee.

Appendix A

Audit Fees



Audit Fees

The scale fee for 2020/21 is in line with the audit fee reported in our Audit Plan and Audit Results Report. Included below are details of the proposed additional fees for 2020/21.

Description	Final Fee 2020/21 £	Planned Fee 2020/21 £	Final Fee 2019/20 £
PSAA Scale Fee	109,891	109,891	109,891
Scale fee Rebasing (1)	85,260	68,235	
Revised Proposed Scale Fee	195,151	178,126	
Scale fee variations(2,3)	35,853	TBC	
Total Fees	231,004	TBC	157,871(4)

Notes:

- (1) In our 2019/20 Annual Audit Letter we detailed a proposed rebasing of the scale fee to reflect changes in work required to address professional and regulatory requirements and scope associated with risk. This has been amended for 2020/21 to reflect confirmed changes in PSAA hourly rates. Whilst PSAA approved elements of the 2019/20 amount, they have not confirmed if these should be considered recurrent. We have therefore included the amount again in full.
- (2) The 2020/21 Code work includes 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.
- (3) We have identified new and continuing risks for 2020/21 that are not within the scale fee - the impact of amended auditing standards, and the changing requirements for our VFM responsibilities. PSAA has provided outline amounts to charge for the work required to address these areas. The amounts are included in the overall scale fee variation amount of £35,853.
- (4) PSAA determined a total additional fee for 2019/20 of £47,980. This was split across the amounts submitted in respect of scale fee rebasing and in-year scale fee variations. However, as no indication was given by PSAA of which elements were judged recurrent, we have shown the overall impact on the total fees for the year only.

The additional fee for 2020/21 has not yet been discussed and agreed with management, and also remains subject to approval by PSAA Ltd.

We confirm we have not undertaken any non-audit work.

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