

# AUDIT COMMITTEE

Monday, 23rd April, 2012  
at 6.00 pm

Conference Room 3 - Civic Centre

This meeting is open to the public

## **Members**

Councillor Ball (Chair)  
Councillor Mead (Vice-Chair)  
Councillor Daunt  
Councillor Fuller  
Councillor Furnell  
Councillor Kaur  
Councillor Dr Paffey

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# PUBLIC INFORMATION

## **Role of the Audit Committee**

The Committee has responsibility for:-

- providing an independent assurance to the Standards and Governance Committee on the adequacy of the risk management framework and the internal control and reporting environment including (but not limited to) the reliability of the financial reporting process and the statement of internal control;
- satisfying and providing assurance to the Standards and Governance Committee that appropriate action is being taken on risk and internal control related issues identified by the internal and external auditors and other review and inspection bodies; and
- specifically, the oversight of, and provision of assurance to the Standards and Governance Committee on, the following functions:-
  - ensuring that Council assets are safeguarded;
  - maintaining proper accounting records;
  - ensuring the independence, objectivity and effectiveness of internal and external audit;
  - the arrangements made for co-operation between internal and external audit and other review bodies;
  - considering the reports of internal and external audit and other review and inspection bodies;
  - the scope and effectiveness of the internal control systems established by management to identify, assess, manage and monitor financial and non-financial risks (including measures to protect against, detect and respond to fraud).

## **Southampton City Council's Seven Priorities**

- More jobs for local people
- More local people who are well educated and skilled
- A better and safer place in which to live and invest
- Better protection for children and young people
- Support for the most vulnerable people and families
- Reducing health inequalities
- Reshaping the Council for the future

## **Public Representations**

At the discretion of the Chair, members of the public may address the meeting about any report on the agenda for the meeting in which they have a relevant interest.

**Smoking policy** – the Council operates a no-smoking policy in all civic buildings.

**Mobile Telephones** – please turn off your mobile telephone whilst in the meeting.

**Fire Procedure** – in the event of a fire or other emergency a continuous alarm will sound and you will be advised by Council officers what action to take.

**Access** – access is available for disabled people. Please contact the Democratic Support Officer who will help to make any necessary arrangements.

## **Dates of Meetings: Municipal Year 2011/12**

<b>2011</b>	<b>2012</b>
23 June	26 January
22 September	23 April
16 December	

## CONDUCT OF MEETING

### **Terms of Reference**

The terms of reference of the Audit Committee are contained in Article 8 and Part 3 (Schedule 2) of the Council's Constitution.

### **Business to be discussed**

Only those items listed on the attached agenda may be considered at this meeting.

### **Rules of Procedure**

The meeting is governed by the Council Procedure Rules as set out in Part 4 of the Constitution.

### **Quorum**

The minimum number of appointed Members required to be in attendance to hold the meeting is 3.

### **Disclosure of Interests**

Members are required to disclose, in accordance with the Members' Code of Conduct, **both** the existence **and** nature of any "personal" or "prejudicial" interests they may have in relation to matters for consideration on this Agenda.

### **Personal Interests**

A Member must regard himself or herself as having a personal interest in any matter

- (i) if the matter relates to an interest in the Member's register of interests; or
- (ii) if a decision upon a matter might reasonably be regarded as affecting to a greater extent than other Council Tax payers, ratepayers and inhabitants of the District, the wellbeing or financial position of himself or herself, a relative or a friend or:-
  - (a) any employment or business carried on by such person;
  - (b) any person who employs or has appointed such a person, any firm in which such a person is a partner, or any company of which such a person is a director;
  - (c) any corporate body in which such a person has a beneficial interest in a class of securities exceeding the nominal value of £5,000; or
  - (d) any body listed in Article 14(a) to (e) in which such a person holds a position of general control or management.

A Member must disclose a personal interest.

Continued/.....

## **Prejudicial Interests**

Having identified a personal interest, a Member must consider whether a member of the public with knowledge of the relevant facts would reasonably think that the interest was so significant and particular that it could prejudice that Member's judgement of the public interest. If that is the case, the interest must be regarded as "prejudicial" and the Member must disclose the interest and withdraw from the meeting room during discussion on the item.

It should be noted that a prejudicial interest may apply to part or the whole of an item.

Where there are a series of inter-related financial or resource matters, with a limited resource available, under consideration a prejudicial interest in one matter relating to that resource may lead to a member being excluded from considering the other matters relating to that same limited resource.

There are some limited exceptions.

Note: Members are encouraged to seek advice from the Monitoring Officer or his staff in Democratic Services if they have any problems or concerns in relation to the above.

## **Principles of Decision Making**

All decisions of the Council will be made in accordance with the following principles:-

- proportionality (i.e. the action must be proportionate to the desired outcome);
- due consultation and the taking of professional advice from officers;
- respect for human rights;
- a presumption in favour of openness, accountability and transparency;
- setting out what options have been considered;
- setting out reasons for the decision; and
- clarity of aims and desired outcomes.

In exercising discretion, the decision maker must:

- understand the law that regulates the decision making power and gives effect to it. The decision-maker must direct itself properly in law;
- take into account all relevant matters (those matters which the law requires the authority as a matter of legal obligation to take into account);
- leave out of account irrelevant considerations;
- act for a proper purpose, exercising its powers for the public good;
- not reach a decision which no authority acting reasonably could reach, (also known as the "rationality" or "taking leave of your senses" principle);
- comply with the rule that local government finance is to be conducted on an annual basis. Save to the extent authorised by Parliament, 'live now, pay later' and forward funding are unlawful; and
- act with procedural propriety in accordance with the rules of fairness.

## AGENDA

Agendas and papers are now available on the Council's web pages

### **1 APOLOGIES AND CHANGES IN MEMBERSHIP (IF ANY)**

To note any changes in membership of the Committee made in accordance with Council Procedure Rule 4.3.

### **2 DECLARATIONS OF INTEREST**

In accordance with the Local Government Act 2000, and the Council's Code of Conduct adopted on 16<sup>th</sup> May 2007, Members to declare any personal or prejudicial interests in any matter included on the agenda for this meeting.

NOTE: Members are required, where applicable, to complete the appropriate form recording details of any such interests and hand it to the Democratic Support Officer prior to the commencement of this meeting.

### **3 MINUTES OF THE PREVIOUS MEETING (INCLUDING MATTERS ARISING)**

To approve and sign as a correct record the Minutes of the meeting held on 26<sup>th</sup> January 2012, and to deal with any matters arising, attached.

### **4 STATEMENT FROM THE CHAIR**

### **5 AUDIT COMMISSION: AUDIT COMMITTEE UPDATE**

Report of the Chief Internal Auditor updating the Committee on: the certification of Claims and Returns – Annual Report 2010/11; and the progress in delivering the external auditors responsibilities, attached.

### **6 INTERNAL AUDIT: INTERNAL AUDIT PLAN 2012 - 2013**

Report of the Chief Internal Auditor detailing the plans for audit internally for the 2012-2013 municipal year, attached.

### **7 INTERNAL AUDIT: PROGRESS REPORT MARCH 2012**

Report of the detailing the Internal Audit Progress report for the period ending March 2012, attached.

Friday, 13 April 2012

Head of Legal, HR and Democratic Services

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AUDIT COMMITTEE  
MINUTES OF THE MEETING HELD ON 26 JANUARY 2012

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Present:

Members of the Council

Councillors Ball (Chair), Daunt, Fuller, Furnell and Kaur (item 31 only)

Apologies

Councillors Mead and Dr Paffey

Also in attendance:

Mike Bowers – Audit Commission

28. **MINUTES OF THE PREVIOUS MEETING (INCLUDING MATTERS ARISING)**

**RESOLVED** that the Minutes of the meeting held on 6<sup>th</sup> December 2011 be approved and signed as a correct record with the following amendment:

Item 25 – Strategic Risk Register – Update – second paragraph, remove the last three words ‘in financial terms’.

(Copy of the minutes circulated with the agenda and appended to the signed minutes).

