

STANDARDS AND GOVERNANCE COMMITTEE

Wednesday, 28th September, 2011
at 3.00 pm

PLEASE NOTE TIME OF MEETING

Committee Room 1 - Civic Centre

This meeting is open to the public

Members of the Committee

Councillor Burke
Councillor Drake
Councillor Matthews (Mayor)
Councillor Noon
Councillor Osmond
Councillor Parnell
Councillor Turner

Independent Members

Mr Brian Hooper (Chair)
Mr David Blake
Mrs Elizabeth Hale
Mr Geoff Wilkinson

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PUBLIC INFORMATION

Role of the Standards and Governance Committee

The Committee has responsibility for:

- the promotion and maintenance of high standards of conduct by Councillors and Council representatives,
- the maintenance, monitoring and revision when necessary of the Member's Code of Conduct,
- the operation of and variations to the City Council's Constitution,
- the maintenance of a process to reprimand Councillors for breaches of conduct outside the local code, and in any other areas subject to the direction of the National Standards Board.

The Committee is chaired by an Independent Member. It includes at least one Councillor from each of the political groups represented on the Council, and at least one independent person, with voting rights, who is not a Councillor or an Officer of the Council.

Public Representations

At the discretion of the Chair, members of the public may address the meeting about any report on the agenda for the meeting in which they have a relevant interest.

Southampton City Council's Seven Priorities

- More jobs for local people
- More local people who are well educated and skilled
- A better and safer place in which to live and invest
- Better protection for children and young people
- Support for the most vulnerable people and families
- Reducing health inequalities
- Reshaping the Council for the future

Smoking policy – The Council operates a no-smoking policy in all civic buildings.

Mobile Telephones – Please turn off your mobile telephone whilst in the meeting.

Fire Procedure – in the event of a fire or other emergency a continuous alarm will sound and you will be advised by Council officers what action to take.

Access – Access is available for disabled people. Please contact the Democratic Support Officer who will help to make any necessary arrangements.

Dates of Meetings: Municipal Year 2011/12

2011	2012
27 th June	16 th April
8 th September*	
28 th September	
13 th December	

CONDUCT OF MEETING

Terms of Reference

The terms of reference of the Standards and Governance Committee are contained in Article 9 and Part 3 (Schedule 2) of the Council's Constitution.

Business to be discussed

Only those items listed on the attached agenda may be considered at this meeting.

Quorum

The minimum number of appointed Members required to be in attendance to hold the meeting is 3 (including 1 Independent Member).

Rules of Procedure

The meeting is governed by the Council Procedure Rules as set out in Part 4 of the Constitution.

Disclosure of Interests

Members are required to disclose, in accordance with the Members' Code of Conduct, **both** the existence **and** nature of any "personal" or "prejudicial" interests they may have in relation to matters for consideration on this Agenda.

Personal Interests

A Member must regard himself or herself as having a personal interest in any matter:

- (i) if the matter relates to an interest in the Member's register of interests; or
- (ii) if a decision upon a matter might reasonably be regarded as affecting to a greater extent than other Council Tax payers, ratepayers and inhabitants of the District, the wellbeing or financial position of himself or herself, a relative or a friend or:-
 - (a) any employment or business carried on by such person;
 - (b) any person who employs or has appointed such a person, any firm in which such a person is a partner, or any company of which such a person is a director;
 - (c) any corporate body in which such a person has a beneficial interest in a class of securities exceeding the nominal value of £5,000; or
 - (d) any body listed in Article 14(a) to (e) in which such a person holds a position of general control or management.

Prejudicial Interests

Having identified a personal interest, a Member must consider whether a member of the public with knowledge of the relevant facts would reasonably think that the interest was so significant and particular that it could prejudice that Member's judgement of the public interest. If that is the case, the interest must be regarded as "prejudicial" and the Member must disclose the interest and withdraw from the meeting room during discussion on the item.

It should be noted that a prejudicial interest may apply to part or the whole of an item.

Where there are a series of inter-related financial or resource matters, with a limited resource available, under consideration a prejudicial interest in one matter relating to that resource may lead to a member being excluded from considering the other matters relating to that same limited resource.

There are some limited exceptions.

Note: Members are encouraged to seek advice from the Monitoring Officer or his staff in Democratic Services if they have any problems or concerns in relation to the above.

Principles of Decision Making

All decisions of the Council will be made in accordance with the following principles:-

- proportionality (i.e. the action must be proportionate to the desired outcome);
- due consultation and the taking of professional advice from officers;
- respect for human rights;
- a presumption in favour of openness, accountability and transparency;
- setting out what options have been considered;
- setting out reasons for the decision; and
- clarity of aims and desired outcomes.

