

**Southampton City Council
Completion Report for Those
Charged with Governance**

Year ended 31 March 2023

Report issued - 04 December 2024



Audit Committee
Southampton City Council
Civic Centre
Civic Centre Road
Southampton
SO14 7LY

04 December 2024

Dear Audit Committee

Completion Report for Those Charged With Governance

Attached is our Completion Report for Those Charged With Governance. The purpose of this report is to provide the Audit Committee of Southampton City Council (the Council) with a detailed report covering our approach and outcomes of the 2022/23 audit.

Given that Statutory Instrument (2024) No. 907 - "The Accounts and Audit (Amendment) Regulations 2024" (the SI) imposes a backstop date of 13 December 2024 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).

This decision is in line with ISA 200: Failure to Achieve an Objective, 24.

If an objective in a relevant ISA (UK) cannot be achieved, the auditor shall evaluate whether this prevents the auditor from achieving the overall objectives of the auditor and thereby requires the auditor, in accordance with the ISAs (UK), to modify the auditor's opinion or withdraw from the engagement (where withdrawal is possible under applicable law or regulation). Failure to achieve an objective represents a significant matter requiring documentation in accordance with ISA (UK) 230 (Revised June 2016).4 (Ref: Para. A77&A78)

Taking the above into account, for the year ended 31 March 2023 we have determined that we cannot meet the objectives of the ISAs(UK) and we anticipate issuing a disclaimed audit report.

In completing our work for this audit year we have taken into account Statutory Instrument (2024) No. 907 - "The Accounts and Audit (Amendment) Regulations 2024", Local Authority Reset and Recovery Implementation Guidance. We have also taken into account the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice (including recent 2024 updates), the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. Against this backdrop, we have also considered the Committee's service expectations.

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 Authority'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.

We draw the Audit Committee members and officer's attention to the Public Sector Audit Appointment Limited's Statement of Responsibilities (paragraphs 26-28) which clearly set out what is expected of audited bodies in preparing their financial statements (see Appendix E).

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. 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 (<https://www.psa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/>) 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. 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 Executive Summary



Executive Summary – System wide and local context

Context for the audit – Department for Levelling-up, Housing and Communities (DLUHC) and Financial Reporting Council (FRC) 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 professions
- ▶ 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

DLUHC (now MHCLG) has worked collaboratively with the FRC, as incoming shadow system leader, and other system partners, to develop and implement measures to clear the backlog. Statutory Instrument (2024) No. 907 - “The Accounts and Audit (Amendment) Regulations 2024” (the SI), together with the updated NAO Code of Audit Practice 2024 and the Local Authority Reset and Recovery Implementation Guidance, which have all been developed to ensure auditor compliance with International Standards on Auditing (UK) (ISAs (UK)), consist 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 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.
- ▶ Phase 3: Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.

As a result of the system wide implementation of backstop dates we anticipate issuing a disclaimed audit opinion on the Authority’s 2022/23 accounts. The proposed disclaimer of the Council’s 2022/23 accounts impacts the audit procedures that we have planned and undertaken to gain assurance on the 2022/23 financial statements and the form of the audit report.



Executive Summary - Local context

Local Background and Context

The position at this Council has developed over the past few years resulting in unaudited financial statements for 31 March 2023.

The main reasons for the Council's financial statements not being audited and signed to date include:

- ▶ The audit of the 2021/22 accounts commenced in June 2022 and was substantially completed by September 2022 with a report on amendments to the draft accounts and unadjusted audit differences going to the Governance Committee in late September 2022. As report to the Governance Committee in April 2023, completion of the audit was delayed pending CIPFA issuing a temporary update to the Accounting Code on infrastructure assets. There was then a further delay due to a potential material variation in pension liabilities arising from the triennial valuation.
- ▶ As a result of the above, the 2021/22 audit was only concluded in October 2023.
- ▶ The Council has been in a position to present draft statements of account for audit within the regulatory timeframe in recent years.
- ▶ The post pandemic timelines resulted in audit teams trying to move delayed audits onto completion, which used a significant amount of our finite audit resource leading to a lack of capacity to move onto the 2022/23 audit year.
- ▶ As a result, with acknowledgement of the wider reset proposals to move to the most recent year of audit (which at that point in time was 2023/24), we concluded it was not practical to schedule the 2022/23 audit. Therefore, for the reasons listed above we did not have the audit resource necessary to perform the 2022/23 audit for the Council before the backstop date.



Executive Summary – Report structure and work completed

Report structure and work completed

This report covers the work we have completed to meet the requirements of the International Standards on Auditing (UK&I), (ISAs) and the Local Audit Reset and Recovery Implementation Guidance (LARRIGs) along with the National Audit Office Value for Money Code (NAO VFM Code). It has been split into the following sections.

Section 1 - Executive Summary - this section sets out the national and local context and the structure of our report.

Section 2 - Work Plan - We have completed the following planning tasks:

- ▶ Required independence procedures.
- ▶ Set a level of materiality.
- ▶ Issued letters of inquiry to Management, Those Charged with Governance, the Head of Internal Audit and the Monitoring Officer.
- ▶ Updated our understanding of the business, including through review of responses to inquiry letters, minute review and in discussion in our internal planning meeting,
- ▶ Identified significant, inherent and other areas of higher risk or focus.
- ▶ Considered any other matters that may require reporting to regulators or which may result in a modification to the audit report e.g. non-compliance with laws and regulations, objections, significant weaknesses in arrangements for value for money, any matters that may result in the use of the auditor's powers.

Section 3 - Results and findings - Work completed to issue the disclaimer, findings and results:

- ▶ Review of the financial statements.
- ▶ Consideration of any matters that came to light during our planning and review procedures in relation to laws and regulations, fraud, related parties, litigation and claims, significant changes to contracts and systems, service organisations, which we report as appropriate.
- ▶ Reporting on any other matters that may require the use of the auditor's powers, formal reporting or a modification to the auditor's report e.g. non-compliance with laws and regulations, objections, significant weaknesses in arrangements for value for money, any matters that may result in the use of the auditor's powers.