29. **ANNUAL GOVERNANCE STATEMENT 2011/12**

The Committee received and noted the report of the Head of Finance detailing the Annual Governance Statement 2011/12. (Copy of the report appended to the signed minutes).

30. **AUDIT COMMISSION: AUDIT AND INSPECTION PROGRESS REPORT**

The Committee received and noted the report of the Chief Internal Auditor requesting that the Committee notes the Audit Commission’s progress report. (Copy of the report appended to the signed minutes).

31. **TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS 2012/13 TO 2014/15**

The Committee received the report of the Head of Finance regarding the Council’s treasury management strategy for the coming year in relation to the Council’s cash flow, investment and borrowing, and the management of the numerous risks related to this activity. (Copy of the report appended to the signed minutes).

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# Agenda Item 5

<b>DECISION-MAKER:</b>	AUDIT COMMITTEE
<b>SUBJECT:</b>	AUDIT COMMISSION: AUDIT COMMITTEE UPDATE
<b>DATE OF DECISION:</b>	23 APRIL 2012
<b>REPORT OF:</b>	CHIEF INTERNAL AUDITOR
<b>STATEMENT OF CONFIDENTIALITY</b>	
Not Applicable	

## **BRIEF SUMMARY**

The purpose of this paper is to provide the Audit Committee with reports on the:

- i. Certification of Claims and Returns – Annual Report 2010/11; and
- ii. progress in delivering the external auditors responsibilities (includes an update on the externalisation of the Audit Practice).

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and are required to complete returns providing financial information to government departments.

The 'Certification of claims and returns – annual report 2010/11' summarises the findings from the Audit Commission's certification of 2010/11 claims. It includes the messages arising from their assessment of the Council's arrangements for preparing claims and returns and information on claims that were amended or qualified.

The progress report highlights the key emerging national issues and developments which may be of interest to members of the Audit Committee. The paper concludes by asking a number of questions which the Committee may wish to consider in order to assess whether it has received sufficient assurance on emerging issues.

The table attached as appendix 1, summarises the external auditors progress against the outputs specified in the plan.

## **RECOMMENDATIONS:**

- (i) That the Audit Committee notes the Audit Commission's reports as attached.

## **REASONS FOR REPORT RECOMMENDATIONS**

1. The Audit Committee's Terms of Reference require it to be satisfied and provide assurance to the Standards and Governance Committee that appropriate action is being taken on risk and internal control related issues identified by the external auditors. Specifically, the Committee has responsibility for oversight of the reports of external audit.

## **ALTERNATIVE OPTIONS CONSIDERED AND REJECTED**

2. None.

**DETAIL (Including consultation carried out)**

3. The following Audit Commission reports are attached for consideration in the appendix:

- Certification of Claims and Returns – Annual Report 2010/11
- Audit Committee Update – April 2012

The external auditor will be in attendance at the Committee meeting to answer any questions

The reports, as attached, have been discussed and agreed with the appropriate officers.

**RESOURCE IMPLICATIONS**

**Capital/Revenue**

4. None.

**Property/Other**

5. None.

**LEGAL IMPLICATIONS**

**Statutory power to undertake proposals in the report:**

6. The Accounts and Audit (England) Regulations 2011 require the Council to 'undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'.

**Other Legal Implications:**

7. None.

**POLICY FRAMEWORK IMPLICATIONS**

8. None.

<b>AUTHOR:</b>	Name:	Neil Pitman	Tel:	023 8083 4616
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**KEY DECISION?** Yes/No    No

<b>WARDS/COMMUNITIES AFFECTED:</b>	
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## SUPPORTING DOCUMENTATION

### Appendices

1.	Audit Commission: Certification of Claims and Returns – Annual Report 2010/11
2.	Audit Commission: Audit Committee Update – April 2012

### Documents In Members' Rooms

1.	None
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### Integrated Impact Assessment

Do the implications/subject of the report require an Integrated Impact Assessment (IIA) to be carried out.	No
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### Other Background Documents

#### Integrated Impact Assessment and Other Background documents available for inspection at:

Title of Background Paper(s)

Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)

1.	None	
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# Certification of claims and returns - annual report

Southampton City Council

Audit 2010/11



Agenda Item 5

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# Introduction

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**Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and are required to complete returns providing financial information to government departments. My certification work provides assurance to grant-paying bodies that claims for grants and subsidies are made properly or that information in financial returns is reliable. This report summarises the outcomes of my certification work on your 2010/11 claims and returns.**

Under section 28 of the Audit Commission Act 1998, the Audit Commission may, at the request of authorities, make arrangements for certifying claims and returns because scheme terms and conditions include a certification requirement. Where such arrangements are made, certification instructions issued by the Audit Commission to its auditors set out the work auditors must do before they give their certificate. The work required varies according to the value of the claim or return and the requirements of the government department or grant-paying body, but in broad terms:

- for claims and returns below £125,000 the Commission does not make certification arrangements and I was not required to undertake work;
- for claims and returns between £125,000 and £500,000, I undertook limited tests to agree form entries to underlying records, but did not undertake any testing of eligibility of expenditure; and
- for claims and returns over £500,000 I planned and performed my work in accordance with the certification instruction to assess the control environment for the preparation of the claim or return to decide whether or not to place reliance on it. Depending on the outcome of that assessment, I undertook testing as appropriate to agree form entries to underlying records and test the eligibility of expenditure or data. Auditors are required to complete all of the tests in the relevant certification instruction, if reliance on the control environment has led to a reduced level of testing for more than two years.

Claims and returns may be amended where I agree with your officers that this is necessary. My certificate may also refer to a qualification letter where there is disagreement or uncertainty, or you have not complied with scheme terms and conditions.

# Summary of my 2010/11 certification work

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## The Authority has continued to meet the deadlines for preparing claims and returns.

I carried out work on nine claims and returns, all were over the £500,000 threshold. My work gave rise to amendments to six claims and returns for the year ended 31 March 2011. I issued a qualification letter with my certificate on the 2010/11 Housing and Council Tax Benefits grant claim and the New Deal for Communities Statement of Grant Usage.

Table 1: Summary of 2010/11 certification work

Number of claims and returns certified	
Total value of claims and returns certified	£222 million
Number of claims and returns amended due to errors	6
Number of claims and returns where I issued a qualification letter because there was disagreement or uncertainty over the content of the claim or return or scheme terms and conditions had not been complied with	2
Total cost of certification work	£80,320

I summarise below the main features of my certification work and what I found.



# Results of 2010/11 certification work

**This section summarises the results of my 2010/11 certification work and highlights the significant issues arising from that work.**

My certification work has confirmed the Council sent all the expected uncertified 2010/11 grant claims and returns to the respective government department on time. Supporting working papers were provided to me by your officers and I have been able to complete the work required by the Audit Commission's certification instruction for each claim or return. All certified claims and returns were sent to the relevant government department on time. No significant issues arose from my certification work that I need to report to the Council.

Table 2: Claims and returns above £500,000

Claim or return	Value of claim or return presented for certification (£'000)	Was reliance placed on the control environment?	Value of any amendments made £	Was a qualification letter issued?
Housing and council tax benefit scheme	118,398	N/A – Requirement to follow separate HB COUNT approach	-1,618	Yes
Pooling of housing capital receipts	2,254	No – Required to test in full due to third year of a three year cycle	Nil	No
HRA subsidy	-8,755	Yes	-12,123	No

Claim or return	Value of claim or return presented for certification (£'000)	Was reliance placed on the control environment?	Value of any amendments made £	Was a qualification letter issued?
Housing finance base data return	N/A	No – full testing required because of the implementation of the new HRA financing regime in 2012/13	Nil –but changes were made to data in the return	No
National non-domestic rates return	81,967	Yes	Nil –but changes were made to the return	No
Sure start, early years and childcare grant and aiming high for disabled children grant	11,548	Yes	Nil	No
Disabled facilities	0.8	Yes	Nil	No
New Deal for Communities	5,440	No – qualified in previous years	-575,694	Yes
Teachers' pensions return	11,235	Yes	+64,722	No

#### Housing and council tax benefit scheme

There were no significant issues arising from my testing of your housing and council tax benefits claim for 2010/11. I reported the minor discrepancies that I found between the amount of benefit granted on the computer system and the amount actually paid to claimants and the impact of the minor errors that were noted during my testing. I am required to report such issues to the Department of Work and Pensions, to enable them to consider whether any action is necessary. The Department of Work and Pensions confirmed that it has settled the claim based on the certified figures in a letter to the Council dated 13 December 2011.

