

# Audit Opinion Plan

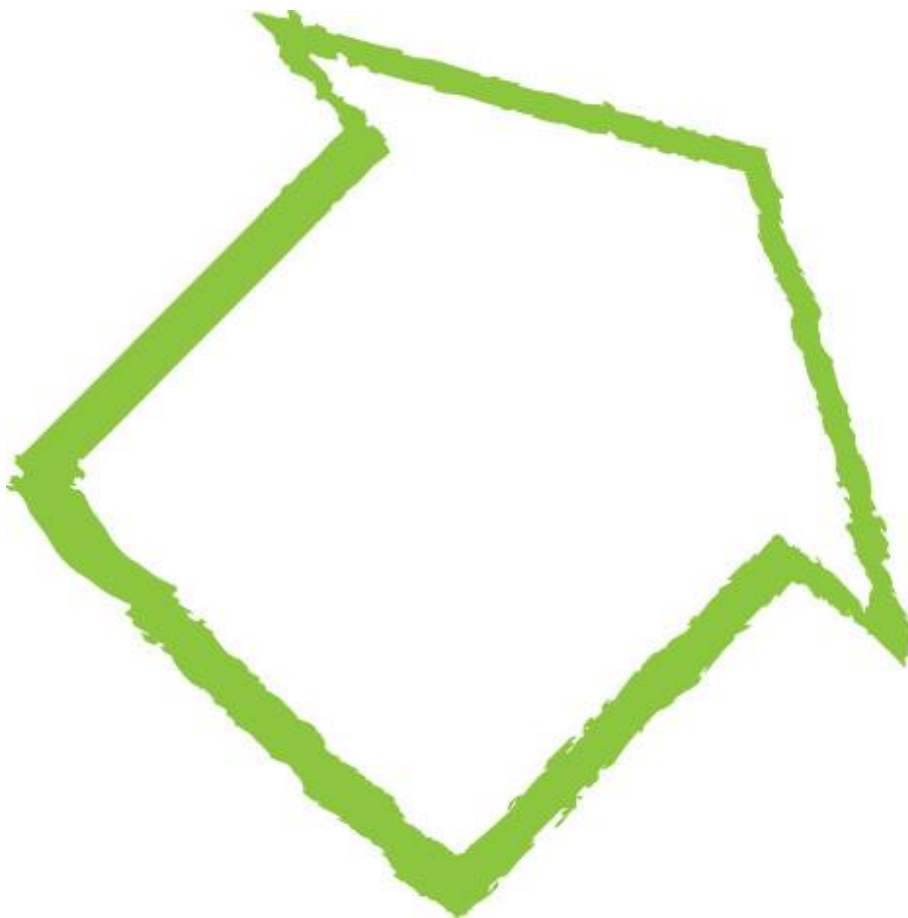
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Southampton City Council

Audit 2009/10

May 2010



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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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# Introduction

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- 1 This plan sets out the audit work that we propose to undertake for the audit of financial statements 2009/10. The plan is based on the Audit Commission's risk-based approach to audit planning. It reflects:
  - audit work specified by the Audit Commission for 2009/10;
  - current national risks relevant to your local circumstances; and
  - your local risks.

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# Responsibilities

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- 2 The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to every audited body.
- 3 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and our audit work is undertaken in the context of these responsibilities.
- 4 We comply with the statutory requirements governing our audit work, in particular:
  - the Audit Commission Act 1998; and
  - the Code of Audit Practice.

# Fee for the audit of financial statements

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- 5 The fee for the audit of the financial statements is £239,060 as indicated in my letter of 24 April 2009.
- 6 In setting the fee, we have assumed that:
  - the level of risk in relation to the audit of accounts is consistent with that for 2008/09;
  - the standard of supporting documentation for the financial statements is at least as good as that achieved for 2008/09;
  - Internal Audit undertakes appropriate work on all material systems, which is available for our review by 31 March 2010, and there are no major issues arising;
  - we are able to gain assurance on the operation of key controls in the material systems;
  - we do not identify any additional systems that generate material figures in the financial statements;
  - the accounts are provided for audit by 28 June 2010;
  - the issues highlighted in the 2008/09 annual governance report have been addressed.
- 7 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee. Where this is the case, we will discuss this in the first instance with the Executive Director of Resources and we will issue supplements to the plan to record any revisions to the risk and the impact on the fee.
- 8 We have agreed that we will invoice the Council separately for the additional work that is necessary in order to address any initial enquiries from electors. Therefore we have not included any time to cover initial enquiries from local electors in the fee within this plan. If any such enquiries subsequently lead to formal objections, I will inform the Executive Director Resources of my estimate of the likely cost of dealing with the objection before completing the additional work.
- 9 We will revisit our risk assessment following our pre-statements work and our initial review of the Council's draft financial statements. If this leads to changes in our plan I will inform officers and 'those charged with governance' by letter.
- 10 Further information on the basis for the fee is set out in Appendix 1.