Section 4 - Value for money reporting

- ▶ The value for money report covering the year to 31 March 2023.

Section 5 - Appendices



02 Work Plan

Work Plan – Audit Scope

Audit scope

This Completion report covers the work that we performed in relation to:

- ▶ Our audit opinion on whether the financial statements of the Council give a true and fair view of the financial position as at 31 March 2023 and of the income and expenditure for the year then ended; and
- ▶ Our commentary on your arrangements to secure value for money in your use of resources for the relevant period. We include further details on VFM in Section 4.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- ▶ Strategic, operational and financial risks relevant to the financial statements;
- ▶ Developments in financial reporting and auditing standards;
- ▶ The quality of systems and processes;
- ▶ Changes in the business and regulatory environment; and,
- ▶ Management's views on all of the above.

Given that Statutory Instrument (2024) No. 907 - "The Accounts and Audit (Amendment) Regulations 2024" (the SI) imposes a backstop date of 13 December 2024 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).

This decision is in line with ISA 200: Failure to Achieve an Objective 24.

If an objective in a relevant ISA (UK) cannot be achieved, the auditor shall evaluate whether this prevents the auditor from achieving the overall objectives of the auditor and thereby requires the auditor, in accordance with the ISAs (UK), to modify the auditor's opinion or withdraw from the engagement (where withdrawal is possible under applicable law or regulation). Failure to achieve an objective represents a significant matter requiring documentation in accordance with ISA (UK) 230 (Revised June 2016).4 (Ref: Para. A77&A78)

Taking the above into account, for the year ended 31 March 2023 we have determined that we cannot meet the objectives of the ISAs(UK) and we anticipate issuing a disclaimed audit report.

Work Plan - Materiality

Materiality

Planning materiality

£14m

Materiality for y/e 31 March 2023 has been set at £14m, which represents 1.8% of 2023 gross expenditure on provision of services.

Performance materiality

£10.5m

Performance materiality for y/e 31 March 2023 has been set at £10.5m, which represents 75% of planning materiality.

Audit differences

£0.7m

We will report all uncorrected misstatements relating to the primary statements greater than £0.7m for y/e 31 March 2023. Other misstatements identified will be communicated to the extent that they merit the attention of the Governance Committee.

In order to ascertain the significance of issues in the draft financial statements we have set materiality based on the published unaudited financial statements.

Work Plan – Significant, inherent and other risk areas

The following 'dashboard' summarises the significant accounting and auditing matters identified as part of our planning work. It seeks to provide Those Charged with Governance with an overview of our initial risk identification for the year.

Audit risks and areas of focus

Risk/area of focus	Applicable year	Risk identified	Change from PY	Details
Management override	31 March 2023	Fraud risk	No change in risk or focus	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. We perform mandatory procedures regardless of specifically identified fraud risks.
Inappropriate capitalisation of expenditure	31 March 2023	Fraud Risk	No change in risk or focus	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.
Going concern	31 March 2023	Significant risk	New risk	In our 2021/22 audit report we included a material uncertainty which may cast doubt on the Council's ability to continue to operate the current planned operational services within available sources of funding. This was due to the Council's revenue reserves being insufficient to cover the Council's risks, and the s151 officer highlighting the potential for a s114 notice within the next 12 months. The Council has applied for Exceptional financial support which is yet to be confirmed, and therefore at the time of planning, the conditions still exist for that uncertainty.
Valuation of Land & Buildings including Investment Properties	31 March 2023	Inherent risk	No change in risk or focus	The value of Investment Property (IP) and Land and Buildings valued using DRC/EUV/FV methods, represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews, and market fluctuations. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Work Plan – Significant, inherent and other risk areas

The following ‘dashboard’ summarises the significant accounting and auditing matters identified as part of our planning work. It seeks to provide Those Charged with Governance with an overview of our initial risk identification for the year.

Audit risks and areas of focus

Risk/area of focus	Applicable year	Risk identified	Change from PY	Details
Pension liability valuation	31 March 2023	Inherent risk	No change in risk or focus	<p>The Local Authority Accounting Code of Practice and IAS19 require the Council / Authority to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme.</p> <p>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.</p>
Restatement of Comprehensive Income and Expenditure Statement	31 March 2023	Inherent risk	No change in risk or focus	<p>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. The Council has changed its internal reporting structure in 2022/23, 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.</p>
Change in Street Lighting PFI model	31 March 2023	Inherent risk	New risk	<p>The Council has three PFI 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.</p>
Infrastructure Asset Valuation	n/a	n/a	Reduced, and no longer a risk	<p>Our 2021/22 audit confirmed that the Council had appropriately implemented the updated arrangements for accounting for infrastructure assets, therefore, we do not consider this to be a risk for the current year.</p>

Work Plan - Independence

The FRC Ethical Standard 2019 and ISA (UK) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage

- ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us;
- ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;
- ▶ The overall assessment of threats and safeguards;
- ▶ Information about the general policies and process within EY to maintain objectivity and independence

Final stage

- ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;
- ▶ Details of non-audit/additional services provided and the fees charged in relation thereto;
- ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;
- ▶ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner
- ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;
- ▶ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and
- ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Work Plan - Independence

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Kevin Suter, your audit engagement partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in your organisation. Examples include where we have an investment in your organisation; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES and the services have been approved in accordance with any policy on pre-approval. In addition, when the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you.

At the time of writing, there are no non-audit fees.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4. There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Work Plan - Independence

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your company. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

EY Transparency Report 2024

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 28 June 2024 and can be found here: [EY UK 2024 Transparency Report | EY - UK](#)



03 Results and findings



Results and findings

Status of the audit

The following items relating to the completion of our audit procedures were outstanding at the date of this report.

- ▶ Completion of subsequent events procedures;
- ▶ Receipt of a signed management representation letter

Given that the audit process is still ongoing, we will continue to consider existing and new information which could influence our final audit opinion.

Value for Money

Our value for money (VFM) work is complete and reported in Section 4 of this report.

We identified a risk of significant weakness in respect of Financial Sustainability, Governance and Improving economy, efficiency and effectiveness.

Having completed the planned procedures in these areas we did identify a significant weakness in the Council's arrangements in these areas.

