

# Southampton City Council Audit results report

Year ended 31 Month 2024

February 2025



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Audit Committee  
Southampton City Council  
Civic Centre  
Southampton, Hampshire,  
SO14 7LY

31 January 2025

Dear Audit Committee Members

2023/24 Audit results report

We are pleased to attach our audit results report, summarising the status of our audit for the forthcoming meeting of the Audit Committee. We will update the Audit Committee at its meeting scheduled for 12 February 2025 and explain the remaining steps to the issue of our final opinion.

The audit is designed to express an opinion on the 2023/24 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on Southampton City Council's (the Council) accounting policies and judgements and material internal control findings.

This report considers the impact of Government proposals, which have now been enacted through secondary legislation, to clear the backlog in local audit and put the local audit system on a sustainable footing. The proposals recognise that timely, high-quality financial reporting and audit of local bodies is a vital part of our democratic system. Not only does it support good decision making by local bodies, by enabling them to plan effectively, make informed decisions and manage their services, it ensures transparency and accountability to local taxpayers. All stakeholders have a critical role to play in addressing the audit backlog.

The Audit Committee, as the Council's body charged with governance, has an essential role in ensuring that it has assurance over both the quality of the draft financial statements prepared by management and the Council's wider arrangements to support the delivery of a timely and efficient audit. We consider and report on the adequacy of the Council's external financial reporting arrangements and the effectiveness of the audit committee in fulfilling its role in those arrangements as part of our assessment of Value for Money arrangements, and consider the use of other statutory reporting powers to draw attention to weaknesses in those arrangements where we consider it necessary to do so.

Given that Statutory Instrument 2024/907 "The Accounts and Audit (Amendment) Regulations 2024 ("SI 2024/907") imposes a backstop date of 28 February 2025 by which date we are required to issue our opinion on the financial statements, we have considered whether the time constraints imposed by the backstop date mean that we cannot complete all necessary procedures to obtain sufficient, appropriate audit evidence to support the opinion and fulfil all the objectives of all relevant ISAs (UK).

We have also taken into account SI 2024/907 and Local Authority Reset and Recovery Implementation Guidance Notes issued by the National Audit Office and endorsed by the Financial Reporting Council, together with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

As reported in our 27 November 2024 Audit Completion Report for the 2022/23 audit, we issued a disclaimed audit report on the Council's financial statements for 2022/23 under the arrangements to reset and recover local government audit. We did not plan significant work to rebuild assurance ahead of the 2023/24 backstop date, and so we have not obtained sufficient evidence to be able to conclude that the financial statements are free from material and pervasive misstatement. Taken together with the requirement to conclude our work by the 2023/24 back stop date, the lack of evidence over these movements and balances mean we are unable to conclude that the 2023/24 financial statements are free from material and pervasive misstatements. We therefore anticipate issuing a disclaimed 2023/24 audit opinion.

This report is intended solely for the information and use of the Audit Committee, and management, and is not intended to be and should not be used by anyone other than these specified parties.

Yours faithfully

Kevin Suter

Partner

For and on behalf of Ernst & Young LLP

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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/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits>). 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 July 2021)” 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 Audit 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 Audit 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 Audit 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.



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# 01 Executive Summary





# Executive Summary – Context for the audit

## Context for the audit – Measures to address local audit delays

Timely, high-quality financial reporting and audit of local bodies is a vital part of our democratic system. It supports good decision making by local bodies and ensures transparency and accountability to local taxpayers. There is general agreement that the backlog in the publication of audited financial statements by local bodies has grown to an unacceptable level and there is a clear recognition that all stakeholders in the sector need to work together to address this. Reasons for the backlog across the system have been widely reported and include:

- ▶ Lack of capacity within the local authority financial accounting profession
- ▶ Increased complexity of reporting requirements within the sector
- ▶ Lack of capacity within audit firms with public sector experience
- ▶ Increased regulatory pressure on auditors, which in turn has increased the scope and extent of audit procedures performed.

MHCLG (formerly DLUHC) has worked collaboratively with the FRC, as incoming shadow system leader, and other system partners, to develop and implement measures to clear the backlog. SI 2024/907, together with the updated National Audit Office Code of Audit Practice 2024 and the Local Authority Reset and Recovery Implementation Guidance, have all been developed to ensure auditor compliance with International Standards on Auditing (UK) (ISAs (UK)). The approach to addressing the backlog consists of three phases:

- ▶ Phase 1: Reset involving clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 13 December 2024.
- ▶ Phase 2: Recovery from Phase 1, starting from 2023/24, in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles. The backstop date for audit of the 2023/24 financial statements is 28 February 2025.
- ▶ Phase 3: Reform involving addressing systemic challenges in the system and embedding timely financial reporting and audit.

As reported in our 27 November 2024 Audit Completion Report to those charged with governance, we issued a disclaimed audit report on the Council's financial statements for 2022/23 under these arrangements to reset and recover local government audit.



# Executive Summary

## Scope update

In our Audit Planning Report presented at the 22 April 2024 Governance Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

- ▶ **Changes in materiality:** We updated our planning materiality assessment using the draft consolidated results and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure, we have updated our overall materiality assessment to £13.86 million (Audit Planning Report – £14.0 million). This results in updated performance materiality, at 75% of overall materiality, of £10.40 million, and an updated threshold for reporting misstatements of £0.69 million.
- ▶ **Additional Risk;** We reported to you in our Audit Progress report taken to the 30 September 2024 Audit Committee that we had updated our risk assessment and identified an additional risk since issuing our Audit Planning report. The Council has received a provisional agreement for a capitalisation direction as exceptional financial support (EFS) for 2024/25. As this can only be used in 2024/25, there is a risk that the Council may defer 2023/24 general fund expenditure into the next financial year in order to minimise the 2023/24 overspend, and to then access that funding source in 2024/25 to finance the expenditure. The EFS includes amounts for potential equal pay claims.
- ▶ Changes in audit strategy due to inefficiencies or problems caused by the Council: as previously reported in our Audit Progress Report taken to the Audit Committee on 30 September 2024, we experienced a number of setbacks and delays in performing our audit work, these have continued into the additional time that we have allocated to the audit and have resulted in us not being able to complete the planned audit procedures in full. Further details are provided in Section 7. Appendix A sets out the assurances we have been able to gain during the audit.

As estimation of the fee impact of the above changes are shown in Section 8 of this report.



# Executive Summary (cont'd)

## Status of the audit

Due to delays experienced in the Council providing good quality and timely evidence for the audit, we are unable to complete our planned programme of work before the 28 February 2025 backstop date. The areas that we have been able to complete, and those we have not, are set out in Appendix A.

The following items relating to the completion of our audit procedures to be able to give a disclaimer on the Council's accounts that are outstanding at the date of this report are:

- ▶ Review of the final version of the financial statements for reported differences;
- ▶ Completion of subsequent events review; and
- ▶ Receipt of the signed management representation letter

Given that the audit process is still ongoing, we will continue to challenge the remaining evidence provided and the final disclosures in the Statement of Accounts which could influence our final audit opinion. Notwithstanding this and for the reason set out on page 9, we anticipate issuing a disclaimed 2023/24 audit opinion

## Value for Money

In our Audit Planning Report dated 27 March 2024, we reported that we had completed our value for money (VFM) risk assessment and we had identified a risk of significant weakness in the Council's arrangements that the Council did not have proper arrangements to secure economy, efficiency and effectiveness on its use of resources during 2023/24, which we have already raised to your attention through our 2022/23 interim Value for Money report presented to the Governance Committee on 12 February 2024.

We have kept our risk assessment up to date and identified two further risks of significant weakness in relation to:

1. serious failings identified by the Housing Regulator in relation to the Council delivering the outcomes of the consumer standards; and
2. the Council's ability to support its statutory financial reporting requirements in relation to supporting the audit.

Having updated and completed the planned procedures in these areas we identified significant weaknesses in the Council's arrangements in relation to all three areas.

See Section 3 of the report for further details.





# Executive Summary (cont'd)

## Expected modification to the audit report

As reported in our 04 December 2024 Audit Completion Report to Those Charged with Governance, we issued a disclaimed audit report on the Authority's 2022/23 financial statements under the Government's legislative arrangements to reset and recover local government audit (Statutory Instrument (2024) No. 907 - "The Accounts and Audit (Amendment) Regulations 2024", The reasons for the 2022/23 disclaimed audit report were set out in the aforementioned 2022/23 Audit Completion Report.

As a result of the 2022/23 disclaimed audit report we do not have assurance over the brought forward balances from 2022/23 (the opening balances). This means we also do not have assurance over a number of 2023/24 in-year movements that depend on those opening balances, and therefore some closing balances (particularly Reserves). We also do not have assurance over the 2022/23 comparative amounts disclosed in the 2023/24 financial statements. We did not plan to rebuild this assurance in our 2023/24 audit.

As set out within Section 7 of this report we have not been able to complete our planned programme of work to obtain sufficient evidence to have reasonable assurance over all closing balances.

There is insufficient audit resource available to complete the above outstanding procedures on your audit before the 2023/24 backstop date. Insufficient support to the audit meaning that it takes significantly longer than should be necessary is one example of the factors that led to the backlog in the first place, and why the legislative backstop has been introduced.

Taken together, and alongside the requirement to conclude the 2023/24 audit by the legislative back stop date of the 28 February 2025, the lack of evidence over these movements and balances mean we are unable to conclude that the 2023/24 financial statements are free from material and pervasive misstatement of the financial statements.

We therefore anticipate issuing a disclaimed 2023/24 audit opinion. Because of the disclaimed position for 2022/23, the 2023/24 accounts would have been disclaimed irrespective of any actions or delays in information provision on the part of the Council. The extent of the disclaimed audit report will include the additional areas of the 2023/24 financial statements where we have not been able to gain sufficient assurance, over and above those we set out in our 2022/23 disclaimed audit opinion.

Appendix A of this report sets out the level of assurance we have been able to gain from the procedures that we have completed.

In line with the Government's legislative arrangements set out above and specifically the 'Recovery phase' of those arrangements and with guidance issued by the Financial Reporting Council (FRC) within their 'Accessible Guide' there is an expected minimum 3-year timeline to re-build audit assurances to gain full assurance over opening, closing balances and in year movements. We will reflect on the impact of the areas where we did not gain our planned assurances in 2023/24, through our 2024/25 audit planning and set out our timeline for re-building audit assurance within our Audit Plan.



