

Annual Governance Report

Southampton City Council
September 2010



Audit 2009/10

 **audit**
commission

Outline structure of this report

- What we do and why?
- Key messages
- What did we find at Southampton City Council?
 - Financial Statements
 - Value for Money
- Recommendations
- What does the Council need to do?

Supplements 1-6

What we do and why?

- **Financial statements' opinion**

- The Authority's financial statements and annual governance statement are important means by which the Authority accounts for its stewardship of public funds. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

- **Value for money conclusion**

- I am required to decide whether the Authority put in place satisfactory corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. I have based my conclusion on my work on the scored use of resources judgement.

Key messages

Financial statements

- Unqualified audit opinion?

(*Subject to peer review in respect of HRA heating charges)

Yes*

- Free from material error?

Yes*

- Adequate internal control environment?

(** Except in respect of HRA heating charges)

Yes**

Value for money

- Adequate arrangements?

Yes

What does the Council need to do?

- Consider the matters raised in the report before approving the financial statements.
- Take note of the adjustments to the financial statements which are set out in this report (Supplement 2).
- Be aware of the audit work that has still to be completed prior to the audit opinion being given (Supplement 3)
- Approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Supplement 4).
- Agree your responses to the proposed action plan (Supplement 6).

What did we find at Southampton City Council?

Financial statements - summary

- We expect to issue an unqualified opinion on the financial statements on or before the 30 September 2010 (see Supplement 1).
 - We identified a number of amendments which have been made (see Supplement 2).
 - Supplement 3 summarises the work that we need to complete before the audit opinion can be given.
 - We identified some important weaknesses in internal control and will explain them later in this presentation.
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What did we find at Southampton City Council?

Financial Statements – What key risks did we plan to review?

Risks in the opinion plan:

- Whether the Council has correctly applied IFRIC 12 (service concessions) to its PFI and similar contracts
- Whether the Council has correctly applied the new accounting requirements for local taxation
- Whether the Council has complied with the new disclosure requirements for senior employees pay and benefits
- Whether appropriate provisions and contingent liabilities have been disclosed for equal pay claims and redundancies
- Whether the Council has correctly dealt with the issues we raised last year

AND

- Other issues arising during the audit

IFRIC12 (Service concessions) PFIs and similar contracts

The Council has identified which of its contractual and other arrangements are affected by this new reporting standard and correctly applied the standard in its accounts.

But

- The analysis of Schools PFI unitary payments has been amended to more accurately reflect the composition of these payments and changes to the internal rate of return (see supplement 2 – item 2 in table 1 and item 2 in table 2)
- An additional disclosure of future obligations for the Street Lighting PFI that is in operation from 1 April 2010 has been added in order to comply with the requirements of the SoRP (see supplement 2 - item 3 in table 2)
- Analysis of BUPA Care Homes unitary payments in 2009/10 corrected to reflect the composition of the payments that were made (see supplement 2 – item 4 in table 2)

Accounting for local taxation

- The Council complied with the new accounting requirements and restated prior year comparatives.
- Officers have amended the previously approved statements to correct previous years; Council Tax summons and liability costs, and NNDR arrears (see supplement 2 – item 5 in table 1)

Senior employees pay and benefits

Senior employees pay and benefits have been disclosed in line with the requirements of the Statement of Recommended Practice (SoRP)

Provisions and contingent liabilities

Equal pay claims - (before the opinion is given)

- Provision will need to be made in respect of the 'equal pay claims';
- We have agreed the accounting entries to be made but not the amount.

Redundancies

- We are satisfied that the Council has correctly accounted for redundancies during 2009/10.

Review of 2008/09 audit issues

The Council has ensured that the five errors we reported last year have not been repeated.

Other issues arising during the audit

- There were no new risks that we became aware of during the audit;
- Supplement 2 summarises all of the non-trivial adjustments to the prime statements and the notes to the core financial statements, that have been agreed with officers;
- Supplement 3 summarises the work that we still need to complete before the opinion on the financial statements can be given; and
- There were a number of minor disclosure amendments that have been agreed with your officers.