In exercising discretion, the decision maker must:

- understand the law that regulates the decision making power and gives effect to it. The decision-maker must direct itself properly in law;
- take into account all relevant matters (those matters which the law requires the authority as a matter of legal obligation to take into account);
- leave out of account irrelevant considerations;
- act for a proper purpose, exercising its powers for the public good;
- not reach a decision which no authority acting reasonably could reach, (also known as the "rationality" or "taking leave of your senses" principle);
- comply with the rule that local government finance is to be conducted on an annual basis. Save to the extent authorised by Parliament, 'live now, pay later' and forward funding are unlawful; and
- act with procedural propriety in accordance with the rules of fairness.

AGENDA

Agendas and papers are now available via the Council's Website

1 APOLOGIES

To receive any apologies.

2 DECLARATIONS OF INTEREST

In accordance with the Local Government Act, 2000, and the Council's Code of Conduct adopted on 16th May 2007, Members to declare any personal or prejudicial interests in any matter included on the agenda for this meeting.

NOTE: Members are required, where applicable, to complete the appropriate form recording details of any such interests and hand it to the Democratic Support Officer prior to the commencement of this meeting.

3 STATEMENT FROM THE CHAIR

4 STATEMENT OF ACCOUNTS

Report of the Head of Finance (Chief Financial Officer) seeking the Committee's approval of the Statement of Accounts 2010/11, attached.

5 ANNUAL GOVERNANCE REPORT

Report of the Chief Internal Auditor summarising the findings of the Audit Commission's 2010/11 draft Annual Governance Report, attached.

Tuesday, 20 September 2011

Head of Legal and Democratic Services

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Agenda Item 4

DECISION-MAKER:	AUDIT COMMITTEE STANDARDS AND GOVERNANCE COMMITTEE
SUBJECT:	STATEMENT OF ACCOUNTS 2010/11
DATE OF DECISION:	22 SEPTEMBER 2011 28 SEPTEMBER 2011
REPORT OF:	HEAD OF FINANCE (CHIEF FINANCIAL OFFICER)
STATEMENT OF CONFIDENTIALITY	
NOT APPLICABLE	

BRIEF SUMMARY

In accordance with the Accounts and Audit Regulations 2011 the Financial Statements 2010/11, which were signed by the Chief Financial Officer (CFO) on 30 June 2011, are submitted for approval to the Audit Committee and Standards and Governance Committee. The statutory deadline for approving the accounts has changed from the 30 June to the 30 September.

The accounts that have been submitted for approval have been the subject of the Annual Audit and reflect all agreed amendments to date.

Under 8.3(c) of the Regulations after approval the accounts must be signed and dated by the person presiding at the meeting.

However, as the Audit has not been formally signed off there may be some late changes which will be reported to the Standards and Governance Committee after the completion of the Audit on 30 September 2011.

RECOMMENDATIONS:

AUDIT COMMITTEE

It is recommended that Audit Committee:

- (i) Recommend to the Standards and Governance Committee that the 2010/11 Statement of Accounts be approved.
- (ii) Review and consider the accounting policies adopted by the authority;

STANDARDS AND GOVERNANCE COMMITTEE

It is recommended that Standards and Governance Committee:

- (i) Approve the Statement of Accounts 2010/11 and that they be signed by the person presiding at the meeting subject to any changes required after the completion of the Audit.
- (ii) Approve, if necessary, any changes required to the draft accounts following the completion of the Annual Audit; a schedule of which will be provided.

REASONS FOR REPORT RECOMMENDATIONS

1. It is a legal requirement to that the Statement of Accounts 2010/11 be approved and signed by the person presiding at the meeting, subject to any changes required after the completion of the Audit, by 30 September 2011.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. The Financial Statements have been prepared in accordance with statutory accounting principles. No other options have been considered as it is a legal requirement that the Financial Statements are prepared and signed by the person presiding at the meeting to approve the Financial Statements by 30 September.

DETAIL (Including consultation carried out)

CONSULTATION

3. Not applicable

FINANCIAL STATEMENTS

4. The Financial Statements are a complex document and the layout and information provided are defined by statutory requirements. The key issues that should be drawn to the attention of the Committees are detailed below.

CHANGES TO THE 2010/11 ACCOUNTS

5. The Financial Statements for 2010/11 are the first to be prepared on an International Financial Reporting Standards (IFRS) basis, adapted for the public sector by the Code of Practice on Local Authority Accounting (The Code). This has resulted in the restatement of some opening balances and transactions, with the result that some prior year comparative figures in the Financial Statements for 2010/11 are different from the equivalent figures presented in the 2009/10 financial statements.