# Executive Summary (cont'd)

## Audit differences

- ▶ Uncorrected misstatements increase total comprehensive expenditure by £1.2 million relating to current-year differences.
- ▶ Management have corrected misstatements amounting to £34.3 million.

## Other Reporting Issues

As set out in detail in section 7 of this report, as required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council's financial reporting process.

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result of this work.

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission for 2023/24. However, we do not expect any issues in performing this work as the Council falls below the threshold set within the guidance from HM Treasury and the group audit instructions for 2022/24 on which our work is based.

We wish to bring the following other matters to your attention and have made recommendations in relation to these in section 7:

### Significant difficulties encountered during the audit

As previously reported in our Audit Progress Report to the Audit Committee on 30 September 2024, we have experienced a number of setbacks and delays in performing our audit work. These have continued into the additional time that we have allocated to the audit and result in us not being able to complete the audit in full.

The issues fall into four key categories:

- Complexity of systems
- Lack of accurate records retained
- Lack of quality evidence supplied (linked to above)
- Delayed, and in some cases no, responses from officers

### Consideration of laws and regulations

During the course of the audit we became aware of two instances of non-compliance with laws and regulations which have required us to complete extended procedures in order to assess the risk to the financial statements, having completed these procedures we are satisfied that they do not lead to a material impact on the financial statements. These were in relation to the Equal Pay claims received by the Council and the Housing Regulator judgement detailed in Section 4 of this report.



# Executive Summary (cont'd)

## Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 (the Act) to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We are also able to issue statutory recommendations under Schedule 7 of Section 27 of the Act. Statutory recommendations under Schedule 7 must be considered and responded to publicly and are shared with the Secretary of State,

During 2023/24 we received an objection to the accounts that asked us to issue a report in the public interest in regard to issues raised in Children's and Adults Direct Payments, and Internal Audit's operational role in the latter during the 2023/24 financial year.

We issued our decision and statement of reasons on 17 December 2024, and in our judgement decided not to issue a report in the public interest.



# Executive Summary (cont'd)

## Areas of audit focus

In our Audit Planning Report we identified a number of key areas of focus for our audit of the financial report of Southampton City Council. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is explained within the 'Areas of Audit Focus' section of this report and summarised below.

Risk/area of focus	Risk identified	Details
Misstatement due to fraud or error	Fraud risk	Our work in this area is complete with the exception of our work over the asset valuations, and in this respect, the council have been unable to provide us with sufficient and appropriate audit evidence to be able to complete our planned programme of work. From the work we were able to complete, there are no issues to bring to your attention.
Risk of fraud in revenue and expenditure recognition, through inappropriate capitalisation of revenue expenditure	Fraud Risk	The council have been unable to provide us with sufficient and appropriate audit evidence in this area to be able to complete our planned programme of work. From the work we were able to complete, there are no issues to bring to your attention.
Risk of deferral of expenditure into 2024/25	Fraud Risk	The council have been unable to provide us with sufficient and appropriate audit evidence in this area to be able to complete our planned programme of work. From the work we were able to complete, there are no issues to bring to your attention.
Valuation of Investment Property and Land & Buildings	Inherent risk	The council have been unable to provide us with sufficient and appropriate audit evidence in this area to be able to complete our planned programme of work. From the work we were able to complete, we have identified issues relating to the valuation of assets.
Pension Liability Valuation	Inherent risk	Material errors have been identified due to the actuary using incorrect assumptions, which have been corrected by management. We have been unable to complete our work in this area as we are waiting for certain confirmations from the auditors of Hampshire Pension Fund.
Restatement of the Comprehensive Income and Expenditure Statement (CIES), Expenditure and Funding Analysis (EFA) and related disclosure notes	Inherent risk	No issues have been identified from our work to address this risk
Accounting for Private Finance Initiative (PFI) Schemes	Inherent risk	No issues have been identified from our work to address this risk
Going concern	Area of Focus	As it became clear we were going to issue a disclaimer, further work was not required because reporting on going concern is not required in a disclaimed audit report  Our conclusions on financial resilience are included in our work on the Council's value for money arrangements, and will be included in our VFM commentary within our Auditor's Annual Report.



# Executive Summary (cont'd)

## Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls. 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.

There are matters we wish to report which include retention of data, bank accounts and lease data. Further details on these can be found in section 6.

## Independence

Please refer to Section 8 for our update on Independence. There are no issues affecting our independence and objectivity to bring to your attention.



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## Areas of Audit Focus



# Areas of Audit Focus

## Significant and Fraud Risk – Misstatement due to fraud or error

### What is the risk, and the key judgements and estimates?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate 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.

We identify and respond to this fraud risk on every audit engagement.

### What are our conclusions and what is the status of our work?

Based on our work undertaken, we have not identified any material weaknesses in controls or evidence of management override, instances of inappropriate judgements being applied, or any other transactions during our audit which appear unusual or outside the Council's normal course of business.

We have completed our work over journals and did not identify any indication of management override.

For our review of the potential bias in management estimates, our testing in respect of the NDR appeals provision and PFI contracts key accounting estimates is complete. No issues were identified.

Our testing in respect of the key accounting estimate of the Pension Assets and Liabilities valuation is ongoing as we are waiting for the IAS 19 assurances from the Hampshire Pension Fund auditors, but no instances of management override have been noted.

We were unable to receive sufficient audit evidence to complete our testing of the asset valuation key estimates. See page 18 for further details.

### Our response to the key areas of challenge and professional judgement

We carried out the following procedures:

- ▶ We identified fraud risks during the planning stages.
- ▶ We inquired of management about risks of fraud and the controls put in place to address those risks
- ▶ We sought to understand the oversight given by those charged with governance of management's processes over fraud
- ▶ We discussed with those charged with governance the risks of fraud in the entity, including those risks that are specific to the entity's business sector (those that may arise from economic industry and operating conditions)
- ▶ We have considered the effectiveness of management's controls designed to address the risk of fraud
- ▶ We determined an appropriate strategy to address those identified risks of fraud
- ▶ We performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements
- ▶ We undertook procedures to identify significant unusual transactions
- ▶ We considered whether management bias was present in the key accounting estimates and judgements in the financial statements

### What else did we do?

As part of our risk evaluation, we considered the need to perform other audit procedures not referred to above. We concluded that those procedures included under the 'risk of Inappropriate capitalisation of revenue expenditure' were required. See the following page for the results of work in this area.

# Areas of Audit Focus (cont'd)

## Significant and Fraud Risk – Inappropriate capitalisation of revenue expenditure

### What is the risk?

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 assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure. We focused on the Council's judgements exercised in determining whether expenditure is capital in nature, and therefore, appropriate to be capitalised rather than charged to the Comprehensive Income and Expenditure Statement.

### What are our conclusions and What is the status of our work?

The council have been unable to provide us with sufficient and appropriate audit evidence in this area to be able to complete our planned programme of work. The testing performed has not identified any misstatements. However, we have had significant difficulties in obtaining sufficient appropriate evidence to support our testing in this area. See section 7 for further details.

We sampled 27 items from capital additions in 2023/24, 10 of which still have outstanding evidence or queries and a further 29 items from capital additions in 2022/23, 6 of which still have outstanding evidence or queries. Testing of these items started 12 July 2024, with exchanges back and forth till 3 September, then the next response received was 2 December in relation to 2022/23. Some further exchange then occurred through December with the final information received 23 December after the agreed time finished on 13 December.

We sampled 7 items within REFCUS and were able to conclude that 3 items were correctly classified. We did not receive sufficient evidence to fully conclude on the remaining items. From the evidence we have received it is likely that these are correctly classified as capitalisable, but we are not clear whether they should be REFCUS or PPE additions.

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### Our response to the key areas of challenge and professional judgement

We performed the following procedures:

- ▶ We tested Property, Plant and Equipment (PPE) additions to ensure that the expenditure incurred and capitalised is clearly capital in nature.
- ▶ We assessed whether the capitalised spend clearly enhances or extends the useful life of asset rather than simply repairing or maintaining the asset on which it is incurred.
- ▶ We considered whether any development or other related costs that have been capitalised are reasonable to capitalise i.e. the costs incurred are directly attributable to bringing the asset into operational use.
- ▶ We tested Revenue Expenditure Funded from Capital Under Statute (REFCUS), to ensure that it is appropriate for the revenue expenditure incurred to be financed from ringfenced capital resources.

### What else did we do and further relevant information

We selected a sample of PPE additions and REFCUS spend using lowered testing thresholds, to ensure that they were appropriately supported by documentary evidence, and that the expenditure incurred and capitalised was clearly capital in nature.

# Areas of Audit Focus (cont'd)

## Significant and Fraud Risk – Deferral of expenditure to 2024/25

### What is the risk?

The Council has received a provisional agreement for a capitalisation direction as exceptional financial support (EFS) for 2024/25. As this can only be used in 2024/25, there is a risk that the Council may defer 2023/24 general fund expenditure into the next financial year in order to minimise the 2023/24 overspend, and to then access that funding source in 2024/25 to finance the expenditure. The EFS includes amounts for potential equal pay claims.

Within our consideration of the fraud risk presumption within revenue recognition, we have determined that this risk to be for general fund expenditure not the HRA, and to be present within creditors completeness, and the completeness of provisions with specific reference to equal pay claims.

### What are our conclusions and What is the status of our work?

The council have been unable to provide us with sufficient and appropriate audit evidence in this area to be able to complete our planned programme of work. Our testing consisted of two areas, cut-off testing in relation to expenditure invoices and testing of post year end expenditure to ensure expenditure had been recorded in the correct period. We selected a sample of 46 invoices posted across March and April and 44 transactions from the general bank account and a further 26 from the subsidiary bank account. We were able to obtain sufficient audit evidence for 19 invoices and all of the general bank account transactions. However, due to a miscommunication, we did not receive sufficient evidence for us to complete our testing of the subsidiary bank account transactions.

The testing performed had not identified any misstatements.

