

28 April 2011

Mr A Neill
Chief Executive
Southampton City Council
Civic Centre
Southampton
SO14 7LY

Direct line 0844 798 1740
Email k-handy@audit-
commission.gov.uk

Dear Alistair

Annual audit fee 2011/12

I am writing to confirm the audit work that we propose to undertake for the 2011/12 financial year at Southampton City Council. The fee reflects the risk-based approach to audit planning set out in the Code of Audit Practice and work mandated by the Commission for 2011/12. The audit fee covers the:

- audit of financial statements;
- value for money conclusion ;
- Whole of Government accounts.

As I have not yet completed my audit for 2010/11 the audit planning process for 2011/12, including the risk assessment, will continue as the year progresses.

Audit fee

The Audit Commission has set the scale fee for each audited body for 2011/12, rather than providing a scale fee with fixed and variable elements. The scale fee reflects proposed decreases in the total audit fee, as follows:

- no inflationary increase in 2011/12 for audit and inspection scales of fees and the hourly rates for certifying claims and returns;
- a cut in scale fees resulting from our new approach to local VFM audit work; and
- a cut in scale audit fees of 3 per cent for local authorities, police and fire and rescue authorities, reflecting lower continuing audit costs after implementing IFRS.

The scale fee for the Council is £315,360, as shown in the table below. This is based on the planned 2010/11 fee, adjusted for the proposals summarised above. Variations from the scale fee will only occur where my assessments of audit risk and complexity are significantly different from those identified and reflected in the 2010/11 fee. The fee for the certification of grants and returns is based on the results of previous certification work and the claims and returns that are expected to be made in 2011/12.

Audit area	Scale fee 2011/12	Planned fee 2010/11
Audit	£315,360	£350,400
Certification of claims and returns	£ 78,000	£ 76,000

I will issue a separate audit plan in December 2011. This will detail the risks identified to both the financial statements audit and the vfm conclusion. The audit plan will set out the audit procedures I plan to undertake and any changes in fee. If I need to make any significant amendment to the audit fee, I will first discuss this with the Section 151 Officer. I will then prepare a report outlining the reasons the fee needs to change for discussion with the Audit Committee.

At the time of fee planning I have identified the following key developments that represent potential risks to my opinion and value for money conclusion:

- the changes that are being made to Directorates and management structures in order to develop and improve the organisation and ensure that effective services are delivered to its customers;
- the process that the Council has been through in deciding to alter its terms and conditions for the employment of staff, including plans to dismiss and reappoint those who do not voluntarily agree to the changes that are being made; and
- the Council's response to the spending review and its response to the current economic climate. This will include its plans to address its £16 million funding gap in 2011/12 which rises to a cumulative total of £57 million in the period to 2014/15.

I will issue several reports over the course of the audit. I have listed these at Appendix 1.

We agreed in previous years that I would invoice separately for any additional work that will be necessary in order to respond to correspondence with electors. I have not therefore included any time within the initial fee in this plan to cover this work. Should any electors subsequently raise a formal objection I will also provide you with a separate estimate of the charge for dealing with that objection.

The fee excludes work the Commission may agree to undertake using its advice and assistance powers. We will negotiate each piece of such work separately and agree a detailed project specification.

Audit team

Your audit team must meet high specifications and must:

- understand you, your priorities and provide you with fresh, innovative and useful support;
- be readily accessible and responsive to your needs, but independent and challenging to deliver a rigorous audit;
- understand national developments and have a good knowledge of local circumstances; and
- communicate relevant information to you in a prompt, clear and concise manner.

The key members of the audit team for 2011/12 are:

Name	Contact details	Responsibilities
Kate Handy District Auditor	k-handy@audit-commission.gov.uk 0844 798 1740	Kate is responsible for the overall delivery of the audit including the quality of outputs, liaison with the Chief Executive and Chair of the Audit Committee and issuing the auditor's report.
Mike Bowers Audit Manager	m-bowers@audit-commission.gov.uk 0788151861	Mike manages and coordinates the different elements of the audit work. Key point of contact for the Section 151 Officer.
Steve High Team Leader	s-high@audit-commission.gov.uk 07779576294	Steve is responsible for leading the opinion audit and day-to-day liaison with Finance.

I am 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. Alternatively you may wish to contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk)

Yours sincerely

Kate Handy
District Auditor

Appendix 1: Planned outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.

Planned output	Indicative date
Audit opinion plan	December 2011
Interim audit memorandum (If necessary)	June 2012
Annual governance report	September 2012
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2012
Annual audit letter	November 2012