6. The Accounting Policies applied to the 2010/11 Financial Statements have been reviewed and changed, where appropriate, to comply with IFRS

The main changes are:

- **Property, Plant and Equipment** - Property, Plant and Equipment (previously known as fixed assets) 'have been renamed, reclassified and redefined. The Code also requires changes in the value of investment property to be charged, along with other expenditure and income from investment properties, to the Comprehensive Income and Expenditure Statement.
- **Cash and cash equivalents** - The definition of Cash and Cash Equivalents has changed and they are now represented by cash in hand, deposit accounts and Money Market Funds which are repayable without penalty on notice of not more than 24 hours.
- **Government Grants and Contributions** - Under the Code, grants and contributions for capital schemes are recognised as income when they become receivable and any conditions have been met. Previously, unused grants were held in a Capital Grants & Contributions Unapplied account in the Liabilities section of the Balance Sheet until they were expended, at which point they were transferred to Government Grants & Contributions Deferred account and recognised as income over the life of the assets which they were used to fund.

- **Leases Reclassification** - As part of the implementation of IFRS the Council has reclassified a number of Plant and Equipment operating leases to finance leases.
- **Short-Term Accumulating Absences** - The Council has made an accrual for the cost of Teacher's Annual Leave entitlement not taken by the year end, in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) methodology. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs. No Accrual has been made in respect of annual leave and flexi-time carried forward by non-teaching staff as this is considered not to be material.

7. These changes have had no effect on the General Fund balances available to the authority or on Council Tax.

GENERAL FUND REVENUE EXPENDITURE AND INCOME

8. The Financial Statements present the Income & Expenditure Account in a statutory format which includes notional costs that have no impact on the Council Tax charge.

The table on page 4 of the Financial Statements presents the Council's expenditure and income in a format that shows the net impact on the General Fund Balance, compared to budget. This shows that the revised budget assumed a total contribution from reserves of £3.9M.

However, during the year, the Council has made changes to the revised budgets which were reported to Cabinet in February 2011. Compared to this working budget, the Council's actual expenditure for the year is £4.7M under budget and this is made up as follows:

	£000's
Reductions in Portfolio Spending	2,485
Reduced Net Borrowing Costs Due to Lower Interest Rates and Re-phasing of the Capital Programme	1,652
Reduction and Re-phasing of Project Costs (Funded from within the Revenue Development Fund)	235
Unspent Contingencies	211
Other Variations	73
Total	4,656

9. Against this are requests to carry forward budget of £629,000 (of which £158,000 relates to central repairs and maintenance) which will be subject to approval by Council. Further draws on the overall favourable position of £4.7M (subject to approval by Full Council) include:

- Revenue Development Fund (£100,000) – In recognition of the fact that there are uncertainties in relation to timing and speed of progress of complex and strategic projects, the funding for these projects has been placed into a Revenue Development Fund from 2010/11 to enable the Council to retain flexibility in funding. The outstanding funding at the end of 2010/11 is £235,200 and it is proposed that £100,000 of this under spend is carried into 2011/12 and added to the Revenue Development Fund.
- Organisational Development Reserve (£3,986,600) – Every year as part of the outturn position officers review the funding within the strategic reserve to deal with organisational change. It is proposed this year given the overall under spend to contribute an additional £4.0M into the Organisational Development Reserve which is used for restructuring, re-training, redeployment and redundancy costs in future years.

GENERAL FUND BALANCES

10. The General Fund balance stands at £17.4M and is used as a working balance and to support future spending plans. This compares to a balance of £19.8M at the end of 2009/10.
11. Commitments have been proposed which subject to approval by Council will leave an uncommitted value of balances totalling £4.5M in the medium term which is in line with the minimum level recommended by the CFO following a risk assessment of the required level to be maintained.

HOUSING REVENUE ACCOUNT (HRA)

12. The table on page 6 of the Financial Statements presents the Council's expenditure and income in a format that shows the net expenditure within the HRA compared to budget. This shows that the budget assumed a deficit of £389,000.

Actual net expenditure for the year is a surplus of £34,000 which compared to the budgeted deficit results in an under spend of £423,000. This is made up as follows:

	£000's
Net Saving on Total Repairs	139
Savings on Supervision & Management	287
Savings on Capital Financing	221
Increase in Subsidy Paid to CLG	(101)
Reduction in Dwelling Rent Income	(120)
Other Variances	(3)
Total	423

CAPITAL EXPENDITURE

13. In 2010/11 the Council spent £126.8M on capital projects. This was £13.3M less than the approved estimates, due largely to re-phasing of expenditure which will now be incurred in 2011/12. Of this expenditure £93.2M related to the General Fund and £33.6M to the HRA.