### Our response to the key areas of challenge and professional judgement

We performed the following procedures:

- ▶ Assigned a higher risk rating for our testing of cut-off - therefore tested a larger proportion of the defined population.
- ▶ Tested the completeness assertion by Identifying the population for cut-off testing and unrecorded liabilities testing, ensuring our testing covered the period from the year end through to the date of the audit report
- ▶ Tested for the valuation assertion, Identifying a separate population within creditors for accruals, assigning a higher risk rating

Since this risk is realized mainly through understatement of accruals / expenditure recognized in the wrong financial year, we have focussed our testing on manual year-end receivables accruals, payables accruals and provisions where we believe the risk of management override and/or inappropriate revenue recognition to be greater.



# Areas of Audit Focus (cont'd)

## Inherent Risk – Valuation of Investment Property and Land & Buildings

### What is the risk?

The fair value of Property, Plant and Equipment (PPE) land and buildings and Investment Properties (IP) represent significant balances 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 balance sheet.

The valuation basis is different depending on the type of property being revalued, with assets carried at Depreciated Replacement Cost, Existing Use Value or Fair Value. Each valuation basis is reliant on different inputs, estimation processes and assumptions.

We note that not all of the Council's PPE is subject to revaluation with vehicles, plant, furniture & equipment, infrastructure assets and assets under construction all valued at cost under the CIPFA Code of Practice on Local Authority Accounting.

We identified a number of unadjusted misstatements across all types of asset valuations in 2021/22.

### What are our conclusions and What is the status of our work?

The Council revalued 77 land and building (L&B) assets and all 155 investment properties in 2023/24. We sample tested 18 L&B assets valued using DRC and 5 L&B assets using EUV, and reviewed the accounting for a further 12 schools. We also sample tested 17 investment properties.

At the time of stopping the audit, we had outstanding queries on 5 L&B assets valued using DRC; 4 in relation to the land values and one in relation to the ground area used by the valuer.

Our testing of EUV assets is complete, however, we identified variances in all sample items, including the asset revalued by our EY Real Estates team, resulting in an overall overstatement of £9.7m on a tested value of £21.5m. This 45% overstatement in valuation means that we cannot accept the population of assets revalued using EUV in 2023/24 (£26.9m).

At the time of stopping the audit our work completed on the sample of investment properties identified 14 assets being within a reasonable range and 3 that were outside a reasonable range.

See section 7 for further details regarding the difficulties in obtaining sufficient audit evidence over the asset valuations.

### Our response to the key areas of challenge and professional judgement

We performed the following procedures:

- ▶ Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- ▶ Sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre).
- ▶ Considered the annual cycle of valuations to ensure that assets have been valued as required by the code and internal guidance. We also considered if there were any specific changes to assets that have occurred and verified that these had been communicated to the valuer.
- ▶ Reviewed assets not subject to valuation in 2023/24 to confirm that the remaining asset base is not materially misstated;
- ▶ Considered changes to useful economic lives as a result of the most recent valuation; and
- ▶ Tested accounting entries have been correctly processed in the financial statements.

### What else did we do and further relevant information

We engaged EY Real Estates, our internal specialists on asset valuations, to support our work over 6 sample items in this area. 4 assets were within range (2 L&B assets valued at DRC and 2 investment properties) and 2 assets were outside of the reasonable range put forwards by EY Real Estates (1 investment property and 1 L&B asset revalued using EUV).

# Areas of Audit Focus (cont'd)

## Inherent Risk – Pension Liability / Asset Valuation

### What is the risk?

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.

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2023 this totalled £98 million.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Council.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

### What are our conclusions?

In response to the requirements of ISA540, the auditing standard on accounting estimates, we based our audit approach on procedures to evaluate management's process. The standard requires auditors to test the method of measurement of accounting estimates to determine whether the model is appropriately designed, consistently applied and mathematically accurate, and that the integrity of the assumptions and the data has been maintained in applying the model. Neither we, nor PWC as consulting actuaries commissioned by the NAO for all local public sector audits, are able to access the detailed models of the actuaries in order to evidence these requirements. Therefore, we undertook further procedures to create an auditor's estimate, to gain assurance. We employed the services of an EY pensions specialist to review the Council's IAS 19 reports and run a parallel actuarial model which was compared to that produced by Hymans Robertson.

This work, has identified a misstatement in some of the assumptions adopted by the actuary and as a result, a further IAS 19 report has been requested by the Council. This report indicates that an amendment of £33.5m was required to the Council's financial statements to reduce the net pension liability. This has been amended, see section 5.

At the time of writing this report, receipt of the final IAS 19 assurances from the auditor of Hampshire Pension Fund is outstanding.

We have no other findings to draw to your attention at this stage.

### Our response to the key areas of challenge and professional judgement

We performed the following procedures:

- ▶ We liaised with the auditors of Hampshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Council
- ▶ We assessed the work of the pension fund actuary including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all local government sector auditors, and considering any relevant reviews by the EY actuarial team
- ▶ We evaluated the reasonableness of the Pension Fund actuary's calculations by comparing them to the outputs of our own auditor's specialist's model; and
- ▶ We reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

### What else did we do and further relevant information

We considered outturn information available at the time we undertook our work after production of the Council's draft financial statements, for example the year-end actual valuation of pension fund assets. We used this to inform our assessment of the accuracy of estimated information included in the financial statements and whether any adjustments are required.

# Areas of Audit Focus (cont'd)

## Inherent Risk – Restatement of CIES, EFA and related disclosure notes

### What is the risk?

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 2023/24, 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.

### Our response to the key areas of challenge and professional judgement

We performed the following procedures:

- ▶ Agreed the restated comparative figures back to the Council's prior year financial statements and supporting working papers
- ▶ Reviewed the analysis of how these figures are derived from the Council's ledger system and how overheads are apportioned across the service areas reported.

### What are our conclusions?

The Comprehensive Income and Expenditure Statement, Expenditure and Funding Analysis, and related disclosure notes, have been restated appropriately following the change to internal reporting structures.

### What else did we do and further relevant information

We tested to verify that the Council has used a consistent approach for the reclassification of income and expenditure between directorates.

# Areas of Audit Focus (cont'd)

## Inherent Risk – Accounting for Private Finance Initiative (PFI) Schemes

### What is the risk?

The Council has three PFI or service concession arrangements, relating to waste disposal, schools and street lighting, which are material to the accounts. PFI accounting is a complex area, and detailed reviews of these arrangements was undertaken by our specialist in 2016/17 (waste disposal) and 2018/19 (street lighting and schools). We are aware that there have been changes made to the street lighting model since it was last reviewed and, therefore, we will need to engage our PFI specialist to perform an updated review in 2023/24. The liability and payments for services are dependent upon assumptions within the accounting models underpinning the PFI scheme. As such Management is required to apply estimation techniques to support the disclosures within the financial statements.

### Our response to the key areas of challenge and professional judgement

In order to address this risk we carried out a range of procedures including:

- ▶ enquiring whether there have been any significant changes within the models since our reviews;
- ▶ undertaking a review and assess the impact of any changes in assumptions upon the models; and
- ▶ agreeing the output of the models to the disclosures within the financial statements

### What are our conclusions?

As part of our work we performed the following procedures

1. Documented assurances brought forward from prior years regarding the appropriateness of the PFI financial model. Reviewed the accounting model for any significant changes, and engaged our internal experts to review the refinancing of the street lighting PFI
2. Ensured the PFI accounting model has been updated for any service or other agreed variations. Confirmed consistency of current year model with prior year brought forward assurances.
3. Agreed inputs to ledger / supporting working papers
4. Agreed outputs of the model to the accounts, including balances and disclosures for Assets, Liabilities, and Expenditure
5. Reviewed the completeness and accuracy of disclosures

We have sufficient appropriate audit evidence and assurance over the PFI / service concession arrangements accounting and disclosures.

We concluded that the Council had appropriately accounted for the refinancing gain in 2022/23 as an amount due to the Council (Gainshare payment to Authority), which is presented separately to the unitary charge for the service concession asset.

### What else did we do and further relevant information

We engaged our internal EY PFI specialist, to support our work in this area, specifically in relation to the refinancing of the Street lighting PFI in 2022/23.



# Areas of Audit Focus (cont'd)

## Inherent Risk – Going concern

### What is the risk?

In the public sector, and specifically under the CIPFA Code of Practice on Local Authority Accounting, the concept of going concern is linked to the continuation of services. There is a presumption that the accounts will be prepared on a going concern basis unless there is clear evidence that services will be discontinued.

In your 2021/22 accounts we reported a material uncertainty which may cast significant doubt on the Council's ability to continue to operate the current planned operational services within available sources of funding. We concluded that although the Council was aware of their financial position its actions in response were still to be embedded and the outcomes were not yet assured to avoid the need for a s114 notice.

The Council has been unable to meet its planned budget in 2022/23 and forecast for 2023/24, and to set a balanced budget for 2024/25 the Council received a provisional notice of exceptional financial support (EFS). However, it must meet certain conditions prior to this being confirmed.

Therefore, in our judgement there is still the risk of material uncertainty over whether the Council will receive the EFS to avoid the necessity of a s114 notice and maintain the current planned level of services.

### What are our conclusions?

As it became clear we were to issue a disclaimed audit report, we did not undertake further work in this area. A disclaimed audit report does not include content related to the auditor's conclusions over going concern.

The Council have included a material uncertainty over going concern in their disclosure in the financial statements.