### **New Deal for Communities**

The 'Thornhill Plus You' New Deal for Communities scheme ended on 31 March 2011. My letter to the CLG therefore commented on a number of closure issues. These included the removal by the CLG of the requirement for the legacy succession plan for the 'Thornhill Plus You' scheme to be approved by the Minister.

I also reported that payments made in 2010/11 for eight projects totalled more than had been approved, but the total of revenue and capital payments remained within the approved amount.

### **Teachers' pensions return**

Internal Audit highlighted a number of weaknesses in the preparation of the teachers' pension return for 2010/11. These primarily related to the data for the two schools that used an independent external payroll provider. An action plan for improvement has been drawn up by Internal Audit who will undertake more work in 2011/12 to ensure that the year-end payroll reconciliation processes are robust.

Whilst I had no need to report on this issue in 2010/11 the number of schools using an independent payroll provider has increased to eighteen in 2011/12. Therefore members should ensure managers implement Internal Audit's recommendations.

# Summary of certification fees

This section summarises the fees arising from my 2010/11 certification work and highlights the reasons for any significant changes in the level of fees from 2009/10.

Table 3: Summary of certification fees

Claim or return	2010/11 fee	2009/10 fee	Reasons for changes in fee greater than +/- 10 per cent
Housing and council tax benefit scheme	47,346	44,678	N/A
Pooling of housing capital receipts	1,851	1,828	N/A
HRA subsidy	4,362	5,576	Reduced testing because reliance could be placed on the control environment in 2010/11.
Housing finance base data return	4,907	2,927	Additional testing required by the certification instruction in preparation for the new housing finance regime which comes into effect from 1 April 2012.
National non-domestic rates return	1,954	3,155	There were only minor amendments to the return in 2010/11.
Teachers' pensions return	3,041	2,798	N/A
Sure start, early years and childcare grant and aiming high for disabled children grant	1,610	2,874	Fewer issues and no amendments made in 2010/11 claim.

Claim or return	2010/11 fee	2009/10 fee	Reasons for changes in fee greater than +/- 10 per cent
Disabled facilities	1,040	1,792	Fewer matters arising during the 2010/11 certification work.
New Deal for communities	13,166	10,140	Complex issues arising during the final year of the scheme, as reported above.
Planning, control and reporting	1,043	1,414	Reduced planning & control time needed.
<b>Total</b>	<b>80,320</b>	<b>77,182</b>	

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The Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body.



[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

January 2012

# **Audit**

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# **Committee**

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# **update**

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**Southampton City Council**

**Audit 2011/12**

**The Audit Commission is a public corporation set up in 1983 to protect the public purse.**

**The Commission appoints auditors to councils, NHS bodies (excluding NHS foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.**

**We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.**



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# Introduction

- 1 The purpose of this paper is to provide the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. It includes an update on the externalisation of the Audit Practice.
- 2 I have highlighted the key emerging national issues and developments which may be of interest to members of the Audit Committee. The paper concludes by asking a number of questions which the Committee may wish to consider in order to assess whether it has received sufficient assurance on emerging issues.
- 3 The table attached as appendix 1, summarises our progress against the outputs specified in the plan.
- 4 If you require any additional information regarding the issues included within this briefing, please feel free to contact me or your Audit Manager using the contact details at the end of this update.
- 5 Finally, please also remember to visit our website ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)) which now enables you to sign-up to be notified of any new content that is relevant to your type of organisation.

Kate Handy  
District Auditor

30 March 2012

# Progress report

## Financial statements

**6** My interim audit has started and will be completed in April 2012. This work will enable me to update my understanding of your material financial information systems and the key controls within them. I will use the findings from this work to inform my plan for the audit of your 2011/12 financial statements, which commences in July 2012.

**7** I will report any key findings from my interim audit in the audit plan that I will present to the Audit Committee in June 2012.

## VFM conclusion

**8** At this stage the principal risks identified for our VFM conclusion are the:

- uncertainties faced by the Council in its medium term financial planning. These include its level of funding for the medium term, due to changes being made through the local government resource review (eg opportunities to retain business rates) and the delivery of the savings plans;
- delivery of planned improvements to the management and performance monitoring arrangements in relation to Street Lighting, Highways Maintenance and the Adult Health and Social Care; and
- progress made with phases 2 and 3 of the estate regeneration programme.

**9** My work in each of these areas will be completed before I report my value for money conclusion in September 2012.

# Government response to consultation on the future of local public audit

**10** In August 2010, the government announced its intention to bring forward legislation to abolish the Audit Commission and put in place a new framework for local public audit. In March 2011 the government published a consultation paper and, in January 2012, announced its response to the consultation to which it received 453 responses, the majority from audited bodies.

**11** The Audit Commission has recently announced the outcome of the procurement exercise to outsource the work currently undertaken by the Audit Practice for the period 2012/13 to 2016/17 (see 'update on the externalisation of the Audit Practice' below). The government envisages the retention of the Audit Commission as a small residuary body until the end of those contracts, to oversee them and to make any necessary changes to individual audit appointments.

**12** Thereafter, the government proposes that a new local public audit regime will apply, the key features of which are as follows.

- Local government bodies will appoint their own auditor on the advice of an independent audit appointment panel with a maximum of two terms of five years permissible.
- The audit will continue to cover arrangements for securing economy, efficiency and effectiveness, but without imposing further burdens on audited bodies. There will be further consultation on the approach to value for money.
- The power to issue a public interest report will be retained.
- Audit firms will be able to provide non-audit services to audited bodies, subject to complying with ethical standards and gaining approval from the independent auditor appointment panel.
- The National Audit Office will be responsible for developing and maintaining audit codes of practice and providing support to auditors.
- The National Fraud Initiative will continue. Discussions on how this will be achieved are ongoing.

**13** The government response provides little detail on the audit arrangements for local health bodies. The Department of Health is working through the implications of Monitor's changing role and the proposed establishment of Clinical Commissioning Groups, and will specify the detailed arrangements for the audit of local health bodies, under the new framework, in due course.

**14** The government is holding further discussions with audited bodies and audit firms to develop its proposals. The government intends to publish draft legislation for pre-legislative scrutiny in Spring 2012.

# Update on the externalisation of the Audit Practice

**15** The Audit Commission's Managing Director, Audit Policy wrote to audited bodies on 6 March 2012 on the outcome of the procurement exercise to outsource the work currently undertaken by the Audit Practice and on the process for making auditor appointments for 2012/13 and subsequent years.

**16** The key points are as follows.

- Contracts will be let from 2012/13 on a five-year basis to the following firms.

Firm	Contract areas
DA Partnership	North East & North Yorkshire
Ernst and Young	Eastern South East
Grant Thornton	North West West Midlands London (South), Surrey & Kent South West
KPMG	Humberside & Yorkshire East Midlands London (North)

- The Commission has been able to secure very competitive prices that will save local public bodies over £30 million a year for a minimum of five years. The savings secured will be passed back to audited bodies through significant reductions in scales of audit fees. The Commission intends to publish the final scales of audit fees for 2012/13 in April 2012.
- The Commission Board will confirm the 'interim' auditor appointments for the first five months of 2012/13 on 22 March 2012.
- The Commission will then write to all audited bodies on or shortly after 23 April 2012 to set out its proposals for 'permanent' auditor appointments for 2012/13 and subsequent years. Where a body is currently audited by an auditor from the Audit Practice, the Commission will propose as the appointed auditor the firm that was awarded the contract in each area, unless there are good reasons that to do so would be inappropriate.

- To support the consultation process, the Commission is arranging a series of introductory meetings in each contract area between 30 April 2012 and 16 May 2012. The purpose of these meetings is to give audited bodies in each area an opportunity to meet the new firm proposed as their auditor and its senior partners, and hear how the firm plans to manage its new portfolio and its approach to the audits.

