

# Supplementary Papers

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To accompany the presentation of the Annual  
Governance Report

Southampton Council

Audit 2009/10

Date

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## Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
  - any third party.
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# Supplement 1 – Independent auditor’s report to the Members of Southampton Council

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## Opinion on the accounting statements

I have audited the Authority accounting statements and related notes of Southampton City Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Southampton City Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

## Respective responsibilities of the Interim Director of Resources and auditor

The Interim Director of Resources’ responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice is set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the accounting statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority and its income and expenditure for the year.

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.

I read other information published with the accounting statements, and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements. My responsibilities do not extend to any other information.

### Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

### Opinion

In my opinion the Authority’s accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended.

### Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

#### Authority’s Responsibilities

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

#### Auditor’s Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

## Supplement 1 – Independent auditor’s report to the Members of Southampton Council

### Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009, and the supporting guidance, I am satisfied that, in all significant respects, Southampton City Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

### Certificate

The audit cannot be formally concluded and an audit certificate issued until I have completed my consideration of matters that have been brought to my attention by local authority electors. I am satisfied that these matters do not have a material effect on the on the financial statements.

K. L. Handy  
Officer of the Audit Commission

Collins House,  
Bishopstoke Road,  
Eastleigh,  
Hampshire. SO50 6AD

Date     September 2010

# Supplement 2 – Adjusted amendments to the accounts

I identified the following misstatements during my audit and managers have made the necessary adjustments. I bring them to your attention to assist you in fulfilling your governance responsibilities.

**Table 1 Adjusted amendments to prime statements**

Adjusted misstatements	Nature of adjustment	I&E Account, SMGFB, HRA, SMHRAB or Collection fund		Balance sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
1) Provisions	<p>Provision added for equal pay claims. The potential settlement figure was not available until after the draft accounts were prepared..</p> <p>Dr I&amp;E Account Cr Provisions</p> <p>Dr Capital Adjustment Account Cr SMGFB</p>	TBA	TBA	TBA	TBA
2) I&E Account, SMGFB & Balance Sheet	<p>The analysis of unitary payment re PFI Schools has been amended to more accurately reflect the composition of the payments and changes to the internal rate of return used.</p> <ul style="list-style-type: none"> <li>Net charge to I&amp;E</li> <li>SMGFB net credit</li> </ul>	106	106		

## Supplement 2 – Adjusted amendments to the accounts

		I&E Account, SMGFB, HRA, SMHRAB or Collection fund		Balance sheet	
	<ul style="list-style-type: none"> <li>• Change to short term finance creditors</li> <li>• Change in long term finance creditors</li> <li>• Revaluation reserve</li> <li>• Capital Adjustment Account</li> </ul>			127	711
				838	254
3) I&E Account	<p>Removal of capital grants and contributions not specific to a service from LA Housing service income to comply with the SoRP: Dr LA Housing (HRA)</p> <p>Cr Capital grants not relating to specific services</p>	2,048	2,048		
4) Housing Revenue Account (HRA)	<p>Amended the proportion of FRS17 pension costs allocated to the HRA, because it had been overstated.</p> <p>Dr HRA supervision &amp; maintenance</p> <p>Cr HRA I&amp;E Account: - Pensions interest costs and expected return on assets</p>	257	912		
5) Collection fund	<p>The correction of previous years; Ctax summons and liability costs, and NNDR arrears.</p> <p>Dr Increase debtors</p> <p>Cr General fund balance</p> <p>Cr Collection fund balance</p>			1,649	61
					1,588

**Table 2 Adjustments to the explanatory foreword, Accounting policies and the notes to the core statements**

Adjusted misstatements	Nature of adjustment	Adjustment to note - £000s
1) Explanatory foreword - general fund capital summary (disclosure)	Amendment to the note to reflect that general fund capital spend in 2009/10 totalled £54.5m rather than the total capital spend of £98.8m	44,300
2) Note 3 - Future obligations re Schools PFI	<p>Correction of the analysis of future Schools PFI obligations between liabilities, interest and service charges in each future financial year. This is to more accurately reflect the composition of these future payments and changes to the internal rate of return.</p> <p>Note 3 has been restated and in total the changes amount to:</p> <ul style="list-style-type: none"> <li>- Liability</li> <li>- Interest</li> <li>- Service charges</li> </ul>	<p>+584</p> <p>+18,717</p> <p>- 19,301</p>
3) Note 3 - Future obligations for Street Lighting PFI	<p>Additional disclosure of future obligations in respect of the Street lighting PFI that came into effect from 1 April 2010 in order to comply with the SoRP.</p> <p>These obligations are analysed by year over the headings of liabilities, interest and service charges. In total they amount to:</p> <ul style="list-style-type: none"> <li>- Liability</li> <li>- Interest</li> <li>- Service charges</li> </ul>	<p>+25,819</p> <p>+42,452</p> <p>+34,513</p>
4) Note 3 - Payments made in 2009/10 re BUPA Care Homes	Correction of the analysis of payments made in 2009/10 to reflect the actual composition of the payments made:	



