

Public Document Pack

Audit Committee

Thursday, 23rd June, 2011
at 6.00 pm
Committee Room 1 - Civic Centre

This meeting is open to the public

Members

Councillor Ball (Chair)
Councillor Bogle
Councillor Daunt
Councillor Fuller
Councillor Furnell
Councillor Mead
Councillor Dr Paffey

Contacts

Democratic Support Officer:-
Judy Cordell
Tel. 023 8083 2766
Email: judy.cordell@southampton.gov.uk

Acting Head of Legal and Democratic Service:-
Richard Ivory
Tel. 023 8083 2794
Email: richard.ivory@southampton.gov.uk

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 Six Priorities

- Providing good value, high quality services
- Getting the City working
- Investing in education and training
- Keeping people safe
- Keeping the City clean and green
- Looking after people

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 2010/11

2010	2011
23 June	23 April
22 September	
6 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 via Southampton Online at
www.southampton.gov.uk/council/meeting-papers

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 ELECTION OF VICE-CHAIR

To elect a Vice-Chair to the Committee for the 2011/12 Municipal Year.

3 DECLARATIONS OF INTEREST

In accordance with the Local Government Act 2000, and the Council's Code of Conduct adopted on 16th 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.

4 MINUTES OF THE PREVIOUS MEETING (INCLUDING MATTERS ARISING)

To approve and sign as a correct record the Minutes of the meeting held on 13 March 2011, and to deal with any matters arising, attached.

5 STATEMENT FROM THE CHAIR

6 CHAIR'S ANNUAL REPORT ON AUDIT COMMITTEE 2010/11

Report of the Chair of the Audit Committee 2010/11 requesting that the Committee considers and comments on the Chair's Annual Report attached at Appendix 1, attached.

7 AUDIT COMMISSION: AUDIT AND INSPECTION PLAN PROGRESS REPORT

Report of the Chief Internal Auditor requesting that the Committee notes the update on progress, attached.

8 AUDIT COMMISSION: ANNUAL AUDIT FEE 2011/12

Report of the Chief Internal Auditor detailing the audit, assessment and inspection work that the external auditors propose to undertake for the 2011/12 financial year, attached

9 ANNUAL GOVERNANCE STATEMENT 2010-11

Report of the Director of Corporate Services requesting that the Committee reviews and approves the draft Annual Governance Statement and recommends its acceptance to the Standards and Governance Committee prior to signing, attached.

10 RISK MANAGEMENT ACTION PLAN AND REVIEW OF STRATEGY

Report of the Director of Corporate Services requesting that the Committee notes and approves the Risk Management Action Plan for 2011/12 and notes the Risk Management Action Plan 2010/11: Status Report, attached.

11 CHIEF INTERNAL AUDITOR'S ANNUAL REPORT AND OPINION 2010/11

Report of the Chief Internal Auditor requesting that the Committee notes the Chief Internal Auditor's Annual Report and Opinion for 2010/11 attached

12 FUTURE OF LOCAL PUBLIC AUDIT - CONSULTATION

Report of the Head of Finance detailing an overview of the key aspects of the 'Future of local public audit – Consultation' paper, attached.

WEDNESDAY, 15 JUNE 2011

HEAD OF LEGAL AND DEMOCRATIC SERVICES

AUDIT COMMITTEE
MINUTES OF THE MEETING HELD ON 17 MARCH 2011

Present:

Ball (Chair), Bogle (Vice-Chair), Mead and Wells

Apologies

Councillors Daunt, Fuller, Sollitt and Letts

31. **APOLOGIES AND CHANGES IN MEMBERSHIP (IF ANY)**

Apologies were received from Councillors Daunt, Fuller, Sollitt and Letts. Councillor Mead was in attendance for Councillor Daunt for this meeting in accordance with Council Procedure Rules 4.3.

32. **STATEMENT FROM THE CHAIR**

The Chair thanked Rob Carr, Interim Executive Director of Resources, for his help and support to the Committee and wished him every success in his continuing career at the County.

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

RESOLVED that the minutes of the meeting held on 3rd February 2011 be approved and signed as a correct record. (Copy of the minutes circulated with the agenda and appended to the signed minutes).

34. **ANNUAL GOVERNANCE STATEMENT 2010-11**

The Committee approved the report of the Interim Executive Director of Resources detailing the assurance gathering process to support the development of a robust Annual Governance Statement and noting the Committee's role in respect of the same. (Copy of the report appended to the signed minutes).

35. **IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS**

The Committee noted the report of the Interim Executive Director of Resources detailing assurance that the Council remains "on track" to provide IFRS Compliant Financial Statements for 2010/11. (Copy of the report appended to the signed minutes).

36. **INTERNAL AUDIT: INTERNAL AUDIT PLAN 2011 - 2012**

The Committee approved the report of the Chief Internal Auditor detailing the Internal Audit Plan for 2011/12. (Copy of the report appended to the signed minutes).

37. **EXCLUSION OF THE PRESS AND PUBLIC - CONFIDENTIAL PAPERS INCLUDED IN THE FOLLOWING ITEM**

The Chair moved that in accordance with the Council's Constitution, specifically the Access to Information Procedure Rules contained within the Constitution, the press and

the public be excluded from the meeting in respect of any consideration of the confidential appendix to the following item.

Confidential appendix 2 contains information deemed to be exempt from general publication based on Categories 2 and 7 of paragraph 10.4 of the Council's Access to Information Procedure Rules. The information contained therein is exempt as it relates to ongoing investigations and is likely to reveal the identities of individuals. Having applied the public interest test it is not appropriate to disclose this information. The interests of any parties involved in these investigations could be jeopardised by the release of the information.

38. **INTERNAL AUDIT: STATUS OF WORK - FEBRUARY 2011**

The Committee noted the report of the Chief Internal Auditor requesting that the Committee notes the Internal Audit Status of Work report for the period ending February 2011. (Copy of the report appended to the signed minutes).

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

The Committee noted the report of the Chief Internal Auditor detailing the Audit Commission's progress report. (Copy of the report appended to signed minutes).

Agenda Item 6

DECISION-MAKER:	AUDIT COMMITTEE STANDARDS AND GOVERNANCE COMMITTEE
SUBJECT:	CHAIR'S ANNUAL REPORT ON AUDIT COMMITTEE 2010/11
DATE OF DECISION:	23 JUNE 2011 – AUDIT COMMITTEE 27 JUNE 2011 – STANDARDS AND GOVERNANCE COMMITTEE
REPORT OF:	CHIEF INTERNAL AUDITOR
STATEMENT OF CONFIDENTIALITY	
None	

BRIEF SUMMARY

The annual report for the year 2010/11 from the Chair of the Audit Committee is attached for consideration by the Committee.

RECOMMENDATIONS:

AUDIT COMMITTEE

- (i) That the Audit Committee considers and comments on the Chair's Annual Report attached at Appendix 1

STANDARDS AND GOVERNANCE COMMITTEE

- (ii) That the Standards and Governance Committee considers and comments on the Audit Committee Chair's Annual Report attached at Appendix 1

REASONS FOR REPORT RECOMMENDATