

Annual Internal Audit Report & Opinion

2015 - 16

Southampton City Council



**Southern Internal
Audit Partnership**

Assurance through excellence
and innovation

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1. Role of Internal Audit

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body must:

‘Undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.’

The standards for ‘proper practices’ in relation to internal audit are laid down in the Public Sector Internal Audit Standards 2013 [the Standards].

The role of internal audit is best summarised through its definition within the Standards, as an:

‘Independent, objective assurance and consulting activity designed to add value and improve an organisations operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes’.

The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively.

The Council’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisations objectives.

2. Internal Audit Approach

To enable effective outcomes, internal audit provide a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.

A full range of internal audit services is provided in forming the annual opinion.

The approach to each review is determined by the Head of the Southern Internal Audit Partnership and will depend on the:

- level of assurance required;
- significance of the objectives under review to the organisations success;
- risks inherent in the achievement of objectives; and
- level of confidence required that controls are well designed and operating as intended.

All formal internal audit assignments will result in a published report. The primary purpose of the audit report is to provide an independent and objective opinion to the Council on the framework of internal control, risk management and governance in operation and to stimulate improvement.



3. Internal Audit Opinion

The Head of the Southern Internal Audit Partnership is responsible for the delivery of an annual audit opinion and report that can be used by the Council to inform its governance statement. The annual opinion concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

In giving this opinion, assurance can never be absolute and therefore, only reasonable assurance can be provided that there are no major weaknesses in the processes reviewed. In assessing the level of assurance to be given, I have based my opinion on:

- written reports on all internal audit work completed during the course of the year (assurance & consultancy);
- results of any follow up exercises undertaken in respect of previous years' internal audit work;
- the results of work of other review bodies where appropriate;
- the extent of resources available to deliver the internal audit work;
- the quality and performance of the internal audit service and the extent of compliance with the Standards; and
- the proportion of Southampton City Council's audit need that has been covered within the period.

Audit Opinion

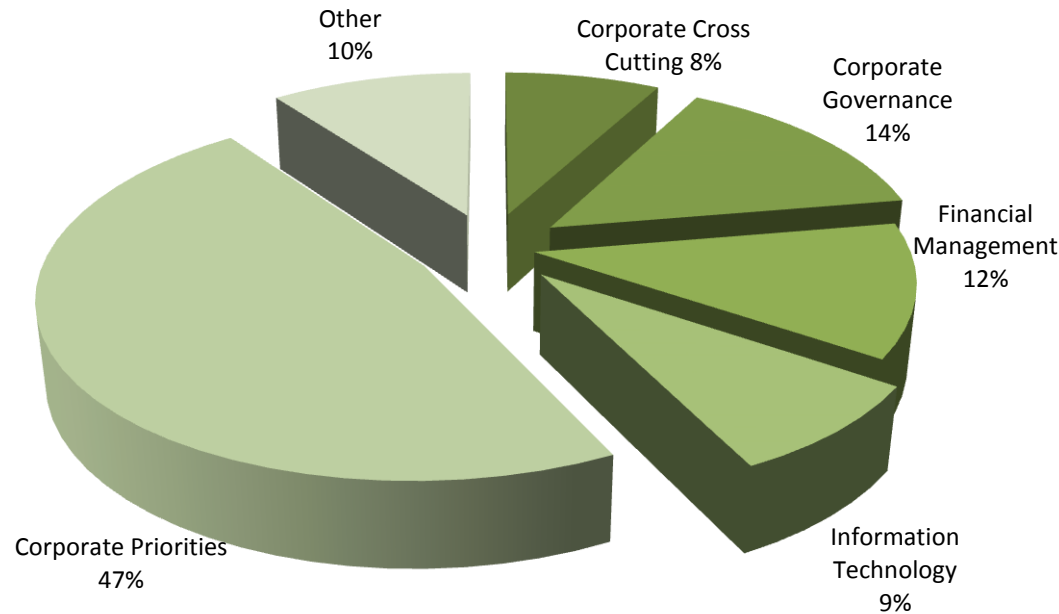
I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of Southampton City Council's internal control environment.

In my opinion, Southampton City Council's framework of governance, risk management and management control is 'Adequate' and audit testing has demonstrated controls to be working in practice.

Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement.

4. Internal Audit Coverage and Output

The annual internal audit plan was prepared to take account of the characteristics and relative risks of the Council’s activities and to support the preparation of the Annual Governance Statement.



Work has been planned and performed so as to obtain sufficient information and explanation considered necessary in order to provide evidence to give reasonable assurance that the internal control system is operating effectively.

The 2015-16 Internal audit plan, approved by the Governance Committee, 27 April 2015, was informed by internal audits own assessment of risk and materiality in addition to consultation with management to ensure it aligned to key risks facing the organisation.

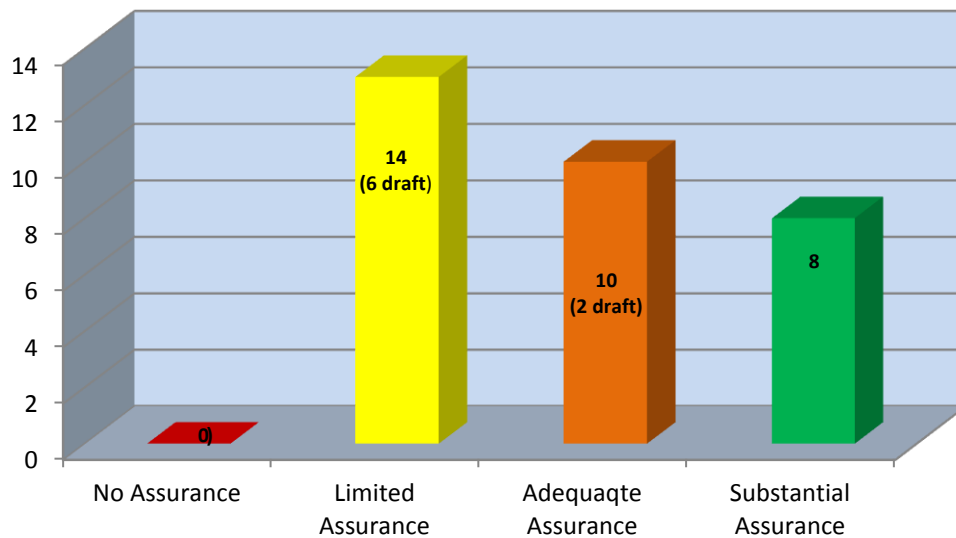
The plan has remained fluid throughout the year to maintain an effective focus.

The Southern Internal Audit Partnership provided assurance across 50 review areas over the course of the year ending 31 March 2016.

The revised 2015-16 internal audit plan has been delivered with the following exceptions:

- Work is substantially complete and an opinion has been formed for 11 reviews, however, final reports have not yet been agreed with management;
- Fieldwork remains in progress in respect of 5 reviews (Transformation, Protection & Court Teams (PACT), ICU Domiciliary Care Procurement, Family Matters – Governance, and one ongoing irregularity review)

I do not consider these exceptions to have an adverse impact on the delivery of my overall opinion for the period. The opinion assigned to each internal audit review on issue (including draft reports) is defined as follows:



Substantial - A sound framework of internal control is in place and operating effectively. No risks to the achievement of system objectives have been identified;

Adequate - Basically a sound framework of internal control with opportunities to improve controls and / or compliance with the control framework. No significant risks to the achievement of system objectives have been identified;

Limited - Significant weakness (es) identified in the framework of internal control and / or compliance with the control framework which could place the achievement of system objectives at risk; or

No - Fundamental weaknesses identified in the framework of internal control or the framework is ineffective or absent with significant risk to the achievement of system objectives

*13 reviews did not culminate in an audit opinion as they relate to work conducted in respect of consultancy, assurance mapping, grant certification, follow up or investigations

5. Significant Issues Arising

IT Disaster Recovery

A review of Disaster Recovery (DR) during the year found the DR Invocation Manual to be out of date and included systems that were no longer covered by the DR Plan.

It was further found that data included in the DR provision should be cloned every 6 hours from the Civic Centre Data Centre to equipment located offsite. Review found incidences where no data had been backed up/cloned for a month during the year and another occurrence where the cloning process was not operating correctly, increasing the risk of data loss in the event of system failure and subsequent recovery. There were also physical security issues with the offsite location.

Additionally there was found to have been no DR testing having taken place for almost three years, nor could we find evidence of consideration, completion and follow up of the improvements and recommendations identified during the exercises undertaken in 2010, 2011 and 2012.

PARIS

Internal Audit reviews undertaken during the course of the year including Adoption, Fostering, DOLS and Safeguarding (Adults), highlighted a commonality of issues in respect of the effective use and functionality of the PARIS system.

Such issues included gaps and inconsistencies in the recording and retention of data and supporting information, contributing to a poor management trail in the decision making process. Poor management information and data quality was also found to be a common issue heightening the risk of inaccurate analysis and reporting.

The Care Act 2014 came into effect in April 2015 and changed the way that safeguarding cases are managed, from having clear timeframes to a more person-focused approach. However, observations highlighted that Paris is not currently configured to enable recording in line with the new requirements.

The PARIS system is an integral tool in supporting key front line Council services. Observations throughout the year with regard its effective use and configuration leave the Council vulnerable and at risk of effective service delivery.

6. Anti Fraud and Corruption

The Council is committed to the highest possible standards of openness, probity and accountability and recognises that the electorate need to have confidence in those that are responsible for the delivery of services. A fraudulent or corrupt act can impact on public confidence in the Council and damage both its reputation and image. Policies and strategies are in place setting out the Council's approach and commitment to the prevention and detection of fraud or corruption.

The Council continues to conform to the requirements of the National Fraud Initiative (NFI). The NFI matches data from 1,300 public sector and 77 private sector organisations, including audit bodies in Scotland, Wales and Northern Ireland, government departments and other agencies. It flags up inconsistencies in the information analysed that indicate a fraud, an error or an overpayment may have taken place, signaling the need for review and potential investigation. The Cabinet Office assumed responsibility for the National Fraud Initiative following the demise of the Audit Commission in March 2015.

As part of the 2014/15 NFI exercise the Council submitted required data sets in October 2014 receiving feedback on potential matches in February / March 2015. Work has been carried out during 2015-16 to review identified 'recommended matches' for fraudulent activity.

The outcomes from review of the NFI matches are detailed in fig.1.

| Dataset | Matches (Recommended) | Reviewed (In progress) | Identified Savings |
|----------------------|--------------------------|---------------------------|-----------------------|
| Housing Benefit | 2885 (646) | 1099 (63) | £78,332.93 |
| Payroll | 167 (69) | 108 | - |
| Housing Tenants | 112 (27) | 86 (6) | - |
| Right to Buy | 23 (17) | 21 | - |
| Blue Badge | 165 (146) | 158 | - |
| Concessionary Travel | 560 (535) | 536 | - |
| Residential Parking | 11 (9) | 11 | - |
| Insurance | 30 (1) | - | - |
| Personal Budgets | 167 (164) | 167 (13) | - |
| Creditors | 4491 (342) | 4491 | £55,739.48 |
| VAT | 96 (61) | 96 | - |
| Residential Care | 37 (0) | 35 | - |
| Taxis | 6 (0) | 6 | - |
| Waiting Lists | 2361 (0) | 714 (41) | - |
| Total | 11111 (2017) | 7528 (123) | £134,072.41 |

fig.1

In addition, we have assessed and where appropriate, advised, investigated or supported the investigation of any allegations of fraud, corruption or improper practice. In accordance with the Local Government Transparency Code 2014 the details of internal audits involvement in counter fraud work is summarised below:

| Local Government Transparency Code 2014 | 01.04.15 – 31.03.16 |
|---|---------------------|
| Part 2 Requirements - Fraud | |
| Number of occasions powers under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers have been used | Nil |
| Total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud | 2 fte* |
| Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists | 3 fte* |
| Total amount of time spent by the authority on the investigation and prosecution of fraud | 76 days* |
| Total number of fraud cases investigated | 3** |

*relates to internal audit staff across the wider SIAP only (does not include other areas of the Council that may affect reported figures i.e. legal, HR, Trading Standards, departmental investigating officers, housing benefits etc.)

**the definition of fraud is as set out by the Audit Commission in *Protecting the Public Purse - 'the intentional false representation, including failure to declare information or abuse of position that is carried out to make gain, cause loss or expose another to the risk of loss.'*

Additionally the Housing Income team launched a new campaign in autumn 2015 on 'tenancy fraud'. By following leads from helpful tenants and investigating evidence of fraud, the team have brought back eight properties during the year. The measures have already saved the council an estimated £18k per property, for a total recovery of £144k per annum (according to Audit Commission's estimated cost of a family in temporary accommodation).

7. Quality Assurance and Improvement

The Quality Assurance and Improvement Programme (QAIP) is a requirement within 'the Standards'.

The Standards require the Head of the Southern Internal Audit Partnership to develop and maintain a QAIP to enable the internal audit service to be assessed against 'the Standards' and the Local Government Application Note (LGAN) for conformance.