THE COLLECTION FUND

14. The Collection Fund had a surplus for the year of £38,100. There was a surplus brought forward from 2009/10 of just over £4.0M, to give a surplus to be carried forward of £4.1M. When setting the Council Tax for 2011/12 in February 2011, it was estimated that there would be a surplus of £3.8M to be carried forward.
15. This estimated surplus was taken into account in setting the 2011/12 Council Tax and was shared by the City Council, Hampshire Police Authority and the Hampshire Fire and Rescue Authority in proportion to the precepts levied by each authority in 2010/11. This leaves a surplus of £296,700 that will be carried forward to 2011/12 to be shared between the precepting authorities in proportion to the precepts levied in this year. Southampton City Council's element will then be taken into account when the Council Tax for 2012/13 is set.

PENSIONS

16. In 2010/11, the Council paid an employer's contribution of £23.0M into Hampshire County Council's Pension Fund. The employer's rate in 2010/11 was 19.1% of employees' pay. The rate set for 2011/12 is 13.1% of employees' pay plus a fixed payment equivalent to 6.0% of the payroll as at 31 March 2010.
17. The Council's share of the assets in the Hampshire County Council pension fund at 31 March 2011 was £457.3M, compared to its estimated liabilities of £760.8M, giving an estimated deficit on the Fund of £303.5M (£409.0M in 2009/10).
18. In its budget on 22 June 2010 the Government announced that future increases in public sector pensions will reflect movements in the Consumer Price Index (CPI), effective from April 2011. Increases were previously determined by reference to the Retail Price Index (RPI).
19. The rate at which pensions will increase is one of the key factors in determining the liabilities of defined benefit pension funds. Any change in the rate at which pensions will increase will therefore affect the value of pension fund liabilities. The CPI differs from, and tends to be lower than, the RPI. The change from RPI to CPI has resulted in a reduction in the pension liability and therefore the pension deficit on the balance sheet. This £100.7M reduction in liabilities, due to the above change, has been accounted for as a (negative) past service cost, and has been treated as an exceptional item both within the Comprehensive Income and Expenditure Statement £90.8M and the HRA Income and Expenditure Statement £9.9M.

20. The deficit will be made good by taking into account anticipated changes in market conditions, levels of anticipated employee contributions and future employer contributions.

ACCOUNTING POLICIES

21. The Council's accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in Great Britain, which is recognised by statute as representing proper accounting practices and meets the requirements of the Accounts and Audit regulations 2011.
22. The Accounting Policies are described in detail on pages 16 to 32 of the Financial Statements and cover such items as:
- Fixed assets
 - Depreciation
 - Pensions
 - Accruals
 - PFI contracts
 - VAT
 - Leasing

The Audit Committee will be asked to review the policies adopted and note the new policies adopted for 2010/11 under 'Accounting Issues and Developments' on pages 9 and 10 of the Financial Statements.

However, it should be borne in mind that the majority of the accounting policies adopted by the Council are in line with CIPFA's Code of Practice on Local Authority Accounting (the CODE) and the Audit Committee and the Standards and Governance Committee would therefore be more likely to be interested if the Council were to depart from the recognised practice.

FINANCIAL STATEMENTS AMENDMENTS

23. There were a number of mainly presentational, and additional disclosure adjustments to the Draft Financial Statements signed by the CFO on 30 June 2011 and presented for Audit.
24. The latest Draft Financial Statements along with full details of any changes made are available in Members rooms or on request from the report author but the main adjustments were:
- Amendment to the Cash Flow Statement as not updated for a late adjustment to provisions;
 - PFI Future obligations table required to be slightly amended and additional disclosure with respect to Street Lighting payments in 2010/11;
 - Financial Instruments disclosures required to be amended as excluded a category of Financial Instrument;
 - Events after the Balance Sheet Date – Additional disclosure required with regard to Pooled Budget arrangement with NHS Southampton of £15.2 per annum for 10 years (Integrated Commissioning of Learning Disability Services and financial arrangements);

- Capital Commitments – Additional disclosure with regard to Lordshill Academy of £13.96M; and
- Capital Grants and Contributions Receipts in Advance – Additional disclosure table and note added.

25. The Annual Governance Report prepared by the Audit Commission is on the Agenda for consideration and the high level findings are that an unqualified opinion has been issued in relation to both the Financial Statements and the arrangements in place to secure value for money.

RESOURCE IMPLICATIONS

Capital

26. The capital implications were considered as part of the Capital Outturn report presented to Council on 14 July 2011.

Revenue

27. The revenue implications were considered as part of the Revenue Outturn report that was presented to Council on 14 July 2011.

Property/Other

28. There are no specific property implications arising from this report.

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

29. Accounts and Audit Regulations 2011

Other Legal Implications:

30. None.

POLICY FRAMEWORK IMPLICATIONS

31. Not applicable. It should be noted that the Financial Statements are prepared in accordance with CIPFA's code of Practice on Local Authority Accounting in the UK.