**17** The Commission is working with auditors to ensure a smooth transfer between the Audit Practice and the incoming firm. In particular, the new auditor will be expected to place maximum reliance on the work of the current auditor. Audited bodies can also help by ensuring they plan their 2011/12 accounts closedown effectively to enable auditors to issue their opinion by the statutory deadline for publication of accounts, 30 September 2012.

**18** Audit Practice staff in each lot area will in the main transfer to the successful bidders on 31 October 2012.

**19** Further details are available on the Commission's website. We will continue to keep you updated on developments.

**20** Against this background, the Audit Practice's focus remains.

- Fulfilling our remaining responsibilities – delivering your 2011/12 audit - to the high standards you expect and deserve.
- Managing a smooth transition from the Audit Practice to your new audit provider.

## Other matters of interest

### Annual fraud and corruption survey 2011/12

**21** On 2 April 2012 the Audit Commission will be issuing its annual survey to collect information regarding all detected fraud and corruption for the 2011/12 financial year.

**22** The electronic survey will be open for audited bodies to complete and submit between 2 April 2012 and 11 May 2012.

### National Fraud Initiative consultation

**23** The Audit Commission is currently consulting on its proposed work programme and scales of fees for the 2012/13 National Fraud Initiative (NFI).

**24** The NFI, which takes place biannually, has helped trace over £650 million in fraud, error and overpayments since it began in 1996 and has attracted international recognition.

**25** The work programme will remain unchanged from NFI 2010/11 and, in recognition of the financial pressures that public bodies are facing, the Audit Commission proposes that the scale of fees for mandatory participants will remain the same as for NFI 2010/11. For Southampton City Council this is £3,650.

**26** The consultation closed on 23 March 2012 and the final work programme and scales of fees will be published in May 2012.

### Local government capital finance system

**27** In late 2011 the Department for Communities and Local Government (DCLG) issued a consultation document on proposed changes to the Local Government capital finance system.

**28** A summary of the consultation responses was published on 8 February 2012 and the Regulations, which come into force on 31 March and 1 April 2012, have been laid before Parliament.

**29** DCLG's commentary confirms the intended effects of the amended Regulations are:

- to bring securitisation (the exchange of future revenues for an immediate lump sum payment) within the capital finance framework;
- to relax the rules on bond investments; and
- to clarify the definition of capital expenditure.

**30** DCLG has also published an updated edition of Capital Finance: Guidance on Minimum Revenue Provision. The amendments to the statutory guidance relate to Housing Revenue Account (HRA) reform only and impact from 2012/13. The changes to the guidance are to ensure that authorities taking on new debt do not face any inappropriate increase in their minimum revenue provision liability.

## **Openness and accountability in local pay**

**31** On 17 February 2012 DCLG published guidance which sets out the key policy principles that underpin the pay accountability provisions in the Localism Act.

**32** For each financial year, beginning with 2012/13, the Council will be required to prepare a pay policy statement that must articulate its policies on the pay of its workforce, particularly its senior staff (or 'chief officers') and its lowest paid employees.

**33** The statement must be:

- approved by full Council; and
- published on its website.

## **Accounting for HRA Self Financing**

**34** In March 2012 CIPFA produced guidance on the required accounting entries for councils making or receiving settlement payments to or from the Secretary of State in preparation for the commencement of self-financing of the Housing Revenue Account (HRA) from 1 April 2012. These transactions take place in the 2011/12 financial year and will therefore be reflected in the Council's financial statements for the year ended 31 March 2012.



# Key considerations

**35** The Audit Committee may wish to consider the following questions in respect of the issues highlighted in this briefing paper.

- Has the Council completed the Audit Commission's annual fraud and corruption survey?
- Has the Council considered the implications of the amendments to the capital financing regulations?
- Has the Council considered the guidance from CIPFA regarding the settlement payment to the Secretary of State in preparation for the commencement of self-financing of the HRA?

## Contact details

**36** If you would like further information on any items in this briefing, please feel free to contact either your District Auditor or Audit Manager.

**37** Alternatively, all Audit Commission reports - and a wealth of other material - can be found on our website: [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk).

Kate Handy

District Auditor

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Mike Bowers

Audit Manager

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## Appendix 1 Progress with the 2011/12 audit

Report	AC key contact	Authority contact	Expected report	Reported to Audit Committee	Comment
Audit plan 2011/12	Kate Handy	Audit Committee	June 2011	June 2011	<p>The initial fee letter for 2011/12 was presented to the audit committee in June 2011.</p> <p>A more detailed audit plan will be discussed with officers before being presented at the audit committee in June 2012.</p>
<b>Financial statements</b>					
Interim audit memorandum (If appropriate)	Mike Bowers	Andrew Lowe	June 2012		<p>This audit has commenced and will be completed in April 2012. The findings will be used to plan the audit of your 2011/12 financial statements.</p> <p>The key findings from this work will be reported in my more detailed audit plan in June 2012.</p>
Annual Governance Report (ISA260)	Kate Handy	Standards and Governance Committee	September 2012		
Accounts opinion	Kate Handy	Standards and Governance Committee	September 2012		
Final Accounts memorandum (If appropriate)	Mike Bowers	Andrew Lowe	October 2012		

Report	AC key contact	Authority contact	Expected report	Reported to Audit Committee	Comment
<b>Value for money conclusion</b>					
Value for money conclusion	Kate Handy	Standards and Governance Committee	September 2012		
<b>Certification of grant claims and returns</b>					
Annual report	Mike Bowers	Andrew Lowe	March 2012	April 2012	The report is on the agenda for the April 2012 Audit Committee meeting.
<b>Annual Audit Letter</b>					
Annual Audit Letter	Kate Handy	Alistair Neill	October 2012		

If you require a copy of this document in an alternative format or in a language other than English, please call:  
**0844 798 7070**

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- any third party.



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# Agenda Item 6

<b>DECISION-MAKER:</b>	AUDIT COMMITTEE
<b>SUBJECT:</b>	INTERNAL AUDIT: INTERNAL AUDIT PLAN 2012 - 2013
<b>DATE OF DECISION:</b>	23 APRIL 2012
<b>REPORT OF:</b>	CHIEF INTERNAL AUDITOR
<b>STATEMENT OF CONFIDENTIALITY</b>	
Not Applicable	

## **BRIEF SUMMARY**

The aim of internal audit's work programme is to provide independent and objective assurance to management, in relation to the business, activities, systems or processes under review that:

- the framework of internal control, risk management and governance is appropriate and operating effectively; and
- risk to the achievement of the Council's objectives is identified, assessed and managed to a defined acceptable level.

The internal audit plan provides the mechanism through which the Chief Internal Auditor can ensure most appropriate use of internal audit resources to provide a clear statement of assurance on risk management, internal control and governance arrangements.

Internal Audit focus should be proportionate and appropriately aligned. Currently only medium and high priority reviews are incorporated within the Strategic Audit Plan.

All low priority review areas remain within the audit universe and reassessed on an annual basis however are not routinely incorporated in the planning process if continued to be assessed as a low priority.

The audit plan will remain fluid and a contingency provision will be incorporated to ensure internal audit availability should the risk environment change during the year. Other reviews, based on criteria other than risk, may also be built into the work plan. These may include "mandatory" audits or reviews requested or commissioned by management. Any commissioned review must be able to clearly demonstrate contribution to the audit opinion on risk management, control and governance.

## **RECOMMENDATIONS:**

- (i) The Audit Committee is invited to comment on and approve the Internal Audit Plan for 2012/13 as attached.

## **REASONS FOR REPORT RECOMMENDATIONS**

1. In accordance with proper internal audit practices and the Internal Audit Strategy, the Audit Committee is required to approve, but not direct, the Internal Audit Plan.

