

Audit Summary Report

January 2007



Financial Statements Audit

Southampton City Council

Audit 2005/2006

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Introduction

- 1 This report covers the outcome of our audit of the Council's 2005/06 financial statements.
- 2 The Council approved the accounts on 27 June 2006, ahead of the statutory deadline of 30 June. We reported the main conclusions from the audit in our Annual Governance Report to the Standards and Governance Committee on 25 September 2006, and issued an unqualified opinion on the financial statements on 29 September 2006.
- 3 The quality of the accounts and supporting working papers presented for audit was greatly improved this year, with the need for only a minimal number of amendments to figures and disclosures. We would like to thank the finance staff for all their assistance provided during the course of the audit.

Audit approach

- 4 As part of our work to give an opinion on the Council's financial statements, we undertook a review of the key financial systems. The work undertaken has been set out in detail in our pre-statements report dated July 2006. We decided not to adopt a systems based approach for fixed assets and housing benefits, because the new fixed asset register was not fully implemented at that stage and our previous work had shown that we could not rely on controls in the benefits system.
- 5 Our overall conclusion was that controls operating in the systems tested were sufficiently effective for us to rely on them to underpin our audit of the general ledger.
- 6 As a result, our financial statements work focussed on:
 - substantive testing of the areas of the accounts where we had been unable to obtain assurance from our pre-statement work, principally Housing Benefits and Fixed Assets; and
 - assessing whether the statements complied with the Statement of Recommended Accounting Practice (SORP) and other relevant guidance.

Main conclusions

Housing benefits

- 7 While there have been improvements to the internal controls within the benefits system, we have again identified several issues through our opinion systems testing and early testing on the benefits subsidy claim. The following areas require particular attention:
- The coding of awards within the Academy system is inaccurate and this could lead to incorrect subsidy being claimed. This has been demonstrated under the local scheme awards, where war pensions can be disregarded from the claimants' income assessment. However, our testing had shown that some claimants not in receipt of war pension have been coded to the local scheme and conversely some claimants who are in receipt of war pensions have been excluded. We have drawn these matters to the attention of the Benefits Manager and are satisfied that they are being taken into account in the current programme of improvements.
 - Reconciliations between the benefits subsidy claim and the Agresso system figures have been difficult to follow and there are insufficient controls over reconciliations undertaken. This has resulted in the use of year-end journals to align the figures in the two systems. The suite of closedown reconciliations provided by the Academy system has not been used.
 - It is not clear how assurance on the correct completion of the subsidy claim is provided to the certifying officer. The proposal to appoint a Subsidy Officer within the benefits team should help to address this matter.

Recommendation

R1 Undertake regular and timely reconciliations between the Academy and Agresso systems.

Asset register

- 8 The Council continued throughout 2005/06 to reconcile the Property Management Database, maintained by its valuers, to the asset register held by Corporate Finance. Our testing in this area has indicated that these systems are now reconciled, but there needs to be a process in place for regular reconciliations in future in order to ensure the records are maintained up to date.

Recommendation

R2 Ensure there are processes in place to maintain the asset register up to date and consistent with the property database.

FRS17 - unfunded liabilities

- 9 The Council is one of only two authorities in Hampshire that do not request an actuarial valuation of unfunded local government pension scheme liabilities, choosing instead to use a simplified estimation technique based on LAAP51 without actuarial input. A more accurate valuation could be obtained from the actuary at little cost, and the Council should consider whether this approach would be more appropriate in the interests of fair presentation of its financial position.

<i>Recommendation</i>
<i>R3 Request the valuation of unfunded pension liabilities from the scheme's actuary in future years.</i>

Unadjusted errors

- 10 In the course of our audit we identified a small number of non-material errors that were not adjusted in the financial statements. These are set-out for information in Appendix 1.

Next steps

- 11 We have brought together our recommendations into an Action Plan at Appendix 2 and have agreed the actions and target dates with officers.

Appendix 1 – Unadjusted errors

Table 1 Unadjusted errors in the 2005/06 financial statements

The following errors and uncertainties were identified in the course of our audit

Item of Account	Value of over/under-statement (£000)	Comment
Creditors	1,183	Estimated under-statement of accruals
Insurance provision	641	Overstatement of insurance liability
Insurance provision	435	Overstatement of insurance provision
Housing Benefit debtor	169	Unreconciled difference to subsidy claim
Housing Benefits cheques account	37	Uncleared difference on bank reconciliation
Housing Benefits debtors reconciliation	20	Uncleared difference on bank reconciliation
Rents	9	Uncleared difference in reconciliation of iWorld and Agresso
BACS payroll account	2	As above

Source: Audit working papers

Appendix 2 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
5	R1 Undertake regular and timely reconciliations between the Academy and Agresso systems.	3	Rob Carr, Head of Finance	Yes	Accepted that action is necessary but, because of the workload implications of full reconciliations and the potential problems of introducing an interface, further consideration is being given to the best way to address this issue.	31 March 2007
5	R2 Ensure there are processes in place to maintain the asset register up to date and consistent with the property database.	3	Rob Carr, Head of Finance Paul Mansbridge, Property Services	Yes	Finance and Property Services are continuing to work together to ensure that the two systems are up to date and to improve the processes for sharing information.	31 March 2007
5	R3 Request the valuation of unfunded pension liabilities from the scheme's actuary in future years.	2	Rob Carr, Head of Finance	Yes		31 March 2007