### Our planned response to the key areas of challenge and professional judgement

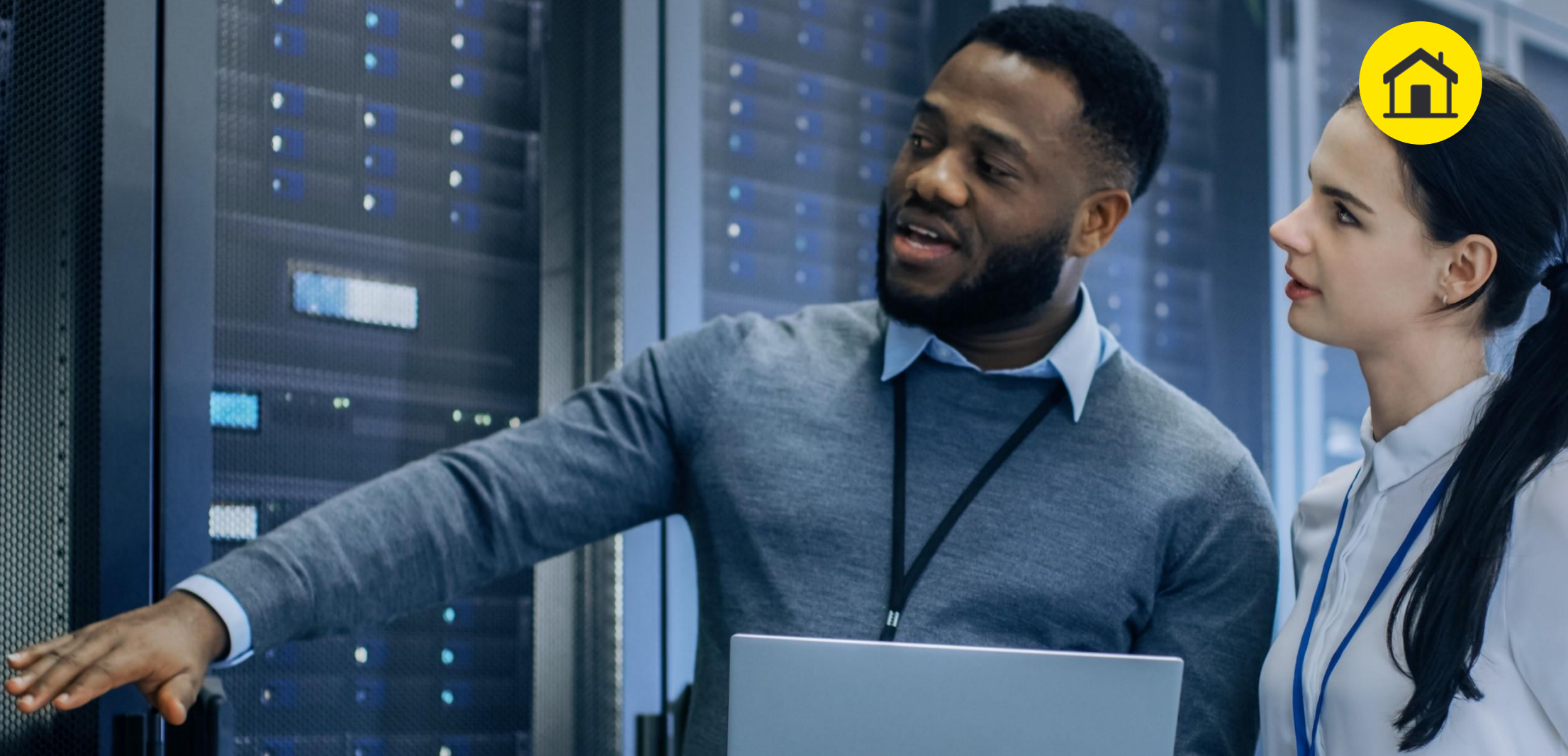
In order to address this risk we will carry out a range of procedures including:

- ▶ Challenge management's identification of events or conditions impacting going concern;
- ▶ Obtain current financial monitoring reports to gain an understanding of whether the actions the Council has put in place to operate within its set budget are embedding and are achieving the desired outcomes;
- ▶ Review the Council's dated cashflow forecast through to at least 12 months from the date of the audit report;
- ▶ Assess the impact of medium term financial plan updates and the implications for the Council's reserves;
- ▶ Review and challenge the progress that the Council is making on actions in response to the conditions set by the government in order to qualify for the provisional exceptional financial support;
- ▶ Challenge the disclosure made in the accounts in respect of going concern and any material uncertainties; and
- ▶ Undertake a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, to be able to draw our conclusions on going Concern.

### What else did we do and further relevant information

We have identified a risk of a significant weakness in the Council's arrangements for value for money, across all three criteria, related to its financial resilience.

We have performed our procedures over this risk as set out in section 3 of our report, concluding that there were significant weaknesses in the Council's arrangements during 2023/24.



# 03 Value for Money



# Value for Money

## The Council's responsibilities for value for money (VFM)

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the NAO Code of Audit Practice. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

## Risk assessment and status of our work

We are required to consider whether the Council has made 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

Our value for money planning and the associated risk assessment is focused on gathering sufficient evidence to enable us to document our evaluation of the Council's arrangements, to enable us to draft a commentary under three reporting criteria (see below). This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

We will provide a commentary on the Council arrangements against three 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.

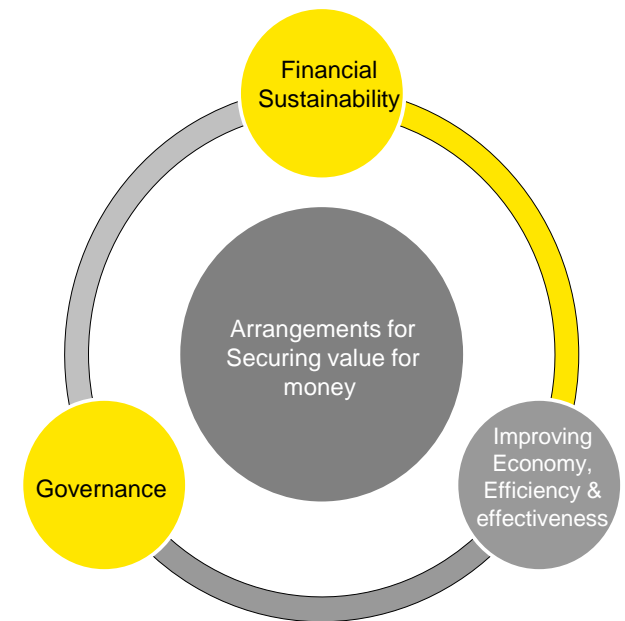
In our audit planning report we identified a risk of significant weakness regarding the Council's financial resilience.

During the audit we identified two additional risks from:

1. The Regulator for Social Housing issued a Regulatory Notice in November 2024
2. The delays and lack of sufficient and appropriate audit evidence provided to support the Council's financial statements audit.

We concluded that there are significant weaknesses in the Council's arrangements in all three criteria.

We will issue our VFM narrative commentary in our 2023/24 Auditor's Annual Report which we expect to issue in March 2025.



# Value for Money (cont'd)

## Risk of significant weakness in VFM arrangements

What is the risk of significant weakness?	What arrangements did this impact?	What did we do?
<p><b>Financial resilience</b></p> <p>The risk as set out in the Audit Plan in April 2024 was that financial monitoring for 2022/23 identified that the Council was struggling to keep spending within set budgets for the year, and the year-end outturn showed a deficit of £11.4 million which was met by a drawdown from reserves. The Council have continued on this trajectory during 2023/24 and as at February 2024, were forecasting a deficit of £5.4 million for the 2023/24 financial year.</p> <p>The Council has been unable to set a balanced budget for 2024/25 without additional support from the government. The Council has received a provisional notice of exceptional financial support for 2024/25 which enabled it to set a balanced budget. However, certain conditions must be met prior to this support being confirmed.</p> <p>Although the Council is aware of their financial position and have put in place actions to address the situation, the actions are still to be embedded and the outcomes are not yet assured to avoid the need for a s114 notice.</p>	<ul style="list-style-type: none"> <li>• Financial sustainability;</li> <li>• Governance and</li> <li>• Improving economy, efficiency and effectiveness</li> </ul> <p>See following pages for sub-criteria impacted</p>	<p>As part of our work to assess the risk, we:</p> <ul style="list-style-type: none"> <li>▶ Reviewed and challenged the actions that the Council is making in response to the conditions set by the government in order to quality for the provisional exceptional financial support.</li> <li>▶ Reviewed and challenged the actions that the Council is taking in response to our recommendations in our interim VFM reporting for 2022/23</li> <li>▶ Obtained current financial monitoring reports to gain an understanding of whether the actions the Council has put in place to operate within its set budget are embedding and are achieving the desired outcomes</li> <li>▶ Reviewed minutes of meetings to gain an understanding of the actions of members in response to the financial position of the Council</li> <li>▶ Held regular meetings with officers, including the Chief Executive, the Executive Director Enabling Services &amp; S151 Officer and other finance officers, and the Chair of the Improvement and Assurance Board to inform our understanding of the actions that the Council is undertaking</li> <li>▶ Reviewed the outcome of Internal Audit reports for the year, and assessed the progress officers are making with actions plans to address issues highlighted by Internal Audit.</li> </ul>



# Value for Money (cont'd)

## Risk of significant weakness in VFM arrangements

### Findings

We reported in January 2024 that the Council was making very slow progress on resolving its financial position, with the exception progress in being able to manage the in year budget. Progress has improved since January, with the Exceptional Financial Support (EFS) submission being made and action made by the Council to achieve the conditions set out in the EFS response from the government. However, the majority of this action took place after the receipt of the letter from central government at the end of February 2024, and therefore the weaknesses identified in respect of 2022/23 are still present for the majority or all of the 2023/24 financial year.

Therefore, we consider that there has been insufficient movement during 2023/24 to significantly amend our conclusion that there is a significant weakness in the arrangements at Southampton City Council to secure financial resilience.

Our work has determined that there has been significant progress made during 2024/25. We will reflect in this progress within our Value for Money Commentary, and during our 2024/25 audit will assess the extent this progress removes any of the weaknesses for that financial year.

In one area there has been significant progress during the 2023/24 financial year, which was addressing the 2023/24 overspend through financial controls and taking actions against budget forecasts which was lacking in the prior year. The forecast of £20.9m overspend as at July 2023 was reduced to only a £1.1m overspend by the year-end. We also note the Council reported it achieved £37.2m (93%) of its planned savings for the year, a significant improvement compared to the prior year. Therefore, in this regard we make the judgement that the Council has taken action from its financial information (budget reporting), which was lacking in the previous year.

We consider that the significant weakness in arrangements is pervasive across all three main criteria of the value for money arrangements. We set out below the specific sub-criteria impacted and our summary assessment:

#### 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.**
  - This was not demonstrated in the 2023/24 budget setting process, as identified by the new s151 officer in the July 2023 Medium Term Financial Strategy (MTFS) update and forecast deficit of £20m as at month 3.
  - The Council require receipt of Exceptional Financial Support (EFS) to be able to set a balanced budget for 2024/25
  - It is not currently clear that balanced budgets will be able to be set or achieved for the future, without further EFS.
  