We previously reported these in our Interim VFM report, issued in February 2024 and reported to the Governance Committee in the same month.

See Section 4 of the report for further details.

Audit differences

We identified differences during our 2023/24 audit, which were relevant to the 2022/23 financial statements. These related to depreciation not being written off on indexation of HRA properties.

Management have corrected the misstatements in the 2022/23 accounts, for both 2022/23 and by virtue of a prior year adjustment for 2021/22. We will seek an additional management representation on this matter.

Other Reporting Issues

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.

The Comptroller and Auditor General has confirmed that he plans to issue his opinion and certificate on the 2022-23 Whole of Government Accounts on 22 November 2024. Given we expect to issue our 2022/23 audit report after that date but before the statutory backstop of 13 December 2024, we therefore expect to be able to certify completion of the audit as part of our final 2022/23 audit report.



Results and findings

Other Reporting Issues (continued)

Objection to the accounts.

We received one objection to the 2022/23 accounts from members of the public. This asked for a Public Interest Report in relation to poor controls, and therefore, poor value for money within the Council's Children's Direct Payments.

In our discretion we decided not to accept the objection for consideration, because:

- The objection covered the same ground as the previous year, which we also did not accept;
- The issues raised were already a matter in the public domain, via the Council's Governance Committee meetings, that there were weaknesses in the controls and processes and there was a lack of progress addressing the action plan.
- We had already reported on the matter in our reports presented to the Council's Governance Committee

Non-Compliance with Laws and Regulations.

Management have made us aware that it has received equal pay claims, as disclosed in Note 35b) to the financial statements. They have kept us up to date to the point of issuing this report with any developments. Due to the imposed backstop date, we were unable to perform sufficient further audit work to determine whether this matter has any impact on the financial statements.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 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 did not identify any issues which required us to issue a report in the public interest



Results and findings

Areas of audit focus

We identified a number of key areas of focus for our audit of the financial report of Southampton City Council. We concluded we would disclaim the audit and therefore have not completed detailed audit testing on these areas but instead have reported any matters that came to light from the work we did complete.

In this instance there are no matters, other than those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee.

Control observations

During the audit, we identified no significant deficiencies in internal control.

Independence

Further to our review of independence in section 2 of this report we have not identified any issues to bring to your attention..

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 Authority'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;
- ▶ Any other matters significant to overseeing the financial reporting process;
- ▶ Related parties;
- ▶ External confirmations;
- ▶ Going concern;
- ▶ Consideration of laws and regulations; and
- ▶ Group audits

We have no further matters to report in addition to the content of this Completion Report.

Results and findings - Audit Report

Draft audit report

Our opinion on the financial statements

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

Disclaimer of opinion

We were engaged to audit the financial statements of Southampton City Council ("the Council") for the year ended 31 March 2023. The financial statements comprise the:

- Comprehensive Income and Expenditure Statement,
- Movement in Reserves Statement,
- Balance Sheet,
- Cash Flow Statement
- the related notes 1 to 40 including a summary of significant accounting policies, and including the Expenditure and Funding Analysis,
- Housing Revenue Account Income and Expenditure Statement, the Statement of Movement on the Housing Revenue Account, and the related note to the Statement of Movement on the Housing Revenue Account and notes 1 to 5, and
- Collection Fund and the related notes 1 to 4

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

We do not express an opinion on the accompanying financial statements of the Council. Because of the significance of the matter described in the basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

The Accounts and Audit (Amendment) Regulations 2024 (Statutory Instrument 2024/907) which came into force on 30 September 2024 requires the accountability statements for this financial year to be approved not later than 13 December 2024.

The backstop date and the wider requirements of the local audit system reset, meant we did not have the required resources available to complete the detailed audit procedures that would be needed to obtain sufficient appropriate audit evidence to issue an unmodified audit report on the 2022/23 financial statements.

In addition, information received during the course of the audit indicated the potential for non-compliance with laws and regulations which could have an impact on the financial statements of the Council. Due to the imposed backstop date, we were unable to determine to perform sufficient further audit work to determine whether this matter has any impact on the financial statements.

Therefore, we are disclaiming our opinion on the financial statements.

Matters on which we report by exception

Notwithstanding our disclaimer of opinion on the financial statements, performed subject to the pervasive limitation described above, we have nothing to report in respect of whether the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council.

We report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 (as amended)
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014 (as amended)
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 (as amended)
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 (as amended)
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014 (as amended)

We have nothing to report in these respects.

Results and findings - Audit Report (cont'd)

Our opinion on the financial statements

Report on the Council's proper arrangements for securing economy, efficiency and effectiveness in the use of resources

We report to you, if we are not satisfied that the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023.

On the basis of our work, having regard to the Code of Audit Practice 2024 and the guidance issued by the Comptroller and Auditor General in November 2024, we have identified the following significant weaknesses in the Council's arrangements for the year ended 31 March 2023.

Significant weaknesses in arrangements

The weaknesses identified:

Financial monitoring for 2022/23 shows that the Council was struggling to keep spending within set budgets for the year, and its reported year end outturn was a deficit of £11.4 million which was met by a drawdown from reserves. Of its planned savings for the year, only 39% were achieved.

The Council prepared its original budget for 2023/24 during the 2022/23 year. Included in the budget was a warning that, without further action, a s114 notice was becoming increasingly likely. It also set out concerns the lack of decision making and lack of actions action by directorates to get expenditure back under control.

In July 2023, a review of the budget and medium term financial strategy was published. Only four months after the original budget was set, this identified a likely £20.9m overspend.

The Council has not been able to keep spending within its budget, which already included a significant planned drawdown on reserves. Continued reliance on reserves to balance the budget is not sustainable and furthermore, the Council has insufficient reserves to meet the significant budget gaps in their medium term financial planning.

In addition, the Head of Internal Audit's Opinion only provided limited assurance over the effectiveness of the control environment for the Council. AS set out in that Opinion, 42% of internal audits for the year were rated 'no' or 'limited' assurance. Of the exceptions followed-up during the year, Internal Audit noted that 56% of the

the actions were overdue. This demonstrates a slow reaction from management to develop and deliver action plans as a result of recommendations made by Internal Audit.

