

**Our reference** SCC/2008-09

23 April 2009

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— Dear Carolyn

**Supplementary opinion audit plan 2008/09**

You will recall that I issued the initial audit plan to the Audit Committee for 2008/09 in March 2008, which set out the work that I proposed to do in order to satisfy my responsibilities under the Audit Commission’s Code of Audit Practice. As this plan was produced at the start of the financial year to give you an indication of the proposed fee, I was not able at that time to specify the detailed risks that I would need to consider as part of my audit opinion work.

I am now in a position to do this as the opinion work is commencing. This letter represents my supplementary opinion plan under International Standard on Auditing (United Kingdom and Ireland) 300.

The above standard requires me to:

- identify the risk of material misstatements in your accounts;
- plan audit procedures to address these risks; and
- ensure that the audit complies with all relevant auditing standards.

I have therefore considered the key risks that are appropriate to the current opinion audit and I have set these out below.

Risk	Residual risk	Audit response
The need to establish a provision or contingent liability in relation to: - equal pay claims; or - where decisions to make staff	Y	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.

Risk	Residual risk	Audit response
<p>redundant were taken during 2008/09.</p> <p>Such liabilities may be material in terms of value or sensitivity.</p>		
<p>The Council is in the process of addressing a number of potentially significant capital accounting transactions or adjustments, including for example:</p> <ul style="list-style-type: none"> <li>- potential impairment of buildings that are being demolished or disposed of during the financial year;</li> <li>- transfer of assets under construction to operational assets when completed;</li> <li>- completion of the registration of land and buildings with the Land Registry;</li> <li>- the full reconciliation of the fixed assets register to Agresso;</li> <li>- ensuring that significant capital commitments are reflected in the notes to the accounts.</li> </ul>	Y	We will review the accounting treatment of fixed assets as part the detailed audit work.
<p>The early repayment of £11m debt transferred from Hampshire County Council.</p>	Y	We will need to seek assurance over the business case for the early repayment and evidence to support that the transaction occurred in 2008/09.
<p>The Council will need to determine its liability to repay government grants in respect of Guildhall Square (SEEDA) £4.6m, Southampton New Arts Complex (ACE) £5.73m and New Deals for Communities (CLG) £3.8m.</p>	Y	The treatment of these grants within the financial statements will be tested during the audit of the financial statements.

Risk	Residual risk	Audit response
The existence of unreconciled balances between the housing benefits system and Agresso.	Y	We will test the completion of the reconciliation process as part of the audit.
Changes to the 2008 SORP, for example in respect 'Area based Grant' and financial instruments.	Y	We will seek assurance on compliance with the 2008 SORP.
Weaknesses in the interface between the social care income system and Agresso.	Y	<p>The Council is addressing this issue by implementing a revised charging policy and procuring a new income billing module that will be implemented during 2009/10.</p> <p>We will test the 2008/09 year end balances in relation Social Care billing during the final accounts audit.</p>

In my original audit plan, the estimated fee for the opinion audit was based on my best estimate at the time and agreed at £198,300 as part of a total audit fee of £298,700. I have reviewed the original fee estimate and concluded that there are two factors that warrant an adjustment at this stage. These are:

- a) additional senior manager input to the audit in order to meet professional auditing standards and your expectations;
- b) a reduction in audit work in relation to our pre statements audit, reflecting the improvements that have been made by the Council offset by the risks identified above.

I therefore propose a net fee increase of £16,000 to £214,300 for the opinion audit. The revised overall audit fee will be £314,700. I will keep the fee under review as the opinion audit progresses.

The above fee does not include any time in relation to your submission to the 'Partnership for Schools' in relation to the 'Building Schools for the Future' programme. If you request that we comment on your submission we will agree the scope for any such review separately with you together with an additional fee.

Do not hesitate to contact me if you would like to meet to discuss this letter further.

Yours sincerely

Kate Handy  
District Audit

cc Brad Roynon, Chief Executive  
cc Mark Heath, Solicitor to the Council  
cc Joy Wilmot-Palmer, Head of Policy and Performance