

Southampton City Council External Audit Progress Report

September 2024



Contents

01 2022/23 audit



02 2023/24 audit progress



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/audit-quality/statement-of-responsibilities/>). 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.



01

2022/23 audit



2022/23 Audit status

Status of the audit

The new Minister of State responsible for Local Government and English Devolution made a statement to parliament on Tuesday 30 July 2024, setting out the Government's policy proposal for addressing the local government audit backlog. This statement outlines immediate actions the Government - together with the Financial Reporting Council (FRC), the National Audit Office (NAO) and organisations in the wider system - is taking, which are designed to address the backlog and put local audit on a sustainable footing. These now provide helpful clarity on the government's policy intentions and recognise the commitment of finance teams and auditors and the important role that we will all play to restore timely financial reporting.

We have previously discussed with you our intention to disclaim your 2022/23 audit as part of our strategy to reset our local public audits, clear the backlog, and focus our efforts on providing assurance on the most recent financial information.

The Minister's statement establishes the intent for the backstop date of 13 December 2024 for this to be completed.

While further guidance remains to be issued, we have been working with the system leaders to understand what their expectations will be on all auditors to implement the government's policy proposals effectively. We have also reviewed the auditing standards and the work required to move to a disclaimed opinion. Primarily, whilst we do not need to complete detailed testing of the financial statements we do need to review them, complete certain tasks to plan our approach to the audit, understand the business, get updates on key areas to ensure that we are sighted on developments, form a view on aspects that we report on, and communicate the outcome of this work to those charged with governance.

Once we have completed our work, we will issue our audit completion report for those charged with governance per authority that includes:

- details of the work undertaken for planning;
- the results from the work completed for this process; and
- our value for money commentary, as previously presented to the Governance Committee on 12 February 2024.

We have established our programme that will need to be completed, which we will adapt if required when guidance is released by the NAO, to ensure that together we can meet the backstop date of 13 December 2024 .

Depending on when we receive all of the required information that has been requested from management, we aim to have our procedures completed and provide our report by the end of November in order for you to review it, provide to us your final signed letter of representation and subsequent events confirmation, and then publish your accounts with the audit report by the December deadline.

You need to have arrangements in place for an Audit Committee meeting or delegated authority to approve the statement of accounts when we have completed the required work. In discussion with management, we have agreed the appropriate way forward for Southampton City Council is for the accounts to be presented to this September committee requesting delegated approval to the Chairman and s151 officer.

A close-up photograph of a person's hand holding a white marker, pointing at a bar chart displayed on a tablet. The chart features several bars of varying heights, colored in shades of green, yellow, and red. The background is dark, and the lighting is focused on the hand and the tablet.

02 2023/24 Audit Progress



2023/24 Audit Progress

Status of the audit

Our audit work in respect of the Council opinion is in progress. We started the audit in June and have experienced a number of setbacks and delays. The most significant of these have been;

- Difficulties in being able to arrive at populations of transactions that underpin the financial statements in order to perform our sample testing. This has involved significant support and time from officers due to the complexity of the underlying systems; and
- Delays in receiving evidence from management in response to our sample testing and the subsequent poor quality of that evidence, mainly due to capacity within the finance and other supporting teams. In part this is impacted by sickness and also affected by changes in personnel and staff leaving the Council.

The impact of this is that the audit has not been completed within the initial agreed timetable and we need to schedule further resources to complete our work. The poor quality of evidence is particularly disappointing given we ran a workshop for the Council on audit evidence and expectations in June.

Given that the audit process is still ongoing, we will continue to challenge the remaining evidence provided and the final disclosures in the Annual Report and Accounts which could influence our final audit opinion.

We cannot sign our audit report on the 2023/24 accounts before our disclaimer is issued on the 2022/23 accounts. Subject to the scheduling of additional resources to complete the audit, we anticipate bringing our Audit Results Report for the 2023/24 Audit to your 11 November 2024 Audit Committee meeting, subject to receiving audit evidence of sufficient quality to complete our testing. This will enable us to complete the audit by the Government's intended backstop date for 2023/24 audits of 28 February 2025.

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 are carrying out our audit in accordance with this plan, with the following exceptions:

Additional 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.