The evidence on which our view is based:

- The Council's budget outturn report 2022/23
- The Council's annual budget 2023/24
- The Council's Medium Term Financial Strategy update report July 2023
- Internal Audit reporting, including their annual audit report 2022/23
- Meetings with officers throughout the year, and into 2023/24.

The impact on Southampton City Council:

The Council's finances are challenged, and it will need to consider whether they can continue to deliver the current level of service provision if savings and transformation plans cannot be achieved.

A lack of an effective control environment will mean expenditure is not properly controlled, and remedial actions are not put in place on a timely basis to address issues raised by Internal Audit perpetuating identified weaknesses in controls.

The action the Council needs to take to address the weakness.

The Council needs to:

- Ensure that it has fully considered the underlying reasons for not delivering the planned budget and savings in 2022/23 to ensure that it can improve the way it manages and delivers its services;
- Hold officers to account regarding delivery of services within the agreed budget;
- Demonstrate that it can operate within its planned budget and control its expenditure, across all services;
- Develop a transformation plan to underpin savings into the medium term;
- Ensure that it has fully considered all options for achievable savings that it can make to reduce the pressure on reserves and achieve a balanced budget;

Results and findings - Audit Report (cont'd)

Our opinion on the financial statements

- Ensure that savings are supported by robust delivery plans and monitored closely to ensure that they are achieved within planned timeframes; and
- Implement action plans agreed as a response to internal audit findings in a timely manner

This issue is evidence of weaknesses in proper arrangements for:

- **Financial sustainability:** How the Council plans and manages its resources to ensure it can continue to deliver its services
 - 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
 - How the body plans to bridge its funding gaps and identifies achievable savings
 - How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
 - How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans
- **Governance:** How the Council ensures that it makes informed decisions and properly manages its risks
 - How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
 - How the body approaches and carries out its annual budget setting process
 - 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

- **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
 - How the body evaluates the services it provides to assess performance and identify areas for improvement

Responsibility of the Section 151 Officer

As explained more fully in the Statement of Responsibilities set out on page 25, the Section 151 Officer is responsible for the preparation of the Statement of Accounts 2022/23, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), and for being satisfied that they give a true and fair view and for such internal control as the Section 151 Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Section 151 Officer is responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Council either intends to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to conduct an audit of the Council's financial statements in accordance with International Standards on Auditing (UK) and to issue an auditor's report.

Results and findings - Audit Report (cont'd)

Our opinion on the financial statements

However, because of the matter described in the basis for disclaimer of opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Code of Audit Practice 2024 and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice 2024, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General in November 2024, as to whether Southampton City Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Southampton City Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Southampton City Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 (as amended) to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

We certify that we have completed the audit of the accounts of Southampton City Council in accordance with the requirements of the Local Audit and Accountability Act 2014 (as amended) and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Southampton City Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 (as amended) and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Kevin Suter (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Southampton
[Date]

The following footnote does not form part of our Auditor's Report.

Additional information related to the disclaimer of opinion is set out in our Completion Report for Those Charged with Governance dated [xxxx], available on the Authority's website, which includes further explanations about the implementation of the statutory instrument which led to the disclaimer of our opinion on the financial statements.



04 Value for Money



VFM - Executive Summary

Purpose

The purpose of this section of our report is to set out the Value for Money (VFM) work for the 2022/23 financial year. The report aims to draw to the attention of the Council, or the wider public, relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

We are required to report on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We have complied with the guidance issued to auditors in respect of their work on value for money arrangements (VFM) in the 2020 Code of Audit Practice (the Code) and Auditor Guidance Note 3 (AGN 03).

The Department for Levelling Up, Housing and Communities (DLUHC) (now MHCLG) had worked collaboratively with the Financial Reporting Council (FRC), as incoming shadow system leader, and other system partners, to develop measures to address the delay in local audit. As part of the NAO consultation issued on 8 February 2024, there was a proposal to reduce the scope of the VFM reporting up to and including the 2022/23 financial year. However, the consultation stated that where auditors have begun or already undertaken work that no longer falls under the reduced scope (if agreed once the consultation closed), they may still report on it in accordance with Schedule 4. We continue to report VFM in line with our existing responsibilities as set out in the 2020 Code to ensure a smooth transition to the 2023/24 audit year when auditors are required to meet the full Code reporting responsibilities.

Risks of Significant Weakness

Our value for money procedures are based on the judgements reached from a combination of:

- our cumulative audit knowledge and experience;
- our review of Council committee reports;
- meetings with the Chief Executive, the Executive Director Enabling Services & s151 Officer and other finance officers, and the Chair of the Improvement and Assurance Board; and
- evaluation of associated documentation through our regular engagement with Council management and the finance team.

We identified a significant weakness in the Council's arrangements in relation to financial resilience as part of our risk assessment procedures. We consider this weakness to affect all three of the criteria for value for money.

VFM - Executive Summary (continued)

Reporting

Our commentary for 2022/23 is set out over pages 28 to 34. The commentary on these pages summarises our overall conclusions over the arrangements at the Council in relation to the reporting criteria throughout 2022/23, and up to the point we issued our interim VFM report in February 2024. It is unchanged from our Interim VFM report.

We include within the VFM commentary the associated recommendations we make to the Council, which are summarised in Appendix D.

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

Reporting Criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services	Risk of significant weakness in arrangements identified in 2022/23 and 2023/24	Significant weakness identified
Governance: How the Council ensures that it makes informed decisions and properly manages its risks	Risk of significant weakness in arrangements identified in 2022/23 and 2023/24	Significant weakness identified
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	Risk of significant weakness in arrangements identified in 2022/23 and 2023/24	Significant weakness identified

Value for Money Commentary

Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

Significant weakness identified

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 November 2023, were forecasting a deficit of £13.9 million for the 2023/24 financial year.