## **ALTERNATIVE OPTIONS CONSIDERED AND REJECTED**

2. None.

## DETAIL (Including consultation carried out)

3. The plan has been designed in line with the Internal audit strategy and reflects recognised good practice to ensure due consideration is given to the core principles of good governance to support the Annual Governance Statement.
4. Auditable units have been selected and prioritised on a rational and objective basis, following a systematic appraisal, in consultation with management, including the following predictive factors:
  - Materiality;
  - Corporate importance;
  - Vulnerability;
  - Significant change;
  - Previous assurance; and
  - Management concern
5. Consideration has been given to the assurance work carried out by others, such as those responsible for the governance of the Council, the external auditors and other review bodies, to avoid duplication and maximise use of available assurance resources.
6. The audit plan is indicative; it will be subject to ongoing review and amendment, in consultation with the relevant Directors and Audit Sponsors, to ensure it continues to reflect the needs of the Council.
7. Amendments to the plan will be identified through the Internal audit team's continued contact and liaison with those responsible for the governance of the Council (i.e. MBoD, Audit Committee and the Audit Commission).
8. The type of "review" undertaken will be determined in consultation with the relevant Audit Sponsor. The range of review type includes:

Risk based audit: review of design and operation of controls in place to mitigate key risks to the achievement of defined objectives. Any audit work intended to provide an audit opinion will be undertaken using this approach.

Developing systems audit: review of plans and designs of systems under development; and/or assessment of programme/project management controls.

Compliance audit: a limited review, covering only the operation of controls in place to fulfil statutory, good practice or policy compliance obligations.

Quality assurance review: review of approach and competency of other reviewers/assurance providers to form an opinion on the reliance that can be placed on the findings and conclusions arising from their work.

Consultancy or advisory services: provision of advice, either through formal review and reporting or more informally through discussion or briefing, on the framework of internal control, risk management and governance. It should be noted that it would not be appropriate for an auditor to become involved in establishing or implementing controls or to assume any operational responsibilities and that any consultancy or advisory work undertaken must not prejudice the scope, objectivity and quality of future audit work.



Fraud and irregularity investigations: provision of specialist skills and knowledge to assist in or lead an investigation as appropriate; and/or review of fraud prevention controls and detection processes.

9. Directors and/or their nominated Senior Managers will be involved in the scoping of the reviews to ensure they are appropriately focused on the key risks to delivery of agreed objectives. The detailed planning stage for each review may result in reviews being combined, extended or replaced. A “Terms of reference” will be produced prior to the commencement of each review to ensure the scope and objectives of the review are understood and agreed.

## **RESOURCE IMPLICATIONS**

### **Capital/Revenue**

10. None

### **Property/Other**

11. None

## **LEGAL IMPLICATIONS**

### **Statutory power to undertake proposals in the report:**

12. The Accounts and Audit (England) Regulations 2011 require the Council to ‘undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control’

### **Other Legal Implications:**

13. None

## **POLICY FRAMEWORK IMPLICATIONS**

14. None

<b>AUTHOR:</b>	Name:	Neil Pitman	Tel:	023 8083 4616
	E-mail:	Neil.pitman@southampton.gov.uk		

**KEY DECISION?** Yes/No    No

<b>WARDS/COMMUNITIES AFFECTED:</b>	
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**SUPPORTING DOCUMENTATION**

**Appendices**

1.	Internal Audit: Internal Audit Plan 2012/13
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**Documents In Members' Rooms**

1.	None
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**Integrated Impact Assessment**

Do the implications/subject of the report require an Integrated Impact Assessment (IIA) to be carried out.	No
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**Other Background Documents**

**Integrated Impact Assessment and Other Background documents available for inspection at:**

Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
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1.	None	
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## Internal Audit Plan 2012/13

### Southampton City Council – Summary Internal Audit Plan

	<b>2012/13</b>
Corporate Cross Cutting	140
Corporate Governance	158
Corporate Priorities	405
Information Technology	70
Financial Management	136
Miscellaneous Service Reviews	20
Other Direct Audit Activity	56
<b>Total</b>	<b>985</b>

---

### Southampton City Council – Detailed Internal Audit Plan

Review	Audit Sponsor	Priority	Days
<b>Corporate Cross Cutting</b>			
Change Programme	ED	H	15
Corporate Communications and Marketing	ED	M	15
Health and Safety	CS	H	15
Information Governance	CS	H	15
Human Resources	CS	H	15
Procurement	CS	H	15
Contract Management	CS	H	20
Project management	CS	M	15
Strategic Service Partnership	CS	M	15
<b>Total days</b>			<b>140</b>

Review	Audit Sponsor	Priority	Days
<b>Corporate Governance</b>			
Annual Governance Statement	CS	M	5
Fraud Thematic Review(s)	CS	H	15
Precautions against fraud	CS	H	15
Reactive Fraud	CS	H	85
National Fraud Initiative	CS	H	25
Code of Conduct (Members)	CS	M	10
Effectiveness of the process of Internal Audit	CS	H	3
<b>Total days</b>			<b>158</b>

<b>Review</b>	<b>Audit Sponsor</b>	<b>Priority</b>	<b>Days</b>
<b>Corporate Priorities</b>			
<b>More local people who are well educated and skilled</b>			
Across Schools -Thematic Review	F&C - CS&L	H	20
General school reviews	F&C - CS&L	H	32
Schools Grant Funding	F&C - CS&L	M	15
MARP - Multi Agency Resource Panel	F&C - CS&L	M	12
Statutory Schools Work / Providers	F&C - CS&L	M	12
School support services	F&C - CS&L	H	15
Portage	F&C - CS&L	M	12
<b>Reducing health inequalities</b>			
Public Health	F&C - H&ASC	H	15
Sustainability (Carbon Reduction)	ED	H	15
<b>More jobs for local people</b>			
Capital Programme Management	ENV	M	15
Development Management	ED	M	15
<b>Better protection for children and young people</b>			
Safeguarding (Children & Young People)	F&C - CS&L	M	5
Safeguarding (Adults)	F&C - H&ASC	H	15
<b>A better and safer place in which to live and invest</b>			
Highways	ENV	M	15
Street Lighting PFI	ENV	M	15
Waste and Recycling Services	ENV	M	15
Itchen Bridge	ENV	H	12
Housing Operation Transformation	ENV	M	15
Street Cleansing and Parks & Open Spaces	ENV	M	15
Housing Needs	ENV	M	15
Heating Charges	ENV	H	15
Southampton New Arts Centre (SNAC)	ED	M	5
Estate Regeneration	ED	H	20
<b>Support for the most vulnerable people and families</b>			
Think Local, Act Personal - (Personalisation)	F&C - H&ASC	H	15
Joint Commissioning	F&C - H&ASC	H	20
Financial Assessment Process	F&C - H&ASC	M	15
PARIS - Care System	F&C - H&ASC	H	15
<b>Total days</b>			<b>405</b>
<b>Information Technology</b>			
<b>Information Technology</b>			
IT Applications & Operating Systems	CS	H	20
Network Management and Security	CS	H	20
Internet/e-mail	CS	M	20
Inventory Management	CS	H	10
<b>Total days</b>			<b>70</b>

<b>Review</b>	<b>Audit Sponsor</b>	<b>Priority</b>	<b>Days</b>
<b>Financial Management</b>			
Teachers Pensions	CS	H	20
Housing rent collection and Debt Management	ENV	M	12
Housing and Council Tax Benefits Administration	CS	M	12
Cash Collection and Banking	CS	M	12
Accounts Payable	CS	H	12
Accounts Receivable	CS	M	12
Financial Management	CS	M	10
Council Tax	CS	M	12
NNDR	CS	M	12
Main Accounting System	CS	M	10
Payroll	CS	M	12
<b>Total days</b>			<b>136</b>

<b>Review</b>	<b>Audit Sponsor</b>	<b>Priority</b>	<b>Days</b>
<b>Miscellaneous Reviews</b>			
PUSH	CS	H	10
Electoral Registration	CS	M	10
<b>Total days</b>			<b>20</b>