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KEY DECISION? Yes/No

WARDS/COMMUNITIES AFFECTED:	N/A
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SUPPORTING DOCUMENTATION

Non-confidential appendices are in the Members' Rooms and can be accessed on-line

Appendices

1.	None
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Documents In Members' Rooms

1.	Latest Draft Financial Statements 2010/11
2.	Schedule of Changes Made to Draft Financial Statements Signed by CFO on 30 June 2011

Integrated Impact Assessment

Do the implications/subject of the report require an Integrated Impact Assessment (IIA) to be carried out.	Yes/No
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Other Background Documents

Integrated Impact Assessment and Other Background documents available for inspection at:

Title of Background Paper(s)

Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)

1.		
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Agenda Item 5

DECISION-MAKER:	STANDARDS AND GOVERNANCE COMMITTEE
SUBJECT:	AUDIT COMMISSION: DRAFT ANNUAL GOVERNANCE REPORT 2010/11
DATE OF DECISION:	28 SEPTEMBER 2011
REPORT OF:	CHIEF INTERNAL AUDITOR
STATEMENT OF CONFIDENTIALITY	
None	

BRIEF SUMMARY

The Annual Governance Report summarises the findings from the 2010/11 audit which is substantially complete. It includes the messages arising from the audit of the Council's financial statements and the results of the work undertaken to assess how well the Council uses and manages their resources to deliver value for money.

RECOMMENDATIONS:

- (i) That the Standards and Governance Committee notes the Audit Commission's reports as attached.

REASONS FOR REPORT RECOMMENDATIONS

1. The Audit Committee's Terms of Reference require it to be satisfied and provide assurance to the Standards and Governance Committee that appropriate action is being taken on risk and internal control related issues identified by the external auditors. Specifically, the Committee has responsibility for oversight of the reports of external audit.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. None

DETAIL (Including consultation carried out)

3. The reports, as attached, have been discussed and agreed with the Chief Executive, Director of Corporate Services and Head of Finance. The following Audit Commission reports are attached for consideration in the appendix:
 - Draft Annual Governance Report 2010/11

The external auditor will be in attendance at the Committee meeting to answer any questions.

RESOURCE IMPLICATIONS

Capital/Revenue

4. None

Property/Other

5. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

6. The duties and powers of auditors appointed by the Audit Commission are set out in the Local Government Act 1999.

Other Legal Implications:

7. None

POLICY FRAMEWORK IMPLICATIONS

8. None

AUTHOR:	Name:	Neil Pitman	Tel:	023 8083 4616
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KEY DECISION? Yes/No No

WARDS/COMMUNITIES AFFECTED:	N/A
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SUPPORTING DOCUMENTATION

Non-confidential appendices are in the Members' Rooms and can be accessed on-line

Appendices

1.	Audit Commission: DRAFT Annual Governance Report 2010/11
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Documents In Members' Rooms

1.	None
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Integrated Impact Assessment

Do the implications/subject of the report require an Integrated Impact Assessment (IIA) to be carried out.	No
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Other Background Documents

Integrated Impact Assessment and Other Background documents available for inspection at:

Title of Background Paper(s)

Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)

1.	None
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Annual governance report

Southampton City Council

Audit 2010/11



Agenda Item 5

Appendix



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Traffic light explanation

Red ■ Amber ◆ Green ●

Key messages

This report summarises the findings from the 2010/11 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Our findings

Unqualified audit opinion



Proper arrangements to secure value for money



Audit opinion and financial statements

Subject to clearance of outstanding matters I plan to issue an unqualified audit opinion on your financial statements. Your accounts and supporting working papers were well prepared.

Value for money

I intend to issue an unqualified audit opinion on your arrangements to secure economy, efficiency and effectiveness in the use of resources.

As a Council, you:

- prepared your accounts on time and complied with the accounting code of practice for Local Government;
- delivered your 2010/11 budget;

- approved a balanced 2011/12 budget and responded promptly to the government's spending review;
- adopted an appropriate medium term financial plan identifying an initial funding shortfall of £49.5m and efficiencies and savings totalling £36.1m over the three years to 2013/14;
- are addressing the remaining shortfall, £13.2m phased £3m in 2012/13 rising to £13.2m cumulatively by 2013/14, through the budget setting process with a draft budget to be presented to Cabinet in October 2011;
- implemented your Highways Strategic Partnership and Street Lighting PFI and began to realise the planned benefits through these schemes; and
- delivered the first phase of your estates regeneration programme that has provided valuable experience and expertise that you can rely on when planning the initial stages of phase 2.