Many of the key drivers of the budget pressures in 2022/23 are because of a variety of national issues generally outside of the Council's control. They include:

- high levels of inflation and the cost-of-living crisis impact
- sharp increases in the costs of energy for the Council
- higher than expected nationally set pay awards
- rising interest rates including impacts on contractual costs and continues to influence the costs arising from the capital programme
- continuing high demand for Council services, especially in the field of social care for both Adults and Children, but also other key areas such as Home-to-School Transport
- on-going effects of Covid-19, in terms of the demands for local services

These pressures continued into the original 2023/24 budget, set in February 2023. As part of the 2023/24 budget setting in February 2023 the s151 officer at the time raised concerns over the lack of decisions and actions within directorates being taken to get expenditure back under control. He raised the possibility of the need for a future s114 notice without sufficient action being taken.

Since then, the Council appointed a new s151 officer, who implemented a further review with an updated 2023/24 budget being issued in July 2023.

The Council have recognised the significance of the financial position that they are in and have initiated a number of actions to assist them in mitigating the position, including setting up an Improvement and Assurance Board (IB), and commissioning a report from CIPFA to look at their financial management and perform a financial resilience review.

The purpose of the IB is to:

- provide external advice, challenge, and expertise to Southampton City Council in driving forward the development and delivery of their improvement plan and transformation programme;
- provide assurance to key stakeholders including but not limited to Cabinet, External Auditors, Governance Committee, Overview and Scrutiny Committee, regarding progress in delivering necessary savings and improvements; and

Value for Money Commentary (continued)

Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services (continued)

Significant weakness identified

- To provide regular progress reports to the Council on the delivery of the improvement plan and to seek assurance that key decisions are made cognisant of the financial implications and impact on in-year budgets and the medium term financial strategy (MTFS).

The CIPFA report concluded that the financial position for both 2023-24 and 2024-25 continues to be precarious and requires continuing action to reduce expenditure and address the deficit. The Council needs to develop a financial recovery plan to cover the period of the MTFS. The plan should be built round supporting the council's financial position not just in the short-term but for the medium and longer-term. A service improvement plan needs to identify clearly how the structural changes required to bring about sustainable reductions in expenditure in Adult Social Care and Looked After Children areas in particular will be delivered.

In our judgement slower than expected progress was made through to December 2023. There was a focus on the in year budget position for 2023/24 reducing the forecast overspend from £21 million initially forecast at month 3, down to £13.9 million overspend forecast at the end of November 2023. However, this is still an overspend and more savings needed to be identified to reduce the call on reserves. Cumulatively, since 2021/22 the expected drawdown on reserves by the end of 2023/24 is expected to be £82.9 million. Limited progress was also made to mitigate the future medium financial position. As at December 2023, the Council had not made significant in-roads into the projected gaps for 2024/25 and beyond. There was an expectation of the development of a transformation plan, that would establish different ways of delivering services and reduce costs. Such a plan is still in development. Savings have been made through cost control and generating additional income, rather than transforming the way services are delivered. The level of reserves remaining is insufficient to cover the forecast future budget gaps.

We are informed that better progress has been made in January 2024. The Council have held workshops with involvement from officers and the Chair of the Improvement Board. The first of these focussed on challenging the achievability of the savings included in the November 2023 MTFS update report, which looks forward into 2024/25. There is still some work to ensure that the supporting business plans are robust and that the savings figures are achievable.

The second workshop focused on the 2023/24 financial position, challenges to the current forecasts and savings required in the shorter term.

There has been a change in Leader at the Council. The new Leader appears to be engaged, understands the financial position of the Council and is committed to drive the Council to resolve its financial situation.

The Chief Executive has also recently resigned with an interim Chief Executive appointed on 19 January 2024. The new Chief Executive's role will be instrumental in being able to ensure that the members and officers continue to work together to bring an achievable solution for the Council.

In order for the Council to achieve the changes needed for financial stability, the members and officers need to work together to take the decisions and actions needed. Some of these decisions are inevitably going to be difficult, because it is hard to envisage a scenario whereby they will not involve decisions to increase the Council's income, and to reduce costs through curtailment of services.

The Council are also seeking to bring in some experienced personnel to assist with transformation and the new asset development and disposal programme, which is

Value for Money Commentary (continued)

Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services (continued)

Significant weakness identified

aimed at identifying which assets they should retain and develop and which ones they can dispose of. We note that capital disposals are ringfenced and cannot be used to support the revenue budget, unless a capitalisation direction is obtained or in accordance with the flexible capital receipts policy to meet transformation costs. Disposals may reduce costs in the short term, but they are not an immediate solution to resolve the gap in the revenue budget. Even with a capitalisation direction, this would be a short term solution only, and the underlying pressures would still need to be addressed.

Southampton City Council will not be able to set a balanced budget without government support. This is prima facie evidence that the Council has not been able to manage its financial sustainability, and the root cause is evident from 2022/23 in the overspending and reduction in reserves. To have a chance at success in receiving this support, the Council needs to show that their plans for improving the Council's financial position are robust and are having positive outcomes to be able to provide DLUHC with the confidence that providing such support is not just a short term solution.

At time of writing this report it is not clear whether government support will be received, and we will only see the outcome of the aforementioned better progress in January 2024 over the next few months including within the 2024/25 budget setting. If support is not received, it is unlikely a balanced budget can be presented and a s114 notice will be necessary. Should government support be provided, it is still likely that some of the savings plans supporting the budget assumptions may yet require further review and clarification into the new financial year, as the short period of time available between progressing these in January 2024 up to the budget setting meeting may limit the ability for every savings plan and opportunity to go through the challenge and review processes the council has put in place to assure their rigour.

This is the critical period where the Council needs to demonstrate that it can deliver on the pace and promise of the start they have made this calendar year. Irrespective of whether a s114 notice is required, this is imperative for the Council. It needs to take these actions, as part of developing its strategy to sustainably stabilise the Council's finances for the medium term and make the structural changes highlighted by the CPFA report.