<b>Review</b>	<b>Audit Sponsor</b>	<b>Priority</b>	<b>Days</b>
<b>Other Direct Audit Activity</b>			
Annual Audit Report	CS	-	3
Audit Strategy	CS	-	3
Operational Plan Preparation	CS	-	5
Monitoring, Liaising & Reporting	CS	-	15
External Audit Liaison	CS	-	5
Audit Committee	CS	-	10
Follow Up	CS	-	15
<b>Total days</b>			<b>56</b>
<b>Total Days</b>			<b>985</b>

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<b>External work</b>	<b>15</b>
<b>Total Audit Days</b>	<b>1000</b>

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# Agenda Item 7

<b>DECISION-MAKER:</b>	AUDIT COMMITTEE
<b>SUBJECT:</b>	INTERNAL AUDIT: PROGRESS REPORT MARCH 2012
<b>DATE OF DECISION:</b>	23 APRIL 2012
<b>REPORT OF:</b>	CHIEF INTERNAL AUDITOR
<b>STATEMENT OF CONFIDENTIALITY</b>	
None	

## **BRIEF SUMMARY**

Under the Accounts and Audit (England) Regulations 2011, the Council is responsible for:

- ensuring that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of functions and includes arrangements for the management of risk; and
- undertaking an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control

In accordance with proper internal audit practices and the Internal Audit Strategy, the Chief Internal Auditor is required to provide a written status report to the Audit Committee, summarising:

- progress in implementing the audit plan;
- internal audit reviews in progress;
- audit opinion on all internal audit reviews completed since the last report and executive summaries of published reports where critical weaknesses or unacceptable levels of risk were identified; and
- the status of 'live' reports, i.e. those where internal audit work is completed and actions are planned to improve the framework of governance, risk management and management control

The appendix summarises the activities of internal audit for the period ending March 2012.

## **RECOMMENDATIONS:**

- (i) That the Audit Committee notes the Internal Audit Progress report for the period ending March 2012 as attached.

## **REASONS FOR REPORT RECOMMENDATIONS**

1. In accordance with proper internal audit practices and the Internal Audit Strategy, the Audit Committee is required to receive the Chief Internal Auditor's progress report.

## **ALTERNATIVE OPTIONS CONSIDERED AND REJECTED**

2. None.

## **DETAIL (Including consultation carried out)**

3. The status report for the period ending March 2012 is attached for consideration in the appendix.

## RESOURCE IMPLICATIONS

### Capital/Revenue

4. None.

### Property/Other

5. None.

## LEGAL IMPLICATIONS

### Statutory power to undertake proposals in the report:

6. The Accounts and Audit (England) Regulations 2011 require the Council to 'undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'.

### Other Legal Implications:

7. None.

## POLICY FRAMEWORK IMPLICATIONS

8. None.

<b>AUTHOR:</b>	Name:	Neil Pitman	Tel:	023 8083 4616
	E-mail:	neil.pitman@southampton.gov.uk		

**KEY DECISION?** Yes/No No

**WARDS/COMMUNITIES AFFECTED:**

## SUPPORTING DOCUMENTATION

### Appendices

1.	Internal Audit: Progress Report period ending March 2012
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### Documents In Members' Rooms

1.	None
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### Integrated Impact Assessment

Do the implications/subject of the report require an Integrated Impact Assessment (IIA) to be carried out.	No
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### Other Background Documents

**Integrated Impact Assessment and Other Background documents available for inspection at:**

Title of Background Paper(s) Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)

1.	None	
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SUBJECT:	<b>Internal Audit: Progress Report</b>
MEETING:	<b>Audit Committee</b>
DATE OF MEETING:	<b>23 April 2012</b>
REPORT OF:	<b>Chief Internal Auditor</b>
REPORT DATE:	<b>March 2012</b>

**1 Opinion definitions**

<b>Opinion</b>	<b>Framework of governance, risk management and management control</b>
Substantial assurance	A sound framework in place that is operating effectively. Some immaterial evidence of inconsistent application.
Adequate Assurance	Basically a sound framework in place but with recurring evidence of inconsistent application.
Limited assurance	Critical weakness(es) identified within the framework and / or significant evidence of inconsistent application.
No assurance	Fundamental weaknesses have been identified or the framework is ineffective or absent.

**2 Status of 'live' reports:**

Audit title	Report date	Accountable Director	Audit Assurance		Management Actions (of which are 'high' priority)			
			Original	Current	Reported	Pending	Cleared	Overdue
Payroll	23/03/10	Corporate Services	Substantial	Substantial	3(2)		1(1)	2(1)*
Creditors	31/03/10	Corporate Services	Substantial	Substantial	5(0)		3(0)	2(0)**
Network Management and Security	12/10/10	Corporate Services	Limited	Substantial	21(0)	1(0)	20(0)	
Expense Management	21/02/11	Corporate Services	Adequate	Substantial	13(0)		10(0)	3(0)*
Payroll	21/02/11	Corporate Services	Substantial	Substantial	2(2)			2(2)*
Debtors	07/03/11	Corporate Services	Substantial	Substantial	5(0)		4(0)	1(0)
Section 106 Agreements	23/05/11	Environment	Limited	Adequate	5(5)	1(1)	4(4)	
Internet and Email	20/07/11	Corporate Services	Adequate	Substantial	4(0)	1(0)	3(0)	
IT Strategy and Service Delivery	20/07/11	Corporate Services	Adequate	Adequate	4(0)	3(0)	1(0)	
School Admissions	19/08/11	Families & Communities	Adequate	Substantial	3(1)		2(1)	1(0)
Joint Commissioning Standards	09/09/11	Health and Adult Social Care	Limited	Adequate	26(12)	1(0)	24(11)	1(1)
Repairs and Maintenance	07/10/11	Corporate Services	Adequate	Adequate	3(1)		2(0)	1(1)
Grants to Voluntary Organisations	18/10/11	Economic Development	Adequate	Adequate	11(4)	1(0)	6(2)	4(2)
Street Lighting PFI	03/11/11	Environment	Adequate	Adequate	21(0)	2(0)	9(0)	10(0)

Audit title	Report date	Accountable Director	Audit Assurance		Management Actions (of which are 'high' priority)			
			Original	Current	Reported	Pending	Cleared	Overdue
Libraries	09/11/11	Economic Development	Adequate	Substantial	13(9)	2(0)	11(9)	
Strategic Services Partnership	08/12/12	Corporate Services	Adequate	Adequate	9(2)	1(1)	5(1)	3(0)
Pupil Support Services	14/12/11	Families and Communities	Adequate	Substantial	10(1)	2(0)	8(1)	
St Monica Infant School	23/02/12	Families and Communities	Limited	Substantial	30(22)	1(0)	28(22)	1(0)
Day Care Thematic review	19/03/12	Health and Adult Social Care	Limited	Adequate	28(12)	13(2)	13(10)	2(0)
Licensing	19/03/12	Corporate Services	Substantial	Substantial	6(1)	3(0)	3(1)	
Housing Rent Collection and Debt Management	21/03/12	Environment	Substantial	Substantial	6(2)	4(0)	2(2)	
Bitterne Park Junior School	23/03/12	Families and Communities	Limited	Limited	28(19)	28(19)		

\* As part of the 'Phase 2 – Restructure' responsibilities for HR and Payroll have recently transferred to the Senior Manager - Legal, HR & Democratic Services who is currently undertaking a fundamental review of the way the service is delivered. The review will take onboard management actions from the audits highlighted above - planned to be completed during April 2012.

\*\* Implementation of management actions are contingent on the delivery of the Procurement to Pay initiative (scheduled 30 April 2012)

### 3 Executive summaries of new reports published where critical weaknesses or unacceptable levels of risk were identified:

#### Audit title: St Monica Infant School (23 Feb 2012)

**Original published audit opinion:** Limited Assurance

**Current audit opinion:** Substantial Assurance

#### Executive summary:

This review was undertaken at the request of the new Headteacher who required an independent view of existing processes within the school.