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**Specific actions Southampton City Council could take to reduce its audit fees**

- 11 The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to reduce its audit fees. As in previous years, we will work with staff to identify any specific actions that the Council could take and to provide ongoing audit support.

# Auditors report on the financial statements

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- 12 I will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 13 I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view of the financial position of the Council as at 31 March 2010.

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## Identifying opinion audit risks

- 14 As part of our audit risk identification process, we need to fully understand the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. We do this by:
  - identifying the business risks facing the Council, including assessing your own risk management arrangements;
  - considering the financial performance of the Council;
  - assessing internal control - including reviewing the control environment, the IT control environment and Internal Audit; and
  - assessing the risk of material misstatement arising from the activities and controls within the Council information systems.

# Identification of specific risks

- 15 We have considered the risks that are appropriate to the current opinion audit and have set these out below. We consider that the fee originally proposed is sufficient to enable us to do the work necessary in response.

**Table 1**      **Specific risks**  
Specific opinion risks identified

Risk area	Audit response
<p>The 2009 SoRP applies IFRIC12 (Service Concessions) to PFI and other similar arrangements.</p> <p>The Council will need to demonstrate that it has implemented and completed appropriate processes to identify its contractual and other arrangements that would be affected by the adoption of this accounting standard.</p> <p>The implementation is fully retrospective as a change of accounting policy and, if material, requires information on the arrangements to be restated from their inception as a prior period adjustment.</p> <p>There may be a risk that the required information may not be easily available for some service arrangements.</p>	<p>We will review:</p> <ul style="list-style-type: none"> <li>• the Council's application of the new reporting standard to the Council's PFI contracts, ie schools and waste management;</li> <li>• the arrangements the Council has made to identify and account for any other service arrangements that may fall within IFRIC12; and</li> <li>• the accounting treatment for those arrangements.</li> </ul>
<p>The 2009 SoRP makes changes to accounting for local taxation. There is no anticipated effect on the Collection Fund but the changes, which clarify the billing authority's role as an agent of other major precepting bodies, are anticipated to affect the Income and Expenditure Account and the Balance Sheet.</p> <p>This is a change of accounting policy, and could result in a prior period adjustment under FRS3 if it is material to the accounts.</p>	<p>We will review the Council's approach to the new accounting requirements, including assessing the basis of the Council's decision whether a prior period adjustment is required.</p>
<p>Recent amendments made to the Accounts and Audit Regulations (SI 2009/3322), issued in December 2009, mean that from 2009/2010 local authorities will be required to disclose the names, pay and benefits (including any severance payments) of senior employees in a note to the financial statements.</p> <p>Further guidance is expected in a forthcoming LAAP bulletin.</p>	<p>We will test the Council has complied with the new regulations, including the definition of senior employee.</p> <p>The nature and sensitivity of these disclosures mean that we will apply a lower level of materiality than to the rest of the financial statements.</p>



## Identification of specific risks

Risk area	Audit response
<p>The need to establish a provision or contingent liability in relation to:</p> <ul style="list-style-type: none"><li>• equal pay claims; or</li><li>• where decisions to make staff redundant were taken during 2009/10.</li></ul> <p>Such liabilities may be material in terms of value or sensitivity.</p>	<p>We will review the basis for the assessments that have been made in these areas and how they are accounted for within the financial statements.</p>
<p>There were five adjustments to the notes within the audit of the prior year accounts that were above our non-trivial threshold of £150,000 that were corrected. None of them impacted on the council's financial position.</p>	<p>We will review the accounting for these issues to ensure that the Council has taken appropriate action, and they are not repeated in 2009/10.</p>

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# Testing strategy

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- 16 On the basis of risks identified above we produce a testing strategy which will consist of testing key controls and/or substantive tests of transaction streams and material account balances at year end.
- 17 Our testing can be carried out both before and after the draft financial statements have been produced (pre- and post-statement testing).
- 18 Wherever possible, we will complete some substantive testing earlier in the year before the financial statements are available for audit. We have identified the following areas where substantive testing could be carried out early.
  - Accounting for PFI contracts, i.e. schools and waste management; and
  - Review of the Council's arrangements to ensure the complete adoption of IFRC12.
- 19 Where other early testing is identified as being possible, this will be discussed with officers.
- 20 Wherever possible, we seek to rely on the work of Internal Audit to help meet our responsibilities. For 2009/10, we are also working with Internal Audit to refresh the systems documentation and flow charts.

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# Key milestones and deadlines

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- 21 The Council is required to prepare the financial statements by 30 June 2010. We are required to complete our audit and issue our opinion by 30 September 2010. The key stages in the process of producing and auditing the financial statements are shown in Table 2.
- 22 We will meet frequently with the key contact during the course of the post statements audit and review the status of all queries, depending upon the need and the number of issues arising.