It is important that you now:

- complete the organisational restructure to improve how the Council works, including the planned reduction in management posts; and
- deliver the planned efficiencies and savings included in your financial plans.

Before I complete my audit

I confirm to you

My report includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

Independence

I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) – Integrity, Objectivity and Independence. I have previously reported the steps that I have taken to ensure there are no threats to my independence, objectivity and integrity.

I have not undertaken, and neither has the audit practice undertaken, any non-audit work for the Council during 2010/11.

I ask you to confirm to me

I ask the Council to:

- Consider the matters presented in this report;
- approve the letter of representation, provided alongside this report, for the Council before I issue my opinion and conclusion

Financial statements

Your financial statements and annual governance statement are important means by which you account for your stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an unqualified opinion on your financial statements. Appendix 1 contains a copy of my draft audit report.

The 2010/11 audit cannot be formally closed and an audit certificate issued until I have completed my consideration of matters that have been brought to my attention by local authority electors, about your 2009/10 financial statements. I am satisfied that these matters do not have a material effect on either the 2009/10 or 2010/11 financial statements.

Your financial statements

- 1 I am required to report to you those corrections made during my audit to your accounts that are, in my opinion, both important and relevant to your oversight of the financial reporting process.
- 2 There is only one error that I have identified that has not been corrected in your accounts. This is the Council's treatment of the 'equal pay provision' in the financial statements and in particular the Council's interpretation of Financial Reporting Standard 12 (FRS12). The Council has decided not to recognise its 'equal pay provision' in the financial statements because to do so would be prejudicial to its interest in ongoing litigation. I am satisfied that the provision is not material to my opinion audit, although it is above the threshold for trivial items (ie it amounts to more than £135k). I have asked officers to correct this misstatement, but they have declined to do so for the reasons set out above. Members should consider this issue before approving the 2010/11 financial statements and, if you agree with officers, include the reasons for not recognising the equal pay provision in the financial statements in the letter of management representations to me.

3 I have carefully considered each of the other adjustments made to your accounts, none affected the Council's general fund reserves or net asset position. Appendix 2 sets out details of the more significant corrections made that I judge are relevant to your responsibilities. Other than these, I identified five other non-material errors, none of which affected the Council's net assets or general fund balance. These errors included more minor omissions, misstatements or typographical errors in the notes to the core statements, and some inconsistencies between primary statements and supporting notes. Errors of this type are not unusual within the general accounts production process and in our view should not overly concern those charged with governance in approving the accounts. All the identified inconsistencies have now been amended. A few other minor presentational amendments to text and disclosures were made to ensure your statements fully comply with the accounting code of practice.

Specific risks identified by my planning

In planning my audit I identified specific risks and areas of judgement. I reported these to you in June and include below my final conclusions about each of them.

Key audit risk and our findings

Key audit risk

Finding

1. Transition to International Financial Reporting Standards (IFRS)

Your accounts comply with the IFRS

I planned to:

- review the restated accounts and comparatives for 2009/10 ahead of the year-end, and the revised accounting policies; and
- pay particular attention to the higher risk areas of Property, Plant and Equipment (especially leases, contracts with embedded leases and component accounting), segmental reporting and accruals for employee benefits.

2. PFI schemes

There are some areas where we have previously taken technical advice relating to the Schools PFI, the Waste Management contract, the Street Lighting PFI and BUPA care homes. The correct modelling of costs and recognition of assets remain relevant to the 2010/11 opinion audit

I have reviewed the treatment of PFI schemes and Non-PFI partnerships in your 2010/11 financial statements. There are no issues that I need to bring to your attention. There were two adjustments that were above my £135k triviality level that have been made. These were however immaterial and have not therefore been included in appendix 2.

3. Equal pay provision

The Council will need to consider how to respond to the equal pay claims that it has received and decide whether to provide for these in 2010/11.

The Council has provided for its 'equal pay provision' in its financial ledger, but not recognised the provision in the 2010/11 financial statements. The financial statements therefore do not agree to the ledger for this one item.

The Council has decided not to include this provision in its financial statements based on legal advice that to do so would prejudice its position in ongoing litigation. The Council believes Financial Reporting Standard 12 (FRS12) allows it not to include the provision in either the balance sheet or the notes.

I do not agree with the Council's interpretation of FRS12. I have sought technical advice which was that the provision should be included in the balance sheet but that FRS12 allows for the detail not be disclosed in the notes. Officers have declined to correct this misstatement for the reasons set out above.

You should consider this issue before approving the 2010/11 financial statements and, if you agree with officers, include the reasons for not recognising the equal pay provision in the financial statements in the letter of management representations to me.