Important weaknesses in internal control

Heating charges (Tenants and Leaseholders) 1

Electors have raised concerns over the accuracy of the Council's records of electricity meters which are used to recharge tenants for heating charges.

'Energy costs' and 'Tenant charges for services and facilities' are material entries in the Housing Revenue Account

Testing has shown:

- An error and a significant number of uncertainties in the Council's records of electricity meters which are used to recharge tenants;
 - The maximum error/uncertainty is £765,500;
 - Inadequate controls over changes to the record of electricity meters;
 - Poor management of electricity meter surveys; and
 - The same may apply to gas meters.
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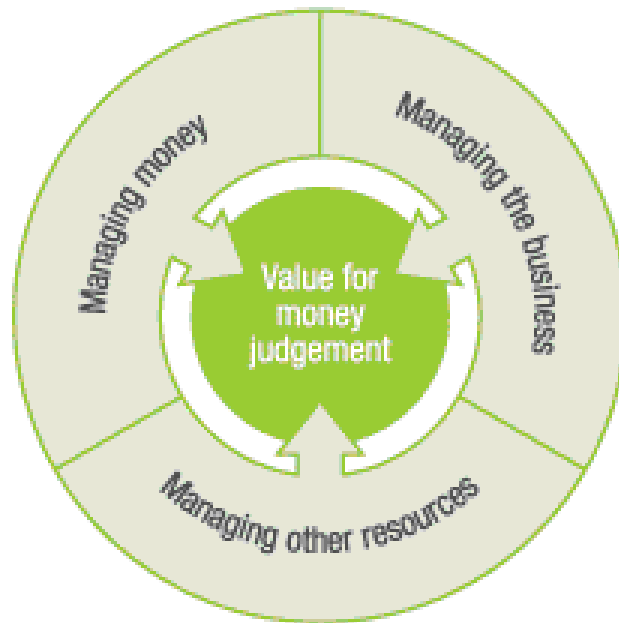
Important weaknesses in internal control

Heating charges (Tenants and Leaseholders) 2

Next steps:

- Members should agree to adjust the error and uncertainties in the financial statements that I have identified but that management has declined to amend, or set out the reasons for not doing so in the letter of representation;
 - Awaiting the outcome of a peer review before giving the opinion;
 - DA to respond to the elector before the audit can be closed;
 - DA to consider any other reporting requirements; and
 - Improvements must be made by the Council in 2010/11 and any errors corrected.
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What did we find at Southampton City Council – value for money conclusion?



- Proper arrangements in place for each VFM criterion;
- The criterion are set out in Supplement 5;
- Reliance has been placed on our Use of Resources assessment and local risk work;
- I will give an **unqualified** VFM conclusion for the year ended 31 March 2010.

Recommendations

Record of electricity meters in dwellings:

- R1 Review the record of electricity meters and implement a more effective database and system of controls.
- R2 Confirm the designation of electricity meters; and
- R3 establish the extent of the errors in meter records and whether it is possible to assess the impact on past charges to tenants and leaseholders.

Record of gas meters in dwellings:

- R4 Review the record of gas meters to determine if there are similar weaknesses in these records and how improvements can be made.

Audit Fee 2009/10 & Independence

- I can confirm that the audit has been delivered within my initial estimates.
- I will separately invoice the fee for dealing with correspondence with electors – totalling £18,250 at the end of August 2010.
- I can confirm that that I have carried out the audit in accordance with the Audit Commission’s policies on integrity, objectivity and independence

	Actual (£)	Plan (£)
Accounts	239,060	239,060
vfm	84,640	84,640
WGA	1,800	1,800
Audit Total	325,500	325,500

What does the Council need to do ?

- Consider the matters raised in the report before approving the financial statements.
- Take note of the adjustments to the financial statements which are set out in this report (Supplement 2).
- Note the additional audit work that will need to be completed prior to the audit opinion being given (Supplement 3).
- Approve the letter of representation on behalf of the Authority before I issue my opinion and conclusion (Supplement 4).
- Agree your responses to the proposed action plan (Supplement 6).