Conclusion: Based on the work performed, the Council did not have proper arrangements in place in 2022/23 and into 2023/24 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Recommendations:

- *The Council needs to ensure that it has fully considered all options for achievable savings that it can make to reduce the pressure on reserves and achieve a balanced budget.*
- *Savings need to be supported by robust delivery plans and monitored closely to ensure that they are achieved within planned timeframes.*
- *The Council needs to demonstrate that it can operate within its planned budget and control its expenditure, across all services.*
- *A transformation plan to underpin savings into the medium term needs to be developed.*

Value for Money Commentary (continued)

Governance: How the Council ensures that it makes informed decisions and properly manages its risks

Significant weakness identified

Based on the information obtained and documented through our value for money work, we are satisfied that the control environment does materially support the prevention and detection of fraud. We are also satisfied that the Council monitors its risks, maintaining a Strategic Register and Key Financial Risk register which are presented to the Governance Committee. The Council has the proper arrangements in place with regards to reporting its financial position including its statutory accounts, preparing its draft 2022/23 financial statements by the deadline set by DLUHC.

However, we have identified issues with regard to the arrangements in place for the sub-criteria of:

- how it approaches and carries out its annual budget setting process; and
- how it ensures effective processes and systems are in place to ensure budgetary control including corrective action where needed.

The Council was unable to deliver their services in the 2022/23 year within the budget set, or achieve the planned savings for 2022/23. The Council was forecasting a deficit for 2022/23 throughout its regular outturn forecasting, including the reporting on the additional cost pressures as they arose during the 2022/23 year. The final outturn for 2022/23 was a deficit of £11.4m. The Council has not acted swiftly in identifying the longer term impact of the pressures identified, including the impact of using reserves. Only 39% of the savings plans within the 2022/23 budget were achieved. Therefore, overspending in 2022/23, while identified and reported, did not result in sufficient mitigating actions when they were needed. This is therefore evidence that while the systems were in place to report the budget, those processes did not lead to sufficient corrective action when it was needed.

This is continuing in 2023/24, with only 79% of Directorate savings targets achieved by December 2023.

The drawdown on reserves in 2022/23 and expected for 2023/24 is such that Council have depleted their reserves to a level that means that they no longer have sufficient reserves to meet any significant shortfalls moving forwards.

The 2023/24 budget was set during the financial year 2022/23. The s151 officer warned in the 2023/24 budget setting report that insufficient action was being taken by directorates to get spending under control. The 2023/24 budget was approved, assuming a number of corrective actions would happen - which was not being demonstrated during the year. In only July 2023, a few months after the budget was set, the medium term update report instigated by the new s151 officer showed a likely overspend of £20.9m for that year. This is evidence that the 2023/24 budget, as initially set, was unrealistic.

We have also identified weaknesses in the area of how the body gains assurance over the effective operation of internal controls.

Internal Audit gave a limited assurance opinion over the effectiveness of the control environment for the Council in their annual opinion for 2022/23. This takes into account the financial position of the Council and the directorates reporting their own decline in the effectiveness of controls as noted within the annual governance self-assessments with a deteriorated overall assurance level provided for a number of key controls. Their opinion is also informed and influenced by the vulnerability of the governance framework and the associated emerging risks, financial instability together with the required pace and implications of the actions to address it. 42% of internal audits for the year were rated 'no' or 'limited' assurance.

Value for Money Commentary (continued)

Governance: How the Council ensures that it makes informed decisions and properly manages its risks

Significant weakness identified

We noted that there has been a slow reaction from management to develop and deliver action plans as a result of recommendations made by Internal Audit. Of the exceptions followed-up during the year, Internal Audit noted that 56% of the actions were overdue. This has been explained as being due to the voluntary redundancy scheme which has left the authority with less experienced staff and less capacity to respond to the issues raised. This has further been exacerbated by the current financial position of the Council and the involvement in officers to address this. Focus on financial pressures has meant insufficient capacity and attention on internal control, and consequently this is exposing the Council to risks of deterioration in the control environment.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2022/23 and into 2023/24 to make informed decisions and properly manage its risks, with the exception of the sub-criteria:

- How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- How the body approaches and carries out its annual budget setting process; and
- 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

Recommendations:

- ***The Council needs to ensure that it holds officers to account regarding delivering services within the agreed budget.***
- ***Action Plans agreed as a response to internal audit findings should be addressed in a timely manner.***

Value for Money Commentary (continued)

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

Significant weakness identified

Financial and performance information has been used to identify areas for improvement, as can be seen from the regular reporting to members throughout the period. During 2022/23 and into 2023/24, these reports have included (but are not limited to):

- Budget matters
- Council performance scorecard
- Human Resources statistics
- Revenue and capital financial monitoring
- Review of the health and social care contracts
- Risk management reports
- Safe City Partnership review
- Strategic contracts reporting
- Strategic Procurement Activity
- Treasury management outturn

We can see that short term planning has been conducted, which details a budget for the 2023/24 financial year both identifying potential shortfalls and risks as well as potential savings. We have also inspected evidence of longer term planning and performance assessment.

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 has continued to fail to achieve the planned budget for 2023/24, which already included a significant drawdown on reserves.

This is indicative that the Council, despite having the information of which examples are listed above, has struggled to use that information about its costs and performance to improve its services timely and accurately in 2022/23 with particular reference to identifying areas for improvement where those services can be brought back within budget. This has continued on into 2023/24, with the Council reporting a forecast deficit of £13.9 million against the revised budget in November 2023, and includes areas, as an example, of a lack of accurate costing and forecasting new contracts such as home to school transport.

Value for Money Commentary (continued)

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

Significant weakness identified

We reported in our 2021/22 Auditor's Annual Report that OFSTED reporting in January 2023 regarding children's services noted that, whilst trust had been eroded in the past in this area due to the Council's historical failings, good progress had been made in rebuilding 'eroded trust and confidence' and that there had been purposeful engagement with school leaders. This report also noted that feedback from the family judiciary and the Children and Family Court Advisory and Support Service indicated a vastly improved relationship with the Council.

This has continued to improve through the 2022/23 year and into 2023/24 with OFSTED noting that there had been significant cultural change since the whistleblower report in 2019 in relation to children's services. A detailed improvement plan was developed and the improvements implemented. OFSTED performed a full follow up review, reporting in July 2023, which rated the Council as Good in its Overall effectiveness, and in the areas of:

- The experiences and progress of children who need help and protection;
- The experiences and progress of children in care; and
- The experiences and progress of care leavers.