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**Table 2**      **Proposed timetable**

<b>Task</b>	<b>Deadline</b>
Control and early substantive testing	April 2010
Receipt of accounts	28 June 2010
Receipt by the auditor of supporting working papers	1 July 2010
Start of detailed testing	July 2010
Progress meetings	As required
Present report to those charged with governance at the Audit committee	22 September 2010
Issue opinion	By 30 September 2010

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# The audit team

23 The key members of the audit team for the 2009/10 audit are shown in the table below.

**Table 3**      **Audit team**

Name	Contact details	Responsibilities
Kate Handy District Auditor	<a href="mailto:k-handy@audit-commission.gov.uk">k-handy@audit-commission.gov.uk</a> 0844 798 1740	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Mike Bowers Audit Manager	<a href="mailto:m-bowers@audit-commission.gov.uk">m-bowers@audit-commission.gov.uk</a> 07881518961	Manages and coordinates the different elements of the audit work. Key point of contact for the Executive Director of Resources.
Stephen High Team Leader	<a href="mailto:s-high@audit-commission.gov.uk">s-high@audit-commission.gov.uk</a> 07779576294	Undertakes detailed aspects of the audit work, supervising the other members of the team. Key point of contact for ongoing liaison with Finance and Internal Audit.

## Independence and objectivity

- 24 I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which we are required by auditing and ethical standards to communicate to you.
- 25 I comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised in Appendix 2.

## Meetings

- 26 The audit team will maintain knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Our proposals are set out in Appendix 3.

## The audit team

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### Quality of service

- 27 We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively, you may wish to contact the South East Head of Operations.
- 28 If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet 'Something to Complain About' which is available from the Commission's website or on request.
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### Planned outputs

- 29 Reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.
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**Table 4**      **Planned outputs**

<b>Planned output</b>	<b>Indicative date</b>
Opinion audit plan	June 2010*
Annual governance report	September 2010
Auditor's report giving an opinion on the financial statements	September 2010
Final accounts memorandum (if required)	October 2010

\* We may issue an updated opinion plan, if necessary, when we have completed our pre statements audit and reviewed the draft 2009/10 financial statements.

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# Appendix 1 – Basis for fee

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- 1 The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.
- 2 The risk assessment process starts with the identification of the significant financial and operational risks applying to the Council with reference to:
  - our cumulative knowledge of the Council;
  - planning guidance issued by the Audit Commission;
  - the specific results of previous and ongoing audit work;
  - interviews with Council officers; and
  - liaison with Internal Audit.

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## Assumptions

- 3 In setting the fee, I have assumed that:
  - the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2008/09;
  - you will inform us of significant developments impacting on the audit;
  - Internal Audit meets the appropriate professional standards;
  - Internal Audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
  - good quality working papers and records will be provided to support the financial statements by 5 July 2010;
  - requested information will be provided within agreed timescales;
  - prompt responses will be provided to draft reports; and
  - additional work will not be required to address questions or objections raised by local government electors. Any fee for such enquiries or objections will be additional to the fee in this plan and will be separately invoiced to the Council.
- 4 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee.

# Appendix 2 – Independence and objectivity

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- 1 Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).
- 2 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 3 International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:
  - discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
  - confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised
- 4 The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Standards and Governance Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.
- 5 The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

- 6 The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.
- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor’s opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as being ‘additional work’ and charged for separately from the normal audit fee.
  - Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
  - The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years.
  - The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.
- 7 The District Auditor and members of the audit team must abide by the Commission’s policy on gifts, hospitality and entertainment.



# Appendix 3 – Working together

## Meetings

- 1 The audit team will maintain knowledge of your issues to inform our risk-based audit through regular liaison with key officers.
- 2 Our proposal for the meetings is as follows.

**Table 5 Proposed meetings with officers**

Council officers	Audit Commission staff	Timing	Purpose
Executive Director of Resources	DA , AM & Team Leader (TL) as required	Quarterly	General update
Head of Finance and Head of Accounting	AM and Team Leader (TL)	Monthly as required	Update on audit issues
Audit Committee	DA and AM, with TL as appropriate	As determined by the Committee schedule	Formal reporting of: <ul style="list-style-type: none"> <li>• Audit Plan</li> <li>• Annual governance report</li> <li>• Other issues as appropriate</li> </ul>

## Sustainability

- 3 The Audit Commission is committed to promoting sustainability in our working practices and we will actively consider opportunities to reduce our impact on the environment. This will include:
  - reducing paper flow by encouraging you to submit documentation and working papers electronically;
  - use of video and telephone conferencing for meetings as appropriate; and
  - reducing travel.

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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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## Copies of this report

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