The audit review highlighted a number of areas in which an insufficient control environment has led to risk exposures in a range of key areas including financial, contracts, efficiency, governance and security

#### Financial

- Local procedures and policies did not fully reflect recent changes to financial responsibilities of staff.
- Inconsistencies within income reporting practices were identified and there was evidence that receipts were not produced as proof that money had transferred from parents to the schools. Reconciliations were not undertaken on a frequent basis and therefore assurance could not be fully provided that controls were in place to ensure all monies due to the school were received.
- No independent reconciliation of income was undertaken and the Agresso unmatched banking report COS07 was not used. Dinner money forms received from City Catering were not signed off as a true record.
- The Raising Attainment Plan (RAP) clearly set out the school targets for the year. The budget was reactive to meet the schools needs and was reflective of the school recommendations made by Ofsted. Where an additional cost had been identified a resource allocation had been given. The RAP however, only covered a one year period compared to a three year budget allocation. Without future planning it was difficult to assess if the three year budget set was appropriate

#### Contract Procedures

- Conflicts were evident between the school's local Contract Procedure Rules as agreed by the Governors and the Council's Contract Procedure Rules.

- The school have opted out of the Councils Repairs and Maintenance SLA and now contract a company to manage the school maintenance. The company use subcontractors to undertake the work, however, the school pay the sub-contractors directly which is in breach of the Council's Contract Procedure Rules.

### **Efficiency**

- Records / spreadsheets completed and retained locally at the school in respect of invoices, imprest accounts and purchase cards, have generated a duplication in process. The council systems available prevent the need to introduce local processes and should therefore be reviewed.

### **Governance**

- Although Committee meetings were quorate it was not always clear from the minutes that action was taken to address the needs of the school as identified within the RAP and the Ofsted inspection. The roles and responsibilities of the committees and its members have been reviewed but there remain inconsistencies between the objectives within the terms of references and the issues discussed at the meetings.

### **Security**

- The Council provide IT support for Agresso, Tucasi and SIMS, they do not however support any other software purchased and used by the school. A contract was in place with Techs4Education to provide support for "other" software. The terms of the contract state that the data available to them is to be encrypted and not accessible by any unauthorised personnel or used for any other business. Evidence was not available however to ensure that all software within the school is safeguarded against viruses or cyber crime especially as the school has opted out of some of the Council IT SLA's.
- The school use a company to recycle old IT equipment that is surplus to requirements. Although the company invoice the school there is no destruction certificate received from them to confirm that all data stored on the equipment had been removed and that they accept liability.
- No register of IT licences was maintained by the school.

**Management actions and update:**

Policies and procedures reviewed to reflect Council Financial Procedure Rules;

Declaration of Interests completed for all budget holders;

RAP target and budget aligned over a 3 year period;

Tucasi implemented to address issues with income collection and reconciliation;

Contract procedure rules reviewed and aligned to the Council;

Ongoing agreement with the schools maintenance contractors reviewed in liaison with the Senior Manager Procurement;

Committee (Chair's and Vice) ensure compliance with agreed terms of reference;

Licensing inventory completed; and

Signed to SCC anti virus / cyber crime protection

**High priority actions overdue:**

No high priority actions are overdue

**Audit title: Day Services Thematic Review (19 Mar 2012)**

**Original published audit opinion:** Limited Assurance

**Current audit opinion:** Limited Assurance

**Executive summary:**

Four day care centres were included within the thematic review: St Denys; Freemantle; Prospect House; and City Limits.

The audit review highlighted a number of areas of commonality in which an insufficient control environment has led to risk exposures in a range of key areas including; financial, procurement / contract management, policy /procedures, assurance and security.

**Financial / Safeguarding assets**

- Adequate controls were in place with regard to the operation of the imprest account, however, in all but one of the centres there was no independent reconciliation undertaken (on a regular basis) by a person other than the account administrator.
- Asset registers in the centres visited were incomplete. No evidence was available to substantiate regular checks were undertaken to confirm the accuracy of the asset register nor was there a record of disposal as required within the Council's financial regulations.

**Procurement / Contract Procedures**

- None of the centres visited maintained a contracts register as required by the Council's contract procedure rules.
- The Council's IT policy and data protection policies for purchasing IT equipment outside of the contract with Capita were not adhered to.

**Procedures Manual**

- A generic operations manual was in place at the centres, however it was not comprehensive and did not include or direct users to key policies such as the medication process, IT policy or the complaints policy.

**Assurance**

- Periodic inspections of Councils' adult social care functions by the Quality Care Commission have ceased. Councils are now expected to produce annual reports on the quality of adult social care in their areas for local scrutiny. No formal internal programme of inspection by the Council is currently in place to ensure that centres are providing adequate care, value for money and that findings are addressed.

## **Security**

- All of the centres visited had a key log, however the logs were not complete and did not fully record the date the keys were issued or returned.
- CRB checks for all of the centres are coordinated by the volunteer coordinator based at City Limits. For staff employed by the Council, renewal is prompted by HR, however there is no process in place to ensure volunteers are asked to renew their CRB checks every three years in line with Council policy.
- The centres are responsible for ensuring that any non Council staff employed to run activity sessions are in possession of a valid CRB disclosure. No record was maintained in the centres that CRB checks had been obtained and were valid. In some instances, CRB checks were not requested if the instructor was accompanied during an activity session by a member of staff.
- Many of the IT devices bought outside of the IT contract with Capita were not password protected or encrypted, therefore assurance could not be given that personal data stored on PC's, laptops, memory cards etc was secure

## **Management actions and update:**

Operational policies and procedures updates;  
A process for updating volunteers CRB's implemented;  
Council IT policy adopted and communicated to all units;  
All IT devices now encrypted and unique log-on used;  
Safe keys securely retained; and  
Regular independent reconciliation and sign off of imprest account

## **High priority actions overdue:**

No high priority actions are overdue.



**Audit title: Bitterne Park Junior School (23 March 2012)**

**Original published audit opinion:** Limited Assurance

**Current audit opinion:** Limited Assurance

**Executive summary:**

This review was undertaken at the request of the new Heateacher who required an independent view of existing processes within the school. Prior to the new Headteachers tenure, the governing body at Bitterne Park Junior School were removed under special measures (approval from the Secretary of State) and an 'interim executive board' appointed.

The audit review highlighted a significant number of areas in which an insufficient control environment has led to risk exposures in a range of key areas including financial, safeguarding of assets, contract procedures, governance and security.

**Financial**

- Inconsistencies were found between the delegations allocated to the Headteacher within the schools 'Local Financial Procedures' to those detailed in the Committee's terms of references
- The budget was not reviewed on a regular basis and monitoring reports were not periodically produced to ensure that the forecast provided was on target and any significant variances discussed. Although a three year budget had been provided by CSL Finance, no 'Raising Attainment Plan' has been completed by the school to report its developments and needs. Without future planning it is difficult to assess if the current three year budget plan is appropriate and reflective.
- There was no segregation of duties or independent check on income received, recorded and banked. No management of income due and owed to the school was evident and no overall reconciliation of income was performed.
- Variances were identified between the recording of dinner money income received at the school and that recorded within the systems.
- No budget review was undertaken to ensure adequacy of funds before purchases were made. Although it is clear that purchases have been made for the purpose of the school, no control was in place to attach the invoice and 'Goods Received Note' (GRN) to the original order to maintain a clear audit trail and to substantiate legitimacy of spend.
- The previous Headteacher remained a named signatory to the imprest account and needs to be removed with immediate effect. Unofficial floats issued to staff for school trips were not signed out. There was no regular reconciliation of unofficial funds undertaken. On review of the paying in book there were cheques relating to the period October 2011 to current which required banking, totalling £326.50.

### **Safeguarding of assets**

- The IT inventory maintained did not include a value or a date of purchase. The inventory was not signed or dated to show that it had been checked. Included within the inventory were items marked as missing but no explanation had been obtained as to whether they had been found or disposed of.
- Any property that is taken off site did not have to be signed out of the school, however, it was recorded if a laptop has been assigned to a member of staff or to a pupil to assist with their learning needs. No record was held to show if an asset was being used for home working. No local procedure was evident or guidance available to make staff aware of the Council's procedure relating to home working policies, adequate insurance arrangements and the use of laptops for non business related purposes.