4. Bank reconciliation

At the time of my pre statements audit the main bank account reconciliation included income which had not been accurately identified in both the IKON system (£3m) and the bank account (£2m). These balances were shown as reconciling items.

I have tested the bank reconciliation at the 31 March 2011 and confirmed there are no unidentified bankings/ credits in the reconciliation.

Significant weaknesses in internal control

I have not identified any significant weaknesses in internal control that I need to bring to your attention resulting from my 2010/11 audit.

I am still responding to matters brought to my attention by an elector about the heating charges that the Council has levied on tenants and leaseholders. These matters relate to the 2009/10 financial statements. Following my 2009/10 audit I made a few recommendations to improve the internal controls over heating charges. I have followed up the Council's progress in implementing those recommendations. My findings are set out in the table below.

Internal control issues and our findings

Description of weakness

1. Heating charges to tenants and leaseholders

In 2009/10 I made four recommendations in respect of the tenant and leaseholder heating charges the Council raises and in particular the Council's meter record, which is used to calculate these charges.

I have worked with your Internal Auditors to review the progress the Council has made in addressing each of my recommendations. Where errors have been identified, I have tested the financial corrections made to the heating charges account in 2010/11.

Findings

The Council has:

- implemented a new computer based meter record (System link) that is being evaluated through parallel running with the old meter record;
- confirmed the designation of electricity meters, with less than 10 outstanding. Established the extent of errors in the old meter record, calculated the financial impact of these errors and adjusted the heating charges account;
- begun to establish the refund of costs due from energy suppliers where charges were still being made for redundant meters,
- removed the cost of energy used in sheltered housing communal areas from the heating charges account; and
- confirmed that just over half of properties have been visited by the end of August 2011 and the gas meter read as part of the gas servicing cycle.

Work still required

Officers need to:

- evaluate the effectiveness of the new 'System link' meter record, through a post implementation review;
- confirm the designation of meters in the remaining 6 properties and reclaim the cost of overcharged energy costs from its energy suppliers; and
- complete the review gas meters through the annual gas servicing cycle.

These weaknesses are only those I identified during my audit that are relevant to preparing the financial statements. I am not expressing an opinion on the overall effectiveness of internal control.

Quality of your financial statements

I also consider the non-numeric content of your financial reporting. Your financial statements for 2010/11 had to comply with IFRS for the first time. This put extra pressure on your staff. Despite this extra work your financial statements and working papers produced in line with agreed timetables. Working papers were once again produced to a good standard to support the entries and disclosures in the accounts.

There are no other matters I need to bring to your attention.

Other matters

Finally, I reviewed your annual governance statement and confirmed that it complies with the code requirements and our knowledge and experience of the Council.

There are no other matters I wish to bring to your attention.

Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. I have asked that you include your reasons for not recognising the 'equal pay provision' in your financial statements in your letter of representation.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission:

- the organisation has proper arrangements in place for securing financial resilience (Focus for 2010/11: The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future); and
- the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness (Focus for 2010/11: The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity).

My value for money conclusion

My overall conclusion is the Council has proper arrangements to secure, economy, efficiency and effectiveness in its use of resources. The Council has made progress against each of the areas that I highlighted in my audit last year. A summary of my findings is set out in the table below.

Criterion	Findings
Financial resilience	The Council has a track record of strong financial management. It has implemented a robust response to manage the impact of the government's comprehensive spending review and it is closely monitoring the delivery of its identified efficiencies and savings plans. It is maintaining balances at a prudent level, ensuring there are funds to meet unexpected costs, deliver key priorities and provide scope for 'invest to save' schemes. The Council is restructuring into three core front line directorates, supported by a central core. This is designed to improve the efficient working of the Council and will lead to a reduction of senior management posts and the realisation of savings. Phase 1 of the restructure is

completed. A new 'Management Board of Directors' was set up in April 2011 and the number of directorates was reduced to 5, reducing the number of directors that are in post. The consultation process on phase 2 started at the end of July 2011 and will end in September 2011, before the new structure is implemented in November 2011.

The Council has implemented revised staff 'terms and conditions' (T&Cs) of employment for staff, although this was delayed until 11 July 2011, resulting in a £1.3m reduction in the originally planned savings in 2011/12. This shortfall is being made good from other one-off sources in 2011/12.

The Council's capital programme was underspent by £13.3m (9 per cent) in 2010/11, General Fund (GF) £11.4 m and Housing Revenue Account (HRA) £1.9m. The future capital programme that has been agreed over programmes GF resources by £9.2m and HRA by £3m. While this level of future over programming is in line with the Council's predetermined tolerances of 5 per cent (£15.5m) it will require close management to ensure the capital programme remains realistic and achievable.