## Supplement 2 – Adjusted amendments to the accounts

Adjusted misstatements	Nature of adjustment	Adjustment to note - £000s
	- Liability - Service charges	-2,278 +2,278
5) Investment properties - note 8	A note has been added to the core statements to provide an analysis of the investment properties impairment and income disclosed in the Income and Expenditure Account. - Income - Expenditure net of impairments	+6,694 +8,841
6) Members allowances - note 9	Corrected the allowances disclosed to reflect the level of payments made and SoRP disclosure requirements: 2009/10 2008/09	-96 -73
6) Note to the Statement of Movement in HRA Balance (SMHRAB)	Amended the proportion of FRS17 pension costs allocated to the HRA, because it had been overstated.  Reduce net charges for retirement benefits in accordance with FRS17  Reduce employers contribution and pensions payable direct to pensioners  NB: 2008/9 comparatives will also be changed	-1,566  -911
7) HRA pensions - note 12 to the HRA	Reduction in pension costs disclosed to reflect the correct proportion that is chargeable to the HRA.  -Current service costs - Past service costs -Interest cost -Expected return on assets	-640 -13 -1624 +712

## Supplement 2 – Adjusted amendments to the accounts

Adjusted misstatements	Nature of adjustment	Adjustment to note - £000s
	<p>-Movement on the pension reserve</p> <p>-Charge to the HRA</p> <p>NB:2008/09 comparatives will also be changed</p>	<p>+654</p> <p>-911</p>
<p>8) Post balance sheet events (PBSE) -note 34</p>	<p>Additional PBSEs have been entered in respect of :</p> <ul style="list-style-type: none"> <li>- the change in the basis for estimation of future liabilities pension liabilities, to the 'Consumer Price Index' rather than the 'Retail Price Index' from 2010/11. The change results in a reduction in liabilities of between 8% - 10% of the liability</li> <li>- The awarding of the Highways PPP contract with an estimated total cost over 10 years of £100m</li> <li>- The awarding of the contract for Leisure Services with an estimated total over 15 years of £15m</li> <li>- Cancellation of the Building Schools for the Future programme</li> </ul> <p>The capital cost disclosed in the PBSE in relation to Street Lighting PFI has been amended from £28.5m to £25.8m.</p>	<p>-66,000 to -83,000</p> <p>+100,000</p> <p>+15,000</p> <p>N/A</p> <p>-2,700</p>

# Supplement 3 – Outstanding work that has still to be completed

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Our work in relation to the Council's financial statements is complete except for the areas noted below in table 3. This work will be completed in advance of the Audit Committee meeting on 22 September 2010, and will be finished before the opinion is issued.

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**Table 3**

<b>Area to test</b>
I&E Account
PFI, PPP & Long term contracts
Provisions
Contingent liabilities
Financial instruments
Group accounts
Peer review in respect of HRA heating charges

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# Supplement 4 – Draft letter of representation

Kate Handy  
Audit Commission  
Collins House  
Bishopstoke Road  
Eastleigh  
SO50 6AD

September 2010

## Southampton City Council - Audit for the year ended 31 March 2010

I confirm to the best of my knowledge and belief, having made appropriate enquiries of officers and members of Southampton City Council the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2010.

### Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which gives a true and fair view of the financial position and financial performance of the Council and for making accurate representations to you.

### Uncorrected misstatements

I confirm that I believe that the effects of the uncorrected financial statements are not material to the financial statements. These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are as follows.

I can confirm that following a sample check (61 records) of the data associated with the metering of electricity, the Council has identified one definite error and a number of cases (17) that require further investigation to confirm their designation out of the sample population.

It is my view based on the sample check that this does not represent a material error within the accounts; the actual error rate (1 meter out of the sample of 61) is 1.6%, there is an 'uncertainty' around the designation of 17 meters – 27.9% - with the information for the remaining meters included with the sample, which account for 70.5% of the sample, found to be correct.

The materiality level for the Housing Revenue Account is £1.1M. Through extrapolating the results of the sample data, I am content that the error and uncertainties found would not equate to a sum which would breach the £1.1M materiality level.

## Supplement 4 – Draft letter of representation

I am also confident that it is statistically unlikely that the 17 meters around which there is an uncertainty would all be incorrectly designated.

At this stage it is not possible to make any amendments to the financial statements until significant further work is undertaken to verify the integrity of the data. It would also not be appropriate to amend the accounts based on extrapolating the sample results.