- **How the body plans to bridge its funding gaps and identifies achievable savings.**
  - The Council has improved significantly in this area - achieving £37.26M (93%) of planned savings in 2023/24
  - The Council has developed a transformation plan to bridge the budget gap in the long term, this includes 28 programmes to generate savings for the Council. These are supported by outline business plans at varying stages of completion
  - However, the Council still requires EFS to balance the budget for 2024/25, they cannot identify sufficient savings to bridge the gap in the short term therefore have not demonstrated sufficient action to remove the designation of significant weakness at this stage

# Value for Money (cont'd)

## Risk of significant weakness in VFM arrangements

### Findings

#### Governance:

- **How the body approaches and carries out its annual budget setting process -**
  - There was a warning of the likelihood of s114 within the 2023/24 budget, and only 4 months later the MTFS July 2023 review showed likelihood of £20.9m overspend. This showed deficiencies within the budget setting.
  - The Council has been unable to set a balanced budget for 2024/25 without EFS

#### Economy, efficiency and effectiveness:

- **How the body evaluates the services it provides to assess performance and identify areas for improvement -**
  - As previously documented, the Council reported a deficit for 2022/23, reporting on the additional cost pressures as they arose during the 2022/23 year and struggled to achieve the planned savings for 2022/23. The Council had continued to fail to achieve the planned budget for 2023/24, which already included a significant drawdown on reserves.
  - The Council did manage to bring its finances back in control within 2023/24, moving from a forecast deficit position of £20m at month 3 to £1.1m for the year. However, this still included a drawdown from reserves of £10.3m
  - A number of directorates were still overspent during the year - notably
    - Place Directorate - 2.43m
    - Children and learning - £1.41m
  - While this is an improvement, during the year the Council could not set a balanced budget without the use of EFS, which is indicative that the Council, despite having the information of which examples are listed above, has continued to struggle to use that information about its costs and performance to improve its services timely and accurately in 2023/24 with particular reference to identifying areas for improvement where those services can be brought back within budget and includes areas, as an example, of a lack of accurate costing and forecasting new contracts such as home to school transport.

However, we do consider that the Council has made sufficient progress in bringing the 2023/24 outturn under control that the significant weakness no longer covers the following sub-criteria.

#### Governance:

- **How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information .....; and ensures corrective action is taken where needed**

# Value for Money (cont'd)

## Risk of significant weakness in VFM arrangements

### What is the risk of significant weakness?

#### Housing standards

The risk is that the Council does not have the arrangements in place to meet its regulatory responsibilities with respect to the consumer standards: Neighbourhood and Community Standard, Safety and Quality Standard, Tenancy Standard, and the Transparency, Influence and Accountability Standard, which fall under the remit of the Regulator of Social Housing.

### What arrangements did this impact?

#### 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

### What did we do?

We reviewed the Regulatory Notice issued by the Regulator of Social Housing.

We considered whether the Regulatory Notice is sufficient evidence of a significant weakness in the Council's arrangements to maintain its social housing to the standards required.

## Findings

The Regulatory Notice was issued in November 2024 and it states that the review was performed in November 2024. However, given the severity of the notice and findings, it is highly likely that the conditions that lead to the findings have been extant during 2023/24 and potentially earlier. Therefore, we consider the findings as applicable to the value for money assessment for 2023/24.

From the evidence and assurance gained during the inspection, the Regulator concluded that there are serious failings in the Council delivering the outcomes of the consumer standards and significant improvement is needed, specifically in relation to the outcomes in the Safety and Quality Standard and Transparency, Influence and Accountability Standard.

It is clear from the outcome of the Regulatory review that the Council has not properly assessed its performance in the area of social housing and meeting the relevant regulations with sufficient granularity to deliver against the standards required. Therefore, it has not identified areas for improvement or enacted on these. This impacts the following VFM criteria:

#### Economy, efficiency and effectiveness:

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

# Value for Money (cont'd)

## Risk of significant weakness in VFM arrangements

### What is the risk of significant weakness?

#### Supporting statutory functions

The risk is that the Council does not have the arrangements in place to sufficiently service its statutory functions, such as supporting the audit of the financial statements and its asset valuations

### What arrangements did this impact?

#### Governance:

- 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

### What did we do?

We considered the findings from our experience throughout the audit and conversations with the valuer

## Findings

As also set out in other sections through this report, the Council has struggled to support the audit for 2023/24.

- We encountered difficulties in being able to get to the correct populations to perform our sample testing, due the complexities of the management information systems used. The compilation of some of the data to support the financial statements, involved having to trace transactions through a number of excel spreadsheets to get to the correct underlying data, for example, some of the HRA dwelling information.
- We encountered difficulty in obtaining sufficient quality audit evidence to complete our sample testing, and in some cases, we had to pass samples back four times before we received evidence of sufficient quality to complete the work, for example PPE additions testing.

We also encountered frequent periods where our requests were not responded to.

In the case of asset valuations, the Council was unable or unwilling to provide certain evidence to either the valuer or EY to assist in the valuation of the assets and our testing of EUV assets, setting a reasonable range based on the data provided, resulted in all five assets being outside the range and the level of error being such that we were unable to accept the population of assets revalued in 2023/24 using EUV.

One of the main reasons put forward by management as to why they were struggling to provide sufficient audit evidence is the turnover in staff, due to sickness, voluntary redundancy or other reasons for staff leaving. This meant that staff with the knowledge of the transactions were no longer available and other staff members were having difficulty locating the right evidence.

In our judgement this is a significant weakness affecting the following VFM criteria:

#### Governance:

- 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.



# Value for Money (cont'd)

## New recommendations in 2023/24

Issue	Recommendation	Management Response
Governance	<ol style="list-style-type: none"> <li>1. The Council needs to consider how it supports the audit and other statutory requirements, such as asset valuations in the future.</li> <li>2. The financial statements need to be fully supported by proper listings that can be directly traced through to the financial statements.</li> <li>3. Officers need to be prepared to respond to audit queries timely and in full, with all evidence provided being quality checked to ensure that it is addressing the request in full.</li> </ol>	<p>The statement of accounts closedown process forms part of the Reshaping Financial Management transformation project. At present knowledge of the process is held within a small number of officers. It is important that the organisations recognises the closedown of the accounts is not just a finance function.</p> <p>A restructure of finance is underway to build more resilience into the team especially around the corporate and technical finance team.</p>
Improving economy, efficiency and effectiveness	<ol style="list-style-type: none"> <li>4. Continue to engage with the Regulator and embed the actions already started.</li> </ol>	<p>The council can confirm that it will continue to engage with the housing regulator to implement and embed the recommendations made, as part of its overall housing improvement plan and 'Good Landlord' Programme.</p>



# 04 Audit Report

# Audit Report

## Expected modification to the audit report

As reported in our 04 December 2024 Audit Completion Report to Those Charged with Governance, we issued a disclaimed audit report on the Council's financial statements for 2022/23 under the arrangements to reset and recover local government audit. The reasons for the 2022/23 disclaimed audit report were set out in our 2022/23 Audit Completion Report.

As a result of the 2022/23 disclaimed audit report, we do not have assurance over the brought forward balances from 2022/23 (the opening balances). This means we do not have assurance over 2023/24 in-year movements and some closing balances. We also do not have assurance over the 2022/23 comparative amounts disclosed in the 2023/24 financial statements

As set out within this report we have also not been able to complete our planned programme of work to obtain sufficient evidence to have reasonable assurance over closing balances and in-year transactions.

Taken together with the requirement to conclude our work by the 2023/24 back stop date, the lack of evidence over these movements and balances mean we are unable to conclude that the 2023/24 financial statements are free from material and pervasive misstatement of the financial statements.

We therefore anticipate issuing a disclaimed 2023/24 audit opinion.

The form and content of the Audit Report will be shared with the Section 151 officer to enable you to formally authorise the 2023/24 financial statements for issue.





# 05 Audit Differences





# Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as 'known' or 'judgemental'. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

## Summary of adjusted differences

We highlight the following misstatements greater than £693,000 which have been corrected by management that were identified during the course of our audit:

- ▶ £34.3 million overstatement of the pension liability
- ▶ £17.3 million misstatement relating to not appropriately writing out the depreciation of HRA dwellings on indexation - this had a net nil impact on the Balance Sheet and Comprehensive Income and Expenditure Statement. During our testing we identified that the Council had not considered that the indexation of assets was in fact a form of revaluation and therefore had not been writing out the depreciation. This was identified prior to the 2022/23 financial statements being approved and, therefore, the Council amended the 2022/23 financial statements and no prior year adjustment was needed within the 2023/24 statements.

There was one uncorrected misstatement relating to not including an accrual of £1.2 million in relation to accumulated absences as at 31 March 2024.



06

# Assessment of Control Environment

# Assessment of Control Environment

## Financial controls

As part of our audit of the financial statements, 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 any significant deficiencies in internal control.

We have identified three weaknesses in internal control, which we do not consider to be a significant deficiency, as well as continued scope for improvement in some areas based on our work undertaken, further detail can be found on the next two pages:

- ▶ Retention of documentation
- ▶ Bank accounts
- ▶ Lease data

In addition to the control weaknesses identified above, we identified an observation and improvement recommendation in relation to management's financial processes and controls during the audit:

- ▶ The Council should document their review and challenge the valuations made by the external valuer to evidence that they are satisfied with the valuations and that all factors have been considered and any judgements made are fully supportable within the Code

# Assessment of Control Environment (cont'd)

## Area: Retention of documentation

**Observation**

The council has experienced some difficulty in locating stored documents in a timely manner. The Council should reassess the current document filing structures and methods and implement improved processes to ensure that all original documentation required to support financial transactions is retained and can be readily located when required.

**Impact**

When not able to locate and share documents, the council is not able to support transactions within its financial statements. It is therefore less able to efficiently and appropriately resolve audit queries hence delaying the audit and hindering audit teams' objective of obtaining sufficient and appropriate evidence to gain reasonable assurance.

**Management comment**

Improvements to filing and document storage will be addressed through the Reshaping Financial Management programme. This will include improved use of Technology including Teams for document retention, version control and collaboration/sharing

## Area: Bank accounts

**Observation**

As a result of our testing, management identified two bank accounts did not have any current signatories and one was noted to us as being with an incorrect bank. Both of these accounts had a nil balance and have since been closed.