The QAIP must include both internal and external assessments: internal assessments are both on-going and periodical and external assessment must be undertaken at least once every five years.

In addition to evaluating compliance with the Standards, the QAIP also assesses the efficiency and effectiveness of the internal audit activity, identifying areas for improvement.

The Standards stipulate that 'internal assessments' should be undertaken as a self-assessment or by other persons within the organisation with sufficient knowledge of internal audit processes.

In September 2015 the Institute of Internal Auditors were commissioned to complete an external assessment of the Southern Internal Audit Partnership.

In selecting the Institute of Internal Auditors (IIA) a conscious effort was taken to ensure the external assessment was undertaken by the most credible source. As the authors of the Standards and the leading Internal Audit authority nationally and internationally the IIA were excellently positioned to undertake the external assessment.

The assessment included review of a wide range of documentary evidence and interviews and surveys with representative stakeholders (including Chief Executives, Audit Chairs and S151 Officers) across existing partnering organisations in addition to members of the Southern Internal Audit Partnership staff.

In considering all sources of evidence the external assessment team concluded:

It is our view that the Southern Internal Audit Partnership (SIAP) service generally conforms to **all** of these principles. **This performance is within the top decile of EQA reviews we have performed.** This is a notable achievement given the breadth of these Standards and the operational environment faced by SIAP.

There are **no instances** across these standards where we determined a standard below “generally conforms”, and 4 instances where the standard is assessed as “not applicable” due to the nature of SIAP’s remit.

Assessment against the Standards was assessed as:

| Summary of Conformance | Standards | IPPF | PSIAS | LGAN | N/A | Total |
|-------------------------------------|------------------|--------------------|--------------------|--------------------|-----|------------|
| | | Generally Conforms | Generally Conforms | Generally Conforms | | |
| Definition of IA and Code of Ethics | Rules of conduct | 5 | 11 | - | | 16 |
| Purpose | 1000 – 1130 | 7 | 30 | 18 | 2 | 57 |
| People | 1200 – 1230 | 4 | 13 | 4 | | 21 |
| Performance | 1300 – 1322 | 7 | 11 | 9 | 2 | 29 |
| Planning | 2000 – 2130 | 12 | 55 | 11 | | 78 |
| Process | 2200 – 2600 | 21 | 103 | 18 | | 142 |
| Total | | 56 | 223 | 60 | | 343 |

8. Disclosure of Non-Conformance

In accordance with Public Sector Internal Audit Standard 1312 [External Assessments] which requires ‘an external quality assessment to be conducted at least once every five years by a qualified, independent assessor or assessment team from outside of the organisation’ I can confirm endorsement from the Institute of Internal Auditors that

‘the Southern Internal Audit Partnership conforms to the, Definition of Internal Auditing; the Code of Ethics; and the Standards’

There are no disclosures of Non-Conformance to report.




9. Quality control

Our aim is to provide a service that remains responsive to the needs of the Council and maintains consistently high standards. In complementing the QAIP this was achieved in 2015-16 through the following internal processes:

- On-going liaison with management to ascertain the risk management, control and governance arrangements, key to corporate success;
- On-going development of a constructive working relationship with the External Auditors to maintain a cooperative assurance approach;
- A tailored audit approach using a defined methodology and assignment control documentation;
- Registration under British Standard BS EN ISO 9001:2008, the international quality management standard complimented by a comprehensive set of audit and management procedures;
- Review and quality control of all internal audit work by professional qualified senior staff members; and
- Independent External Quality Assessment.

10. Internal Audit Performance

The following performance indicators are maintained to monitor effective service delivery:

| Annual performance indicators | | | |
|--|-----------------------|---|-----------------------|
| Aspect of service | 2014-15 Actual (%) | | 2015-16 Actual (%) |
| Revised plan delivered (including 2014/15 c/f) | 92 |  | 90* |
| Positive customer responses to quality appraisal questionnaire | 96 |  | 97 |
| Compliant with the Public Sector Internal Audit Standards | Yes |  | Yes |

*attributable to management requests for reviews to be conducted within the later part of quarter 4

11. Acknowledgement

I would like to take this opportunity to thank all those staff throughout Southampton City Council with whom we have made contact in the year. Our relationship has been positive and management were responsive to the comments we made both informally and through our formal reporting.

Neil Pitman
Head of Southern Internal Audit Partnership
May 2016