### **Contract Procedures**

- Inconsistencies were identified between the contract procedure rules reported in the 'Local Financial Procedures' retained by the school and the Council's 'Contract Procedure Rules'. No contract register was available and on review of the contracts held at the school all (with the exception of one) were out of date.
- The school had employed a management company, GHD, to manage the repairs and maintenance for the school. A quarterly management fee is paid to GHD but no evidence could be found within any Governors Committee minutes approving the contractual arrangements.
- A project for works to the school's playground incurred spend in excess of £100k with no signed contract in place. The only documentation available at the school was a copy of a "letter of acceptance" with GHD to undertake the works. The school's copy of the letter was signed by GHD but not by the school. The contract(s) to undertake work on the playground project were between the supplier(s) and GHD.
- GHD provided a list of contractor(s) who have won tenders to work on the school playground project but no evidence could be found to demonstrate if the tendered work was awarded in an open competitive dialogue, declaration of interests made and that the governors were aware / in agreement with costs.
- The work has been disaggregated and although contracts were purported to exist between the supplier and GHD (not the school), the school were paying the supplier(s) directly. This is in breach of the Council's Contract Procedure Rules.

### **Governance**

- Whilst a Governors induction pack was available from the school a number of the documents included were out of date or no longer relevant.

**Security**

- Staff had individual password access to systems however, teaching assistants share user IDs and passwords to gain access. If inappropriate use of IT was identified it would be difficult to ascertain individual responsibility.
- The school had bought into the gold SLA for free school meals and all information is managed by the Council's data team. The school do not get involved with eligibility checks. The free school meal list was put together by the Office Manager recording the child's name, DOB, National Insurance number, and surname of the claimant. This was then passed to SCC for eligibility checks. The list was held in the office and visible by all visitors and users.

**Management actions and update:**

An appropriate action plan has been developed to mitigate identified control weaknesses.

**High priority actions overdue:**

No high priority actions are overdue.

#### **4 Internal Audit Performance**

Under the Accounts and Audit (England) Regulations 2011 the Council is required, at least once a year, to conduct a review of the effectiveness of its system of internal audit.

Guidance cites the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 (the Code) as proper practice in relation to internal audit in local authorities. A full self assessment against the Code has been completed and assurance gathered to confirm full compliance

Analysis of audit activity to date confirms that 98% of the 2011/12 revised audit plan is complete or work in progress.

#### **5 Planning and Resourcing**

February witnessed the launch of a new Shared Internal Audit Service with Hampshire Council. Key drivers for the Shared Service Partnership are the organisational benefits that can be realised in terms of delivering an innovative and collaborative modern Internal Audit Service, including strengthened business resilience, improved provision of audit specialism's, developing best practice and enabling staff development and progression opportunities.

A draft Internal Audit Plan for 2012-13 has been compiled for approval by the Management Board of Directors and Audit Committee during April. The Audit Plan will remain fluid to ensure internal audit availability to react to the changing needs of the Council

The structure for the Shared Internal Audit Service will retain a matrix style approach, by using a resource pool of multi disciplinary auditors capable of forming into teams as audit projects determine. This approach will be supported through continuity at Audit Manager level across departments.

**6 Rolling work programme**

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
<b><u>2010/11 Audit Plan</u></b>					
VAT Accounting	✓	✓	✓	✓	20/04/11
Section 106 agreements	✓	✓	✓	✓	23/05/11
Intermediate Care	✓	✓	✓	✓	23/05/11
Provider Services	✓	✓	✓	✓	23/05/11
Customer services	✓	✓	✓	✓	20/07/11
IS security management	✓	✓	✓	✓	20/07/11
IS strategy and service delivery	✓	✓	✓	✓	20/07/11
Internet/e-mail	✓	✓	✓	✓	20/07/11
Highways futures	✓	✓	✓	✓	28/07/11

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
Across School Thematic	✓	✓	✓	✓	29/07/11
School admissions	✓	✓	✓	✓	19/08/11
Project management	✓	✓	✓	✓	26/08/11
Joint Commissioning Standards	✓	✓	✓	✓	09/09/11
Cash collection and banking	✓	✓	✓	✓	17/10/11
Sholing Technology College	✓	✓	✓	✓	28/10/11
Strategic service partnership	✓	✓	✓	✓	08/12/11
<b>2011/12 Audit Plan</b>					
Annual Governance Statement	✓	✓	✓	✓	26/05/11
Compliance with Health and Safety Legislation	✓	✓	✓	✓	01/07/11
Hampshire Camera Partnership	-	✓	✓	✓	29 /07/11

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
Solent Sea Rescue	-	✓	✓	✓	29/07/11
Asset management	✓	✓	✓	✓	27/08/11
Repairs and Maintenance	✓	✓	✓	✓	07/10/11
General School Review – Sinclair Primary School	✓	✓	✓	✓	17/10/11
Itchen Bridge (Industrial Action)	✓	✓	✓	✓	17/10/11
Grants to Voluntary Organisations	✓	✓	✓	✓	18/10/11
Street Lighting PFI	✓	✓	✓	✓	03/11/11
Libraries	✓	✓	✓	✓	11/11/11
Parking Services and City Patrol	✓	✓	✓	✓	07/12/11
Council Tax and NNDR	✓	✓	✓	✓	08/12/11

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
Sustainability (Carbon Reduction)	-	✓	✓	<i>Reliance placed on external assurance</i>	<i>Reliance placed on external assurance</i>
Environmental Health	-	✓	✓	<i>Reliance placed on external assurance</i>	<i>Reliance placed on external assurance</i>
Pupil Support Services (PRU)	✓	✓	✓	✓	14/12/11
Treasury and Cash Flow Management	✓	✓	✓	✓	20/01/12
Play scheme grant	-	✓	✓	✓	03/02/12
General School Review – St Monica Infant School	✓	✓	✓	✓	23/02/12
Creditors	✓	✓	✓	✓	06/03/12
Licensing	✓	✓	✓	✓	19/03/12



Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
Day Services Thematic Review	✓	✓	✓	✓	19/03/12
Housing Rent Collection and Debt Collection	✓	✓	✓	✓	19/03/12
General School Review – Bitterne Park Junior School	✓	✓	✓	✓	23/03/12
Precautions against fraud – Bribery Act	-	-	-	-	-
European Funded Projects	-	✓	✓	✓	Annual and bi-monthly reviews
Direct Payments	✓	✓	✓	✓	27/03/12
National Fraud Initiative	-	-	-	-	-
Debtors	✓	✓	✓	✓	
FOSTARA (Tenants Federation)	n/a	✓	✓	✓	
Teachers Pension	✓	✓	✓	✓	

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
Locality Teams	✓	✓	✓	✓	
Housing and Council tax Benefits	✓	✓	✓	✓	
Payroll	✓	✓	✓	✓	
Repairs and Maintenance - Housing	✓	✓	✓	✓	
General School Review – Weston Park Junior School	✓	✓	✓	✓	
Provider Services	✓	✓	✓	✓	
Across School Thematic review	✓	✓	✓		
General School Review – Redbridge Community School	✓	✓	✓		
General School Review – Harefield Primary School	✓	✓	✓		
Safeguarding - Adoption and Fostering	✓	✓	✓		
Main Accounting System	✓	✓			

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
Financial Management	✓	✓			
Procurement	✓	✓			
Computer Installations and Operations	✓	✓			
IS Strategy, planning and Standards	✓	✓			
IT Solutions Development and Support	✓	✓			
Joint Commissioning	✓	✓			
Mobile Phone Policy	✓	✓			
Sports and Recreation Partnership	✓	✓			
Human Resources	✓	✓			
Highways Futures	✓				
<b>Consultancy</b>					

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
Heating Charges	-	✓	✓	-	-
Sea City Museum	✓	✓	✓	✓	19/03/12
Southampton New Arts Centre	✓	✓	✓	✓	19/03/12
Partnership and Shared Services	✓	✓	✓	✓	
Plus You Limited Succession Strategy	✓	✓	✓	✓	
Information Governance	✓	✓	✓	-	
Town Depot Relocation	✓	✓	✓		
Putting People First – reviewed during Direct Payments audit	✓	✓	✓	-	