Economy

efficiency and effectiveness

The Council has taken action to prioritise resources and focus on its key corporate aims. Examples are as follows.

- Although almost all staff have accepted the revised Terms and Conditions that have been implemented as part of the planned savings programme, there has been industrial action that is still to be resolved which has been detrimental to front line services.
- The Council has implemented two major projects in 2010/11 the Highways Strategic Partnership (HSP) (£100m over 10 years) and the Street Lighting Partnership (£28.5m over 25 years). Realised benefits have been reported by these schemes in their first year. For example the HSP has achieved savings equivalent to £263k pa against the pre-HSP budgets in its first six-month period and financial cost savings of £211.8k against the four Highways Target Cost schemes. In its first year the Street Lighting PFI has delivered the replacement of 2,534 lighting units and has reduced energy consumption by 150,329 kWh. The Council is reviewing the governance and performance frameworks for these projects in 2011/12 and has responded positively to recommended improvements.
- The experience gained from the successful delivery of the phase 1 £16m Hinkler Parade estate regeneration scheme places the Council in a strong position when procuring and project managing the delivery of future estate regeneration schemes (phase 2 will be between £30m to £40m).
- Robust arrangements have been developed with the Southampton City Primary Care Trust for Adult Health and Social Care, combining annual budgets of £62.7m from the Council with £83m from Southampton City PCT. The application of these arrangements is being reviewed and tested by Internal Audit in 2011/12 to ensure that they are working effectively.
- External partners have been selected and contracts awarded for the management of the Council's sport and recreation facilities, these commenced in August and September 2010 respectively.

Appendix 1 - Draft Audit Report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTHAMPTON CITY COUNCIL

Opinion on the Authority accounting statements

I have audited the accounting statements of Southampton City Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account, the Movement on the Housing Revenue Account Statement and the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Southampton City Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Chief Financial Officer and Auditor

As explained more fully in the Statement of the Head of Finance Responsibilities, the Head of Finance is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of Southampton City Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011. I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, Southampton City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Delay in certificate of completion of the audit

The audit cannot be formally concluded and an audit certificate issued until I have completed my consideration of matters brought to my attention by a local authority elector in respect of the audit of the 2009/10 financial statements. I am satisfied that these matters do not have a material effect on the 2010/11 financial statements.

K. L. Handy
Officer of the Audit Commission
Collins House
Bishopstoke Road
Eastleigh
Hampshire
SO50 6AD

XX September 2011

Appendix 2 - Amendments made to your draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring the them to your attention to aid you in fulfilling your governance responsibilities.

Adjusted misstatement	Nature of adjustment	comprehensive income and expenditure statement		Statement of financial position	
		Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
<p>Financial foreword –Where the money came from</p> <p>The disclosed total amount of main sources of income for 2010/11 has been increased by £23.6m to £619.5m and 2009/10 by £50.7m to £594.6m.</p>	<p>The total amount of main sources of income had been misstated.</p>	N/A	N/A	N/A	N/A
<p>Equal pay provision</p> <p>Your original accounts included the 'equal pay provision' in the cash flow statement and supporting notes.</p>	<p>Following discussions, your officers removed this provision from the cash flow statement and supporting notes.</p>	N/A	N/A	N/A	N/A

<p>A transfer from 'provisions' to 'creditors' in respect of equal pay claims that had been determined in 2010/11 but not paid by 31 March 2011 has been reversed.</p>	<p>The original disclosure distorted the level of provisions made by the Council.</p>	N/A	N/A	N/A	N/A
<p>Events after the balance sheet date – note 8 The Council has disclosed an additional event after the balance sheet date in respect of the 'Integrated Commissioning of Learning Disabilities' agreement that it has entered with NHS Southampton City from the 1 April 2011.</p>	<p>This is a significant agreement that will involve the Council pooling £15.2 m per annum over the next 10 years.</p>	N/A	N/A	N/A	N/A
<p>Property, Plant and Equipment (capital commitments) – note 14 The Council's commitment in respect of the Lordshill Academy at 31 March 2011 has been added to note 14, totalling £13.96m.</p>	<p>This commitment had originally been omitted.</p>	N/A	N/A	N/A	N/A
<p>Capital grants and contributions receipts in advance – note 42 A detailed disclosure note has been added in respect of capital grants and contribution receipts in advance.</p>	<p>This disclosure is a requirement of the Code of Practice on local authority Accounting.</p>	N/A	N/A	N/A	N/A

Appendix 3 - Glossary

Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Materiality and significance

The Auditing Practices Board (APB) defines this concept as 'an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor's report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects'.

The term 'materiality' applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

‘Significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

Value for money conclusion

The auditor’s conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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0844 798 7070

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- any director/member or officer in their individual capacity; or
- any third party.



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September 2011

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