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 in the provision of services, we have updated our overall materiality assessment to £13.86m (Audit Planning Report – £14.0m). This results in updated performance materiality, at 75% of overall materiality, of £10.395m, and an updated threshold for reporting misstatements of £693,000.



2023/24 Audit Progress (cont'd)

Other Reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. Subject to receipt of an updated Statement that includes information in relation to the Head of Internal Audit Annual Report and Opinion, we have no matters to report as a result of this work.

We have received the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts. The Council falls below the £2bn HM Treasury threshold and, therefore, we will need to undertake the reduced procedures. This will be undertaken once we have completed our work on your financial statements.

Control observations

During the audit, we identified the following significant deficiencies in internal control:

- ▶ During our work over lease commitments, management informed us that the lease data had not been updated for several years. This could lead to significant differences within the lease disclosures and means that the Council is not ready for the implementation of IFRS 16 from 1 April 2024.

In addition during the audit we identified an observation and improvement recommendation in relation to management's financial processes and controls.

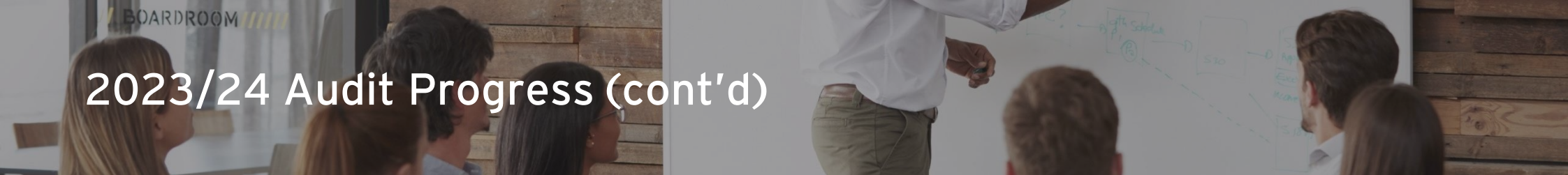
- ▶ The Council should document their review and challenge the valuations made by the external valuer to evidence that they are satisfied with the valuations and that all factors have been considered and any judgements made are fully supportable within the Code

2023/24 Audit Progress (cont'd)

Areas of audit focus

In our Audit Plan and updated scope on page 6 of this report, we identified a number of key areas of focus for our audit. The following table sets out the current status of our work in relation to these areas

Description	Progress Summary
Misstatement due to fraud or error - Management override	Our testing of journals and key estimates is in progress
Risk of fraud in revenue and expenditure recognition, through inappropriate capitalisation of revenue expenditure	Our testing of capital additions is significantly progressed. However, we have been struggling with insufficient evidence being provided to support our sample items.
Risk of fraud in revenue and expenditure recognition, through inappropriate deferral of expenditure	Our testing is underway in this area.
Valuation of Investment Property and Land & Buildings	Our work in this area is in progress. We have been liaising with the valuers and our internal specialist valuers to progress our work.
Pension Liability Valuation	This work is significantly progressed, subject to review and receipt of the IAS 19 protocol assurances from the Hampshire Pension Fund audit team, and information being requested of the actuary to support our Pensions specialists in their review of the roll-forward calculation.
Restatement of the Comprehensive Income and Expenditure Statement (CIES), Expenditure and Funding Analysis (EFA) and related disclosure notes	Our work in this area is complete subject to review.
Accounting for Private Finance Initiative (PFI) Schemes	Our work in this is in progress. Our specialist is currently reviewing the change in the street lighting PFI model.
Going Concern	We have not yet commenced our work in this area as we are waiting for the determination of the EFS.



2023/24 Audit Progress (cont'd)

Value for Money

In our Audit Planning Report Update dated 27 March 2024, we reported that we had completed our value for money (VFM) risk assessment and we had identified a risk of a 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.

We have previously raised through our interim value for money report for 2022/23, presented to the 12 February 2024 Governance Committee, that the issues and weaknesses highlighted within that report would remain relevant for 2023/24.

We have received a large amount of information from management to further our work in this area and inform our VFM commentary, but this is unlikely to remove our reporting by exception across a number of VFM criterion as the information requested relates predominantly to processes and activities after the end of the 2023/24 financial year.

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