It also rated the Council as Outstanding in 'The impact of leaders on social work practice with children and families'.

The changes made indicate that the authority has the arrangements in place to continue to improve and deliver value for money in this service area. However, in the context of the financial challenges being faced by the Council, the future challenge will be to maintain this positive assessment of the delivery of services, when the finances have to be managed within budget, savings made to stabilise the immediate situation, and transformation implemented in the methods of service delivery.

Conclusion: Based on the work performed, we have identified that the Council had proper arrangements in place in 2022/23 to enable it to use information about its costs and performance to improve the way it manages and delivers its services, with the exception of the sub-criteria of:

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

Recommendation:

The Council needs to ensure that it has fully considered the underlying reasons for not delivering the planned budget and savings in 2022/23 and 2023/24 to date to ensure that it can improve the way it manages and delivers its services.



05 Appendices

Appendix A – Management representation letter

Management representation letter

This is the draft management letter template which Management will tailor and send back signed and dated prior to the opinion being issued.

Management Rep Letter

[To be prepared on the entity's letterhead]

Ernst & Young

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 2023. 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 financial position of Southampton City Council as of 31 March 2023 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 2022/23 (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 CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (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 2022/23 (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 2022/23 (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.

Appendix A – Management representation letter

Management representation letter

This is the draft management letter template which Management will tailor and send back signed and dated prior to the opinion being issued.

Management Rep Letter

1. The comparative amounts have been restated to reflect the below matter(s) and appropriate note disclosure of this restatement has also been included in the current year's financial statements. *[Add a paragraph providing a brief description of each matter giving rise to a restatement and the amount(s) concerned.]* There have been no significant errors or misstatements, or changes in accounting policies, other than the matters described above, that would require a restatement of the comparative amounts in the current year's financial statements. Other differences in the amounts shown as comparative amounts from the amounts in the financial statements for the year ended 31 March 2023 are solely the result of reclassifications for comparative purposes.
2. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.
3. 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;

Appendix A – Management representation letter

Management representation letter

This is the draft management letter template which Management will tailor and send back signed and dated prior to the opinion being issued.

Management Rep Letter

- Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
 3. We have made available to you all minutes of the meetings of the Council and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the period to the most recent meeting on the following date: *[list date]*.
 4. 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.
 5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).
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.

Appendix A – Management representation letter

Management representation letter

This is the draft management letter template which Management will tailor and send back signed and dated prior to the opinion being issued.

Management Rep Letter

E. Ownership of Assets

1. Except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheet(s), and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral, other than those that are disclosed in the financial statements. All assets to which the Council has satisfactory title appear in the balance sheet.
2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the financial statements.
3. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts. Except as disclosed in the financial statements, we have no other line of credit arrangements.

F. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of property, plant and equipment and investment property, the IAS19 pension liability, and the business rates appeals provision, and the disclosures regarding financial instruments, 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.

G. Estimates

1. We confirm that the significant judgments made in making the valuation of property, plant and equipment and investment property, and IAS19 pension liability (the 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 accounting estimates.
3. We confirm that the significant assumptions used in making the 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 estimate(s), 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 2022/23 (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 accounting estimates.
6. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements.

Appendix A – Management representation letter

Management representation letter

This is the draft management letter template which Management will tailor and send back signed and dated prior to the opinion being issued.

Management Rep Letter

H. 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.

I. Reserves

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

J. 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:
 - 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 non-compliance with laws or regulations that should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - Matters referred to in the letters dated 30 September 2024 issued to you by the Council's Section 151 Officer.

K. Going Concern

1. Note 1 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.

L. Subsequent Events

1. Other than described in Note 7 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

M. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises Narrative Report and the Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.
3. We confirm that the Annual Governance Statement for 2022/23 is a true reflection, in all material respects, of the governance arrangements and the effectiveness of those arrangements in 2022/23 and includes disclosure of all significant governance issues and findings relating to that financial year, through to the date of this letter.

Appendix A – Management representation letter

Management representation letter

This is the draft management letter template which Management will tailor and send back signed and dated prior to the opinion being issued.

Management Rep Letter

N. 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.

Yours faithfully,

(s151 Officer)

(Chairman of the Audit Committee)

Appendix B – 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.

The original fees for the year were based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts 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 which clearly sets out what is expected of audited bodies in preparing their financial statements.

Due to the reset, the above clearly will not be achieved and we will be liaising with PSAA Ltd to discuss and agree fees.

	Current Year	Scale fee	Prior Year
	£	£	£
Total Fee - Code Work	tbc	127,641	171,730
Total audit	tbc	127,641	171,730
Other non-audit services	0	n/a	0
Total other non-audit services	0	n/a	0
Total fees	tbc	127,641	171,730

All fees exclude VAT

Note 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.

Appendix C – Required communications with the Audit Committee

We have detailed the communications that we must provide to the audit committee.

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"> ▶ The planned scope and timing of the audit ▶ Any limitations on the planned work to be undertaken ▶ The planned use of internal audit ▶ The significant risks identified <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>	This Completion report for Those Charged with Governance
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process ▶ Findings and issues regarding the opening balance on initial audits (delete if not an initial audit) 	This Completion report for Those Charged with Governance

Appendix C – 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"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	This Completion report for Those Charged with Governance
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management 	This Completion report for Those Charged with Governance
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ 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"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ 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 ▶ Any other matters related to fraud, relevant to Audit Committee responsibility 	This Completion report for Those Charged with Governance

Appendix C – 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"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	This Completion report for Those Charged with Governance
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> <ul style="list-style-type: none"> ▶ Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <p>Communication whenever significant judgements are made about threats to integrity, objectivity and independence and the appropriateness of safeguards put in place.</p>	This Completion report for Those Charged with Governance

Appendix C – Required communications with the Audit Committee (cont'd)

Our Reporting to you

Required communications	What is reported?	When and where
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	This Completion report for Those Charged with Governance
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ 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 ▶ 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 	This Completion report for Those Charged with Governance
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	This Completion report for Those Charged with Governance
Representations	Written representations we are requesting from management and/or those charged with governance	This Completion report for Those Charged with Governance
System of quality management	How the system of quality management (SQM) supports the consistent performance of a quality audit	This Completion report for Those Charged with Governance
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	This Completion report for Those Charged with Governance
Auditors report	<ul style="list-style-type: none"> ▶ Key audit matters that we will include in our auditor's report ▶ Any circumstances identified that affect the form and content of our auditor's report 	This Completion report for Those Charged with Governance

Appendix D – VFM – Summary of recommendation

Recommendations

The table below sets out the recommendations arising from the value for money work in the year(s) covered in this report

All recommendations have been agreed by management.