**Impact**

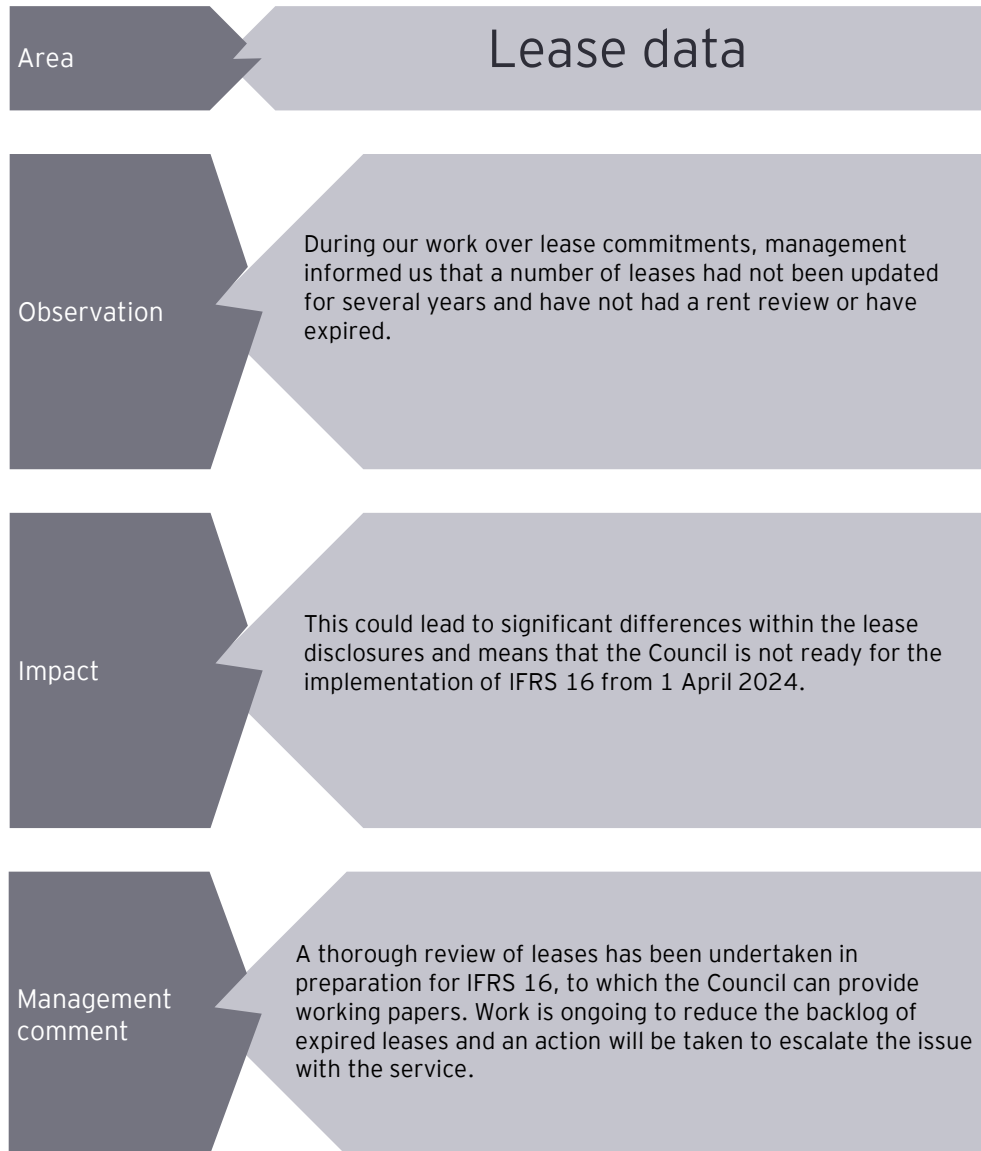
If the Council does not maintain accurate records in relation to its bank accounts, it risks not being able to access the funds held.

**Management comment**

A thorough review has now been undertaken of bank accounts and signatories updated.



# Assessment of Control Environment (cont'd)





07

## Other Reporting Issues

# Other Reporting Issues

## Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Southampton City Council Statement of Accounts 2023/24 with the audited financial statements

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Southampton City Council Statement of Accounts 2023/24 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

## Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission, which are performed towards the end of the audit. We cannot issue our Audit Certificate until these procedures are complete.

# Other Reporting Issues

## Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 (the Act) to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We are also able to issue statutory recommendations under Schedule 7 of Section 27 of the Act. Statutory recommendations under Schedule 7 must be considered and responded to publicly and are shared with the Secretary of State.

We received an objection to the 2023/24 accounts, asking us to consider issuing a public interest report due to concerns raised around the controls and value for money within Children’s and Adults Direct Payments, and the operational role of Internal Audit in regard to the latter.

We issued our decision on 17 December 2024 and decided not to issue a report in the public interest.

Within our decision we stated we would reflect on the slow progress in responding to the action plan created after the Internal Audit review of Children’s Direct Payments in 2021, and include that consideration within our value for money reporting. Responding to Internal Audit reviews has not significantly improved since we concluded there was a significant weakness during our 2022/23 audit, and this slow response is one example. Therefore, as reported in Section 3 of this report, we continue to see this as a significant weakness in the Council’s arrangements, of which Children’s Direct Payments is one example.

We also made a non-statutory recommendation under Section 27(6) of the Local Audit & Accountability Act 2014 that a follow-up review should not be further deferred. Therefore, we recommend that Internal Audit do undertake their follow-up during Quarter 4 of 2024/25 as planned and report through to the Audit Committee in a timely manner. Any remaining outstanding actions from the initial Internal Audit report should be included in the new action plan tracker that is being compiled for Audit Committee reporting. The Council’s Audit Committee should monitor the implementation of any such recommendations through the tracker, ensuring that timely intervention action is taken where necessary



# Other Reporting Issues (cont'd)

## Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council's financial reporting process. They include the following:

- ▶ Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- ▶ Any significant difficulties encountered during the audit;
- ▶ Any significant matters arising from the audit that were discussed with management;
- ▶ Written representations we have requested;
- ▶ Expected modifications to the audit report (See section 4);
- ▶ Any other matters significant to overseeing the financial reporting process;
- ▶ Findings and issues around the opening balance on initial audits (if applicable);
- ▶ Related parties;
- ▶ External confirmations;
- ▶ Going concern;
- ▶ Consideration of laws and regulations; and
- ▶ Group audits

We wish to bring the following other matters to your attention:

### Significant difficulties encountered during the audit

As previously reported in our Audit Progress Report taken to the Audit Committee on 30 September 2024, we have experienced a number of setbacks and delays in performing our audit work, these have continued into the additional time that we have allocated to the audit and have resulted in us not being able to complete the audit in full. The majority of these have not been experienced in previously completed audits.

The issues fall into four key categories:

- Complexity of systems
- Lack of accurate records retained
- Lack of quality evidence supplied (linked to above)
- Delayed and in some cases no response from officers

Further details on each area are on the next page.

# Other Reporting Issues (cont'd)

## Other matters

### *Complexity of systems*

To enable us to obtain a sample for testing we need to map the general ledger and the trial balance to the financial statements and drill down to detailed transaction listings that we could reconcile direct to the financial statements. This proved to be a challenge due to the following factors:

- Additional mapping needed to be applied to the already transformed data requiring a significant amount of input from the MTFS & Revenue Manager
- Schools' expenditure postings to the general ledger use different codes compared to the school's expenditure codes and it was not possible to reconcile the two perfectly.

The Council provided the data to our analytics requests timely, however, the data request was not in the format which the Council use to generate their financial statements.

In addition to the above, for certain aspects of the financial statements, such as Council Dwellings valuations, we often had to go through a number of workbooks to drill down into a figure. For example, for Council dwellings valuations we had to drill down through 5 workbooks to go through the valuation calculation.

### *Lack of accurate records retained*

The council has experienced some difficulty in locating stored documents in a timely manner. When not able to locate and share documents, the council is less able to efficiently and appropriately resolve audit queries hence delaying the audit and hindering audit teams' objective of obtaining sufficient and appropriate evidence to gain reasonable assurance.

This was particularly apparent for the asset valuation testing and in our testing of the PFI, where reference to original documentation from the inception of the PFI for Street Lighting was not possible. We also encountered specific difficulties with our testing of the lease disclosure as a number of leases had not been updated for several years and there were formula issues within the workbook.

We noted that this issue was also experienced by the external property valuer; in their responses to us regarding the use of 2022/23 car park turnover income they indicated that they had not received all of the requested information, hence the valuation work is based on information for the years that council was able to share. The Council valuation team and asset management team was not able to share with the valuer, or the audit team, car park income relating to 2021/ 22 and the current year 2023/24. Due to this, the audit team applied the 2022/23 income within our calculations, as it was the only supportable evidence provided. The generally accepted method is to use an average of income for the last 3 years, excluding COVID years, to give a more informed valuation of the car parks.

When relevant documents cannot be located during the audit, this may require that additional or alternative procedures be performed which exceed those initially planned or have other consequences. This issue, if not resolved, will become an even greater challenge as we seek to rebuild assurance due to the disclaimed opinion given in 2022/23.

The Council should reassess the current document filing structures and methods and implement improved processes to ensure that all original documentation required to support financial transactions is retained and can be readily located when required.

### *Lack of quality evidence supplied (linked to above)*

During field work, the audit team experienced challenges when receiving supporting evidence. Insufficient supporting documentation or explanations were frequently provided resulting in various samples being sent back to officers with request for further information/evidence and hence multiple reviews by the audit team before completing an area of audit.

We discussed the quality of the evidence being provided with management, who acknowledged that the evidence being provided was not of sufficient quality or the right evidence to support our testing. We also requested that management perform a quality check of the information being provided to us. The final time that this was requested, we were pausing the audit with the intention to return in 2.5 months' time and requested that all evidence that had been provided but not yet tested (as was received after the audit team was due to have completed the audit) and all evidence for the requests not yet provided be reviewed for quality. Management agreed to quality check all future evidence being provided but did not have capacity to quality check the evidence already provided.

# Other Reporting Issues (cont'd)

## Other matters

As a result of our audit queries, management identified two bank accounts did not have any current signatories and one was noted to us as being with an incorrect bank. Both of these accounts have since been closed.

When evidence has been provided, we have not found significant misstatements (with the exception of valuations).

### *Delayed, and in some cases no response, from officers*

Delays were encountered in receiving evidence from council officers in response to our sample testing or audit queries. In some instances there was no response from many officers, needing escalation through the finance team. The delays particularly impacted our testing of property, plant and equipment and investment properties. For the latest example, responses were received on 17 and 18 December to an e-mail sent on 19 November 2024. The receipt of the information was after the audit team was due to have finished their additional time on the audit, the timing of which had been communicated.

