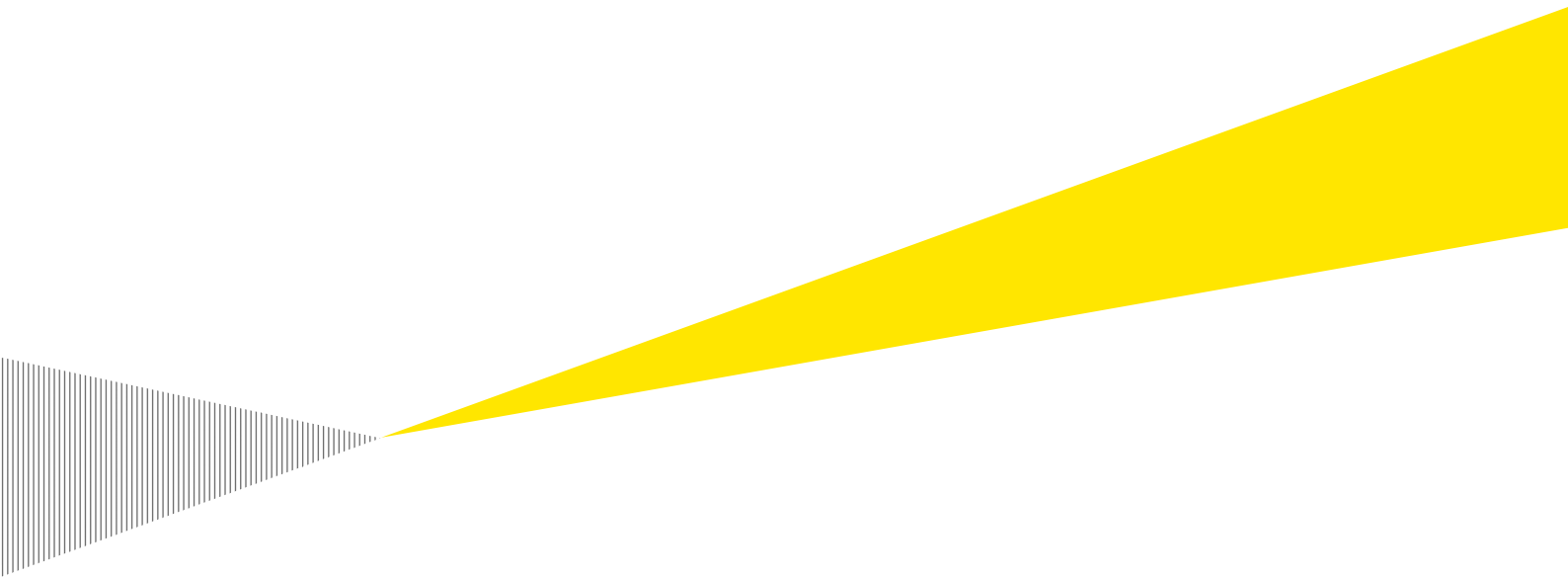


Southampton City Council

Governance Committee Progress Report

February 2016



Building a better
working world

Governance Committee
Southampton City Council
Civic Road
Southampton
SO14 7LY

8 February 2016

Dear Committee Members

Audit Progress Report

We are pleased to attach our Audit Progress Report.

The purpose of this report is to provide the Committee with an overview of the final position against the Council's 2014/15 audit plan, and our initial plans for the 2015/16 audit. This report is a key mechanism in ensuring that our audit is aligned with the Committee's service expectations.

Our audit is undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Helen Thompson
Executive Director
For and behalf of Ernst & Young LLP

Contents

2014/15 audit	2
2015/16 audit	3
Timetable	5

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ‘Statement of responsibilities of auditors and audited bodies 2015-16’. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

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 from 1 April 2015’ issued by 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 statute, and covers matters of practice and procedure which are of a recurring nature.

This progress update is prepared in the context of the Statement of responsibilities. It is addressed to the Governance Committee, and is prepared for the sole use of the audited body. 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..

2014/15 audit

We are presenting our annual report on the certification of claims and returns to the Committee today. This completes our work in relation to the 2014/15 financial year.

2015/16 audit

Financial Statements

We adopt a risk based approach to the audit and as part of our ongoing continuous planning we have held a number of meetings with key officers and other stakeholders:

- January 2016 – our monthly meeting with the Chief Finance Officer and the Deputy Chief Finance Officer to update our understanding of the challenges and risks you are facing. This forms a key part of our continuous audit planning;
- January 2016 – attendance at the Monthly Audit Operational Meeting to discuss audit timings and emerging audit issues; and
- We have continued to liaise with Internal Audit to ensure we can place reliance on their work where possible.

Our work to identify the material income and expenditure systems was completed in January 2016. The testing of the controls and critical path of each material system is planned for February and March 2016. We will communicate the results of this work to you in our Audit Plan which will be presented to the Governance Committee in April 2016.

We will continue to use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular payroll, cash payments and receipts and journal entries.

Value for money

Our initial risk assessment is ongoing and we will report the risks we have identified and associated work we will carry out to the April 2016 Governance Committee.

Accelerating your financial close arrangements

On 17 February 2015, the Accounts and Audit Regulations 2015 were laid before Parliament, having been made (signed by the Minister) under the Local Audit and Accountability Act 2014 on 12 February 2015.

A key area of the regulations is that from the 2017/18 financial year, the timetable for the preparation and approval of accounts will be brought forward to a draft accounts deadline of 31 May and an audit deadline of 31 July. These changes provide challenges for both the preparers and the auditors of the financial statements.

The good news is that with good planning, communication and joint working, those deadlines are highly attainable. The majority of Councils are on the right trajectory having met the current reporting deadlines consistently for the last few years, the challenge now is upping the speed of that trajectory to achieve the faster deadlines. Below we have included some suggestions which will help achieve this new statutory deadline. We will continue to engage with officers to ensure that the Council is well placed to meet these new statutory deadlines.

As with any project, the key to success is in the planning, together with timely engagement and collaboration between the preparers of the financial statements and the auditors of those statements. We appreciate that each client starts from a slightly different base position. Therefore, there is no one size fits all solution. However, there are areas where we can continue to work with your officers :

- revisit the current project timetable;
- an early in-year financial hard close;
- review the format of your accounts;
- review your approach to estimates;
- review your year-end journal process;

- review the operation of your ledger system; and
- consider how fit for purpose is your current financial reporting system?

We attend monthly Operational Delivery Group meetings with the finance team and use this as a mechanism to discuss options for early close and early substantive testing. We will continue to provide the Committee with regular updates on our progress in this area.

Other issues of interest

In addition to our formal reporting and deliverables we provide practical business insights and updates on regulatory matters through our Sector Briefings. We attach the latest briefing to this progress report.

Timetable

We set out below a timetable showing the key stages of the audit, including the value for money work, and the deliverables we will provide to you through the 2015/16 Governance Committee cycle.

Audit phase	EY Timetable	Deliverable	Reported	Status
High level planning	Ongoing	Audit Fee Letter	Issued 24 April 2015	Completed
Risk assessment and setting of scope of audit	Dec 2015 - January 2016	Audit Plan	April 2016	In progress
Testing of routine processes and controls	Feb-March 2016	Audit Plan/Progress Report	April 2016	In progress
Year-end audit	August- September 2016	Audit results report to those charged with governance Audit report (including our opinion on the financial statements and a conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources) Whole of Government Accounts Submission to NAO based on their group audit instructions Audit Completion certificate	August 2016	Work is planned to start during June 2016.

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