Issue	Recommendation	Management response
Financial Sustainability	<ol style="list-style-type: none"> <li data-bbox="472 501 1070 635">1. The Council needs to ensure that it has fully considered all options for achievable savings that it can make to reduce the pressure on reserves and achieve a balanced budget. <li data-bbox="472 687 1070 821">2. Savings need to be supported by robust delivery plans and monitored closely to ensure that they are achieved within planned timeframes. <li data-bbox="472 971 1070 1070">3. The Council needs to demonstrate that it can operate within its planned budget and control its expenditure, across all services. <li data-bbox="472 1220 1070 1287">4. A transformation plan to underpin savings into the medium term needs to be developed. 	<ol style="list-style-type: none"> <li data-bbox="1077 501 2112 635">1. Star Chamber sessions took place throughout the second half of 2023 and into early 2024 to review savings proposals, efficiencies and income generation options in setting the budget for 2024/25, however a balanced budget could not be achieved without exceptional financial support (EFS) from Government. <li data-bbox="1077 687 2112 890">2. Robust delivery plans were put in place for the savings included in the 2024/25 budget. Achievement of planned savings is monitored on a monthly basis and the budget monitoring report for Month 7 (to the end of October 2024) shows that 96% of the planned £24.6M savings for 2024/25 are delivered or expected to be achieved. The remaining savings are either at low risk of not being achieved (3%) or are being covered by other mitigations (1%). <li data-bbox="1077 971 2112 1174">3. The Council has made good progress during 2024/25 to reduce net spend and minimise reliance on EFS. The budget monitoring report for Month 7 shows a favourable variance of £14.25M compared to budget, reducing the forecast use of EFS from £39.3M to £25.0M. Where a limited number of services had forecast overspends earlier in the year, deficit recovery plans were brought forward to the new Budget Review Panel. As at Month 7 all deficit recovery plans have been successfully implemented and no new plans are required. <li data-bbox="1077 1220 2112 1287">4. A comprehensive transformation programme - adapt grow thrive - is in place to address the Council's structural budget deficit.

Appendix D – VFM – Summary of recommendation

Recommendations

The table below sets out the recommendations arising from the value for money work in the year(s) covered in this report

All recommendations have been agreed by management.

Issue	Recommendation	Management response
Governance	<p>5. The Council needs to ensure that it holds officers to account regarding delivering services within the agreed budget.</p> <p>6. Action Plans agreed as a response to internal audit findings should be addressed in a timely manner.</p>	<p>5. Budget holder accountability statements have been introduced with near 100% compliance across the Council. Where services are overspending, deficit recovery plans are required to be brought forward to the Budget Review Panel chaired by the Chief Executive as part of the business and budget planning framework, as noted in the response to recommendation 3.</p> <p>6. An audit action tracker has been rolled out across the council to provide senior managers with greater visibility and oversight of outstanding actions and to ensure greater traction when it comes to implementation. This is being complimented by Internal Audit attendance at directorate management teams on a quarterly basis to report on progress. Internal Audit will also continue to conduct a number of follow up audits and report those results to management and committee to monitor progress of agreed action completion.</p>
Improving economy, efficiency and effectiveness	<p>7. The Council needs to ensure that it has fully considered the underlying reasons for not delivering the planned budget and savings in 2022/23 and 2023/24 to date, to ensure that it can improve the way it manages and delivers its services</p>	<p>7. The underlying reasons for not delivering the planned budget and savings were considered in developing the new financial strategy introduced in July 2023 and new measures, such as ensuring better developed savings delivery plans, have been put in place to prevent repetition of failings. These delivery plans are normally published alongside the relevant Cabinet report. The Improvement Board established in 2023 provides oversight of the Council's improvement plans</p>

Appendix E – PSAA Statement of Responsibilities

Our fee is based on the assumption that the Council complies with PSAA's Statement of Responsibilities of auditors and audited bodies. In particular the Council should have regard to paragraphs 26-28 of the Statement of Responsibilities which clearly set out what is expected of audited bodies in preparing their financial statements. We set out these paragraphs in full below:

Preparation of the statement of accounts

26. Audited bodies are expected to follow Good Industry Practice and applicable recommendations and guidance from CIPFA and, as applicable, other relevant organisations as to proper accounting procedures and controls, including in the preparation and review of working papers and financial statements.

27. In preparing their statement of accounts, audited bodies are expected to:

- › prepare realistic plans that include clear targets and achievable timetables for the production of the financial statements;*
- › ensure that finance staff have access to appropriate resources to enable compliance with the requirements of the applicable financial framework, including having access to the current copy of the CIPFA/LASAAC Code, applicable disclosure checklists, and any other relevant CIPFA Codes.*
- › assign responsibilities clearly to staff with the appropriate expertise and experience;*
- › provide necessary resources to enable delivery of the plan;*
- › maintain adequate documentation in support of the financial statements and, at the start of the audit, providing a complete set of working papers that provide an adequate explanation of the entries in those financial statements including the appropriateness of the accounting policies used and the judgements and estimates made by management;*
- › ensure that senior management monitors, supervises and reviews work to meet agreed standards and deadlines;*
- › ensure that a senior individual at top management level personally reviews and approves the financial statements before presentation to the auditor; and*
- › during the course of the audit provide responses to auditor queries on a timely basis.*

28. If draft financial statements and supporting working papers of appropriate quality are not available at the agreed start date of the audit, the auditor may be unable to meet the planned audit timetable and the start date of the audit will be delayed.

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