We noted a number of single points of failure where only one officer was able to respond to certain queries and if they were absent, that area of the audit could not progress.

### *Recommendations*

- The financial statements need to be supported by detailed transaction listings that can be readily reconciled back to the financial statements
- The audit team and the finance team need to establish a detailed list of exactly what reports are needed to select the samples
- The Council needs to ensure that its records are maintained in such a way that officers can access invoices and underlying working papers and explanations, even if key officers are off sick or have left the Council
- Officers need to be prepared to respond to audit queries timely in order to be able to complete the audit within planned timescales
- The audit team and the finance team need to establish detailed escalation procedures to ensure audit queries are responded to in a timely manner

### Consideration of laws and regulations

We have identified two instances of non-compliance with laws and regulations through the audit:

- Equal Pay claims - the Council received a small number of claims from employees that it had breached equal pay legislation (Equality Act 2010) and it recognised the potential for further claims. The Council is in discussion with the unions on the best way to deal with claims and these discussions are ongoing. We initially requested an assessment paper on whether these claims should be classified as a contingent liability or a provision on 4 September 2024 and whether a post balance sheet event had occurred. We asked the Council to update their assessment paper (which we had not yet received) for any changes arising from their discussions with the unions and whether this impacted their considerations on classification and/or post balance sheet events. We received their paper on 23 December 2024, concluding that this should be classified as a contingent liability. Given the timings, we did not have sufficient time to assess this fully in advance of the backstop date for 2022/23 on 13 December 2024, and may not be able to complete our assessment for the 28 February 2025 backstop date for the 2023/24 accounts. We have raised a number of challenges to management's paper.
- Regulatory Notice from the Regulator for Social Housing - as set out in section 3, the Regulator for Social Housing issued a Regulatory Notice in November 2024 regarding their inspection of the Council and their responsibilities to deliver the consumer standards. The Regulator concluded that there are serious failings in the Council delivering the outcomes of the consumer standards and significant improvement is needed, specifically in relation to the outcomes in the Safety and Quality Standard and Transparency, Influence and Accountability Standard. We concluded this did not have a more than inconsequential impact on the financial statements, but concluded it did represent a significant weakness in the Council's value for money arrangements as set out in Section 3 of this report.

# Other Reporting Issues (cont'd)

## ISA (UK) 315 (Revised): Identifying and Addressing the Risks of Material Misstatement

ISA 315 is effective from FY 2022/23 onwards and is the critical standard which drives the auditor's approach to the following areas:

- Risk Assessment
- Understanding the entity's internal control
- Significant risk
- Approach to addressing significant risk (in combination with ISA 330)

Given that we have disclaimed the 2022/23 audit of the financial statements, we have undertaken ISA (UK) 315 (Revised) procedures for the first time in 2023/24.

The International Auditing & Assurance Standards Board (IAASB) concluded that whilst the existing version of the standard was fundamentally sound, feedback determined that it was not always clear, leading to a possibility that risk identification was not consistent. The aims of the revised standard is to:

- Drive consistent and effective identification and assessment of risks of material misstatement
- Improve the standard's applicability to entities across a wide spectrum of circumstances and complexities ('scalability')
- Modernise ISA 315 to meet evolving business needs, including:
  - how auditors use automated tools and techniques, including data analytics to perform risk assessment audit procedures; and
  - how auditors understand the entity's use of information technology relevant to financial reporting.
- Focus auditors on exercising professional scepticism throughout the risk identification and assessment process.

We set out the findings and conclusions from our work to implement ISA 315 in the table below.

### Audit Procedures

We performed the following procedures:

- ▶ We enquired with management as to the relevant IT systems that would impact the statement of accounts for the audit.
- ▶ We made subsequent enquiries to understand the key IT process for the relevant material IT systems. This included the manage access, manage change and manage operation processes for these IT systems.

### Audit findings and conclusions

- ▶ We identified the Council's general ledger and payroll system (Unit 4 Business World) as relevant material IT systems.
- ▶ Our understanding of the IT processes for the Council's material IT systems did not result in any additional audit risks.





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## Independence

# Independence - Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your organisation, and its directors and senior management and its affiliates, including all services provided by us and our network to your company, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

## Confirmation

We confirm that, in our professional judgment, EY is independent, our integrity and objectivity is not compromised, and we have complied with the FRC Ethical Standard.

We confirm that your engagement team (partner, manager and all others involved with the audit) and others within the firm, the firm and network firms have complied with relevant ethical requirements regarding independence.

We confirm that we have communicated with the Council, information about the proposed non-audit service to enable them to make an informed assessment about the independence impact of the provision of the proposed services. There are no non-audit services in relation to Southampton City Council.

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the period ended 30 June 2024 and can be found here: [EY UK 2024 Transparency Report | EY - UK](#).

## Relationships

There are no relationships from 1 April 2023 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

## Services provided by EY

There are no services provided by EY from 1 April 2023 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

# Independence - Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

A breakdown of our fees is shown in the table to the right.

As set out in our Audit Planning Report the agreed fee presented was based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our financial statements opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment
- ▶ The Council complies with PSAA's Statement of Responsibilities of auditors and audited bodies. See <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>. In particular the Council should have regard to paragraphs 26 - 28 of the Statement of Responsibilities.

If any of the above assumptions prove to be unfounded, we seek a variation to the agreed fee. Details of our proposed scale fee variations for the audit of the Council are set out in the fee analysis on this page.

All fees exclude VAT

(1) PSAA Ltd, in line with the joint statement issued DLUHC (as at that date) and the FRC is responsible for the determination of the final audit fee in respect of 2022/23. In doing so, PSAA Ltd will apply the principles that where auditors have worked in good faith to meet the requirements of the Code of Audit Practice in place at the time the work was conducted (and have reported on work that is no longer required), then they are due the appropriate fee for the work done, including where their procedures were necessary to conclude the audit by the legislatively imposed backstop date by way of a modified or disclaimed opinion and the body is due to pay the applicable fee.

	Current Year	Note reference	Prior Year
	£	£	£
Total Fee - Code Work	372,615	(1)	142,041
Additional work not considered by the scale fee to comply with the requirements of ISA (UK) 315 (Revised).	15,000 - 25,000		-
Testing of the change to the PFI for street lighting, including involving our PFI specialists	8,000 - 10,000		-
Additional work required due to the complexity of the systems and being able to get to populations to test	18,000 - 20,000		-
Additional work required due to the poor quality of evidence provided	10,000 - 12,000		
Additional work performed regarding the IAS 19 pension disclosures, including involving our EY Pensions team and performing re-work due to the issues in the original IAS 19 report from the actuary	3,000 - 4,000		
Additional work performed on asset valuations by our EY Real Estate team	10,000 - 12,000		
Additional work performed with respect to testing the Lease disclosure	1,000 - 2,000		
Additional work required to test the CIES restatement	500 - 1,000		
Additional work in relation to the three risks of significant weakness identified for value for money	10,000 - 15,000		
Objection	10,000 - 14,000		-
<b>Total audit</b>	<b>TBC</b>		<b>TBC</b>





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# Appendices



# Appendix A – Summary of assurances

## Summary of Assurances

As we have set out in Section 5 and the Executive Summary of this report, we anticipate issuing a disclaimer of opinion on the 2023/24 financial statements. Due to the disclaimer of opinion issued on the 2022/23 financial statements, we do not have assurance over the comparative figures disclosed in the financial statements, the opening balance position on 1 April 2023, the closing reserves balances on 31 March 2024 or the in-year movements recorded in the Comprehensive Income and Expenditure Statement. This is considered material and pervasive to the 2023/24 financial statements. The table below summarises the audit work we have completed on the 2023/24 financial statements to demonstrate to the committee the level of assurance that has been obtained as a result of the financial statements audit.

Account area	Assurance rating	Summary of work performed
Property, Plant and Equipment ('PPE')	None	<p>The Council revalued 77 land and building (L&amp;B) assets in 2023/24. We sample tested 18 L&amp;B assets valued using DRC and 5 L&amp;B assets using EUV, and reviewed the accounting for a further 12 schools. At the time of writing this report, we have outstanding queries on 5 L&amp;B assets valued using DRC, 4 in relation to the land values and one in relation to the ground area used by the valuer.</p> <p>Our testing of EUV assets is complete, however, we identified variances in all sample items, including the asset revalued by our EY Real Estates team, resulting in an overall overstatement of £9.7m on a tested value of £21.5m. This 45% overstatement in valuation means that we cannot accept the population of assets revalued using EUV in 2023/24 (£26.9m).</p> <p>As we have been unable to complete our work over asset valuations, we have been unable to gain assurance over the revaluation movements posted through the CIES and into reserves.</p> <p>We sampled 27 items from capital additions in 2023/24, 10 of which still have outstanding evidence or queries and a further 29 items from capital additions in 2022/23, 6 of which still have outstanding evidence or queries. Testing of these items started 12 July 2024, with exchanges back and forth till 3 September, then the next response received was 2 December in relation to 2022/23. Some further exchange then occurred through December with the final information received 23 December after the agreed time finished on 13 December.</p> <p>Our testing of depreciation for 2022/23 and 2023/24 is complete with no significant variances identified.</p> <p>We have been unable to complete our testing of HRA depreciation due to outstanding queries. However, we did identify an issue where the Council was not appropriately writing out depreciation of HRA assets on indexation of £17,256,790. This has been amended in the revised financial statements.</p> <p>Further, we do not have full assurance over the PPE opening balance, due to the disclaimed opinion for 2022/23 meaning we did not test material movements in the fixed asset register for additions, disposals and revaluation in that year (we tested depreciation and tried to test additions). We will begin procedures for the rebuilding of assurance in 2024/25</p>
Investment Property	None	<p>The Council revalued all 155 investment properties in 2023/24. We sample tested 17 investment properties.</p> <p>Our work on the sample of investment properties is ongoing with 14 assets being within a reasonable range and 3 currently outside a reasonable range.</p> <p>Further, we do not have full assurance over the opening balance, due to the disclaimed opinion for 2022/23 meaning we did not test material movements in the fixed asset register for additions, disposals, revaluation and depreciation in that year. We will begin procedures for the rebuilding of assurance in 2024/25</p> <p>Therefore we only have partial assurance over the revaluation of investment properties.</p> <p>While we do not have assurance over the reclassifications between Investment Property and Assets Under Construction in 2022/23, the balance is immaterial to the Council.</p>
Heritage Assets	Partial	<p>We have completed our planned work in this area for 2023/24, but we do not have full assurance over the Heritage Assets closing balance, due to the disclaimed opinion for 2022/23 meaning we did not test material movements in the fixed asset register for revaluations in that year. We will begin procedures for the rebuilding of assurance in 2024/25.</p>