I can confirm that the results of this work and any subsequent impact on the charges to tenants and leaseholders will be reported fully to all appropriate stakeholders.

### Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council, Cabinet and other Committee meetings, have been made available to you.

### Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

### Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

### Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements. For these assumptions, I confirm:

- the appropriateness of the measurement method;

- the basis used by management is reasonable and is consistent with the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework; and
- if subsequent events require adjustment to the fair value measurement they have been made.

### Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

### Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. Except as disclosed in notes 25 to 28 of the financial statements we have no lines of credit arrangements.

### Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

### Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

### Post balance sheet events

Since the date of approval of the financial statements by the Standards and Governance Committee, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

### Signed on behalf of Southampton City Council

I confirm that this letter has been discussed and agreed by the Standards and Governance Committee on 23 September 2010.

## Supplement 4 – Draft letter of representation

Signed:

Name: Mr. R Carr

Position: Interim Executive Director of Resources

Date: September 2010

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# Supplement 5 – Value for money criteria

<b>KLOE</b>	<b>Met</b>
<b>Managing finances</b>	
Planning for financial health	<b>Yes</b>
Understanding costs and achieving efficiencies	<b>Yes</b>
Financial reporting	<b>Yes</b>
<b>Governing the business</b>	
Commissioning and procurement	<b>Yes</b>
Use of information	<b>Yes</b>
Good governance	<b>Yes</b>
Risk management and internal control	<b>Yes</b>
<b>Managing resources</b>	
Natural resources	<b>N/A</b>
Strategic asset management	<b>Yes</b>
Workforce	<b>Yes</b>



## Supplement 6 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	<b>Annual Governance Report 2009/10 - Recommendations</b>					
	<b>Record of electricity meters in dwellings</b>					
	R1 Review the record of electricity meters and implement a more effective database and system of controls.	3				
	R2 Confirm the designation of electricity meters	3				
	R3 Establish the extent of the errors in meter records and whether it is possible to assess the impact on past charges to tenants and leaseholders	3				
	<b>Record of gas meters in dwellings</b>					
	R4 Review the record of gas meters to determine if there are similar	3				

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	weaknesses in these records and how improvements can be made.					

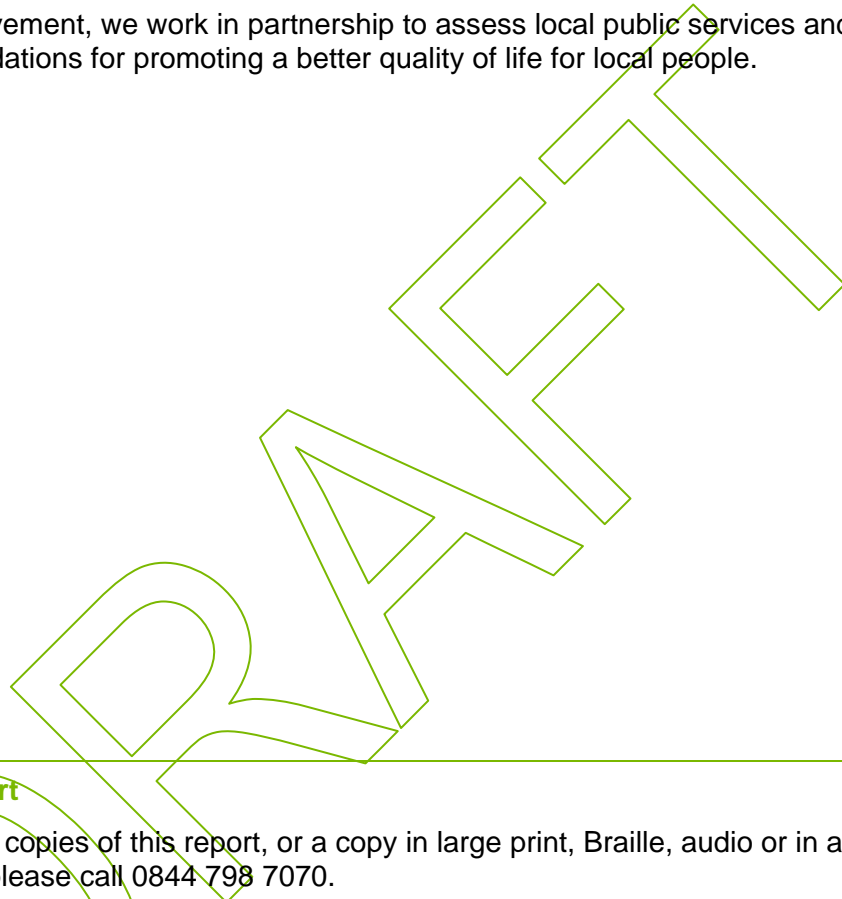
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# The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.



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