# Appendix A – Summary of assurances

## Summary of Assurances

Account area	Assurance rating	Summary of work performed
Long and Short Term Investments	Substantial	We have completed our planned audit procedures in this area and have obtained assurance over the closing balance at 31 March 2024.
Short Term Debtors	Partial	We have completed our planned audit procedures in this area and have obtained assurance over the closing balance at 31 March 2024, with the exception of HRA debtors of £9.0 million.
Cash and Cash equivalents	Substantial	We have completed our planned audit procedures in this area and have obtained assurance over the closing balance at 31 March 2024.
Borrowings (short and long term)	Substantial	We have completed our planned audit procedures in this area and have obtained assurance over the closing balance at 31 March 2024.
Creditors (short term)	Partial	We have not been able to complete our planned audit procedures in this area and have obtained assurance over the closing balance at 31 March 2024.
Capital grants & other contributions received in advance	None	We have been unable to test our 9 sample items as the evidence provided did not match the evidence requested and there was insufficient explanation provided to be able to understand the evidence that was provided. Therefore we have no assurance over these balances. Further as we do not have assurance over movements across the disclaimed period, and therefore the opening balance for 2023/24, we do not have assurance over the Capital Grants RIA balance at 31 March 2024.
Provisions (short and long term)	Substantial	We have completed our planned audit procedures in this area and have obtained assurance over the closing balance at 31 March 2024.
Creditors (PFI)	Substantial	We have completed our planned audit procedures in this area and have obtained assurance over the closing balance at 31 March 2024.
Local Government Pension Scheme Liability	Substantial	Other than the outstanding IAS 19 assurance confirmation from the Hampshire Pension Fund, we have completed our planned audit procedures in this area and have obtained assurance over the closing balance at 31 March 2024.
Reserves	None	We have completed our work on the movements in reserves in 2023/24 but, until we have completed our work programme on the rebuilding of assurance following the disclaimed audit opinions, we are unable to obtain assurance over the useable and unusable reserves of the Council reported in the financial statements. We will provide more information on our proposed approach for rebuilding of assurance as part of our 2024/25 audit planning reports.
Comprehensive Income and Expenditure Statement (including the Collection Fund and the Housing Revenue Account)	None	We have not been able to completed our planned testing on the Comprehensive Income and Expenditure Statement in 2023/24 due to the delays encountered throughout the audit, but, as we do not have assurance over the opening balance position at 1 April 2023, we are unable to obtain assurance that all of the in-year movements recorded in the statement are accurate.
Lease disclosures	None	We were unable to complete our work in this area initially due to issues with the spreadsheet put forward by management. After correcting for the issues we identified, we sent the sample to management on 17 July 2024 (same day we received the updated workbook) and did not receive the response until 20 August 2024 after the audit team had completed their allotted time on the audit.

# Appendix B - Required communications with the Audit Committee

## Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK entities. We have detailed these here together with a reference of when and where they were covered:

		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	<p>Communication of:</p> <ul style="list-style-type: none"> <li>▶ The planned scope and timing of the audit</li> <li>▶ Any limitations on the planned work to be undertaken</li> <li>▶ The planned use of internal audit</li> <li>▶ The significant risks identified</li> </ul> <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.</p>	Audit planning report - March 2024
Significant findings from the audit	<ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit results report - February 2025

# Appendix B - Required communications with the Audit Committee (cont'd)

## Our Reporting to you

Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty related to going concern</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The appropriateness of related disclosures in the financial statements</li> </ul>	Audit results report - February 2025
Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Material misstatements corrected by management</li> </ul>	Audit results report - February 2025
Fraud	<ul style="list-style-type: none"> <li>▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ol> </li> <li>▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>▶ Matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud</li> <li>▶ Any other matters related to fraud, relevant to Audit Committee responsibility.</li> </ul>	Audit results report - February 2025



# Appendix B - Required communications with the Audit Committee (cont'd)

## Our Reporting to you

Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	Audit results report - February 2025
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, integrity, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communications whenever significant judgements are made about threats to integrity, objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Audit planning report - March 2024</p> <p>Audit results report - February 2025</p>
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	Audit results report - February 2025
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of</li> </ul>	Audit results report - February 2025

# Appendix B - Required communications with the Audit Committee (cont'd)

## Our Reporting to you

Required communications	What is reported?	When and where
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit.</li> </ul>	Audit results report - February 2025
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> <li>▶ Written representations we are requesting from management and/or those charged with governance</li> </ul>	Audit results report - February 2025
System of quality management	<ul style="list-style-type: none"> <li>▶ How the system of quality management (SQM) supports the consistent performance of a quality audit</li> </ul>	Audit results report - February 2025
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	Audit results report - February 2025
Auditors report	<ul style="list-style-type: none"> <li>▶ Key audit matters that we will include in our auditor's report</li> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit results report - February 2025

# Appendix C - Accounting and regulatory update

## Accounting and regulatory update

### Accounting update

Since the date of our last report to the Audit Committee/Board, a number of new accounting standards and interpretations have been issued. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures	Impact on Southampton City Council
IFRS 16 Leases	<ul style="list-style-type: none"><li>▶ CIPFA have confirmed there will be no further delay of the introduction of the leases standard IFRS 16.</li><li>▶ Assets being used by the Council under operating leases are likely to be capitalised along with an associated lease liability.</li><li>▶ Lease liabilities and right of use assets will be subject to more frequent remeasurement.</li><li>▶ The standard must be adopted by 1 April 2024 at the latest</li></ul>	<ul style="list-style-type: none"><li>▶ We have discussed the Council's readiness to implement IFRS 16 as part of our 2023/24 programme of work. Management had previously performed an initial review and concluded that there was no material impact of IFRS 16 on the Council.</li><li>▶ This work had not been updated at the time of the audit, therefore we were unable undertake further detailed work.</li><li>▶ Based on this assessment we have concluded that the Council has not yet been able to show it has reasonable arrangements in place to support the adoption of IFRS 16 in 2024/25.</li></ul>

# Appendix D – Management representation letter

## Management representation letter

### Management Rep Letter

[To be prepared on the entity's letterhead]

[Date]

Ernst & Young

[Address]

This letter of representations is provided in connection with your audit of the financial statements of Southampton City Council ("the Council") for the year ended 31 March 2024. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of Southampton City Council as of 31 March 2024 and of its income and expenditure for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

#### A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)), and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)), that are free from material misstatement, whether due to fraud or error.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because [specify reasons for not correcting misstatement].



# Appendix D – Management representation letter

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6. We confirm the Council does not have securities (debt or equity) listed on a recognized exchange.

#### **B. Non-compliance with law and regulations, including fraud**

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of a system of internal control to prevent and detect fraud and that we believe we have appropriately fulfilled those responsibilities.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have disclosed to you, and provided you full access to information and any internal investigations relating to, all instances of identified or suspected non-compliance with law and regulations, including fraud, known to us that may have affected the Council (regardless of the source or form and including, without limitation, allegations by "whistleblowers") including non-compliance matters:
  - involving financial improprieties;
  - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
  - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
  - involving management, or employees who have significant roles in internal controls, or others; or

- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

#### **C. Information Provided and Completeness of Information and Transactions**

1. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
2. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
3. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
4. We have made available to you all minutes of the meetings of the Council; Cabinet; Governance Committee and Audit Committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 12 February 2025.
5. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

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6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. From the date of our last management representation letter through the date of this letter we have disclosed to you, to the extent that we are aware, any (1) unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants) , to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

#### D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that we have given to third parties.

#### E. Going Concern

1. Note 1a) to the financial statements discloses all the matters of which we are aware that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

#### F. Subsequent Events

1. There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

#### G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Statement and Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

#### H. Climate-related matters

1. We confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation and disclosure of climate-related matters has been considered including the impact resulting from the commitments made by the Council, and reflected in the financial statements.
2. The key assumptions used in preparing the financial statements are, to the extent allowable under the requirements of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), aligned with the statements we have made in the other information or other public communications made by us (see section G).

#### I. Ownership of Assets

1. Except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheet, and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral. All assets to which the Council has satisfactory title appear in the balance sheet.

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#### J. Reserves

1. We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

#### K. Contingent Liabilities

1. We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the financial statements or as the basis of recording a contingent loss (other than those disclosed or accrued in the financial statements).
2. We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements, and there have been no communications from regulatory agencies or government representatives concerning investigations or allegations of non-compliance, except as follows:
  - (1) Matters of routine, normal, recurring nature (e.g., examinations by bank and insurance examiners, examinations by taxing authorities, none of which involves any allegations of noncompliance with laws or regulations that should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
  - (2) Matters referred to in the letter dated 30 April 2024 issued to you by **the Council's Monitoring Officer**.

#### L. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the property, plant and equipment and investment property, the IAS 19 liability, and the business rates appeals provision and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

#### M. Estimates

1. We confirm that the significant judgments made in making the property, plant and equipment and investment property, the IAS 19 liability, and the business rates appeals provision accounting estimates have taken into account all relevant information of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the property, plant and equipment and investment property, the IAS 19 liability, and the business rates appeals provision accounting estimates.
3. We confirm that the significant assumptions used in making the property, plant and equipment and investment property, the IAS 19 liability, and the business rates appeals provision accounting estimates appropriately reflect our intent and ability to carry out any specific courses of action on behalf of the entity.
4. We confirm that the disclosures made in the financial statements with respect to the accounting estimates, including those describing estimation uncertainty, are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).
5. We confirm that appropriate specialized skills or expertise has been applied in making the property, plant and equipment and investment property, the IAS 19 liability, and the business rates appeals provision accounting estimates.
6. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements.

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#### N. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

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Mel Creighton

Executive Director Enabling Services & Section 151 Officer

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Councillor Steve Leggett

Chairman of the Audit Committee



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UKC-024050 (UK) 07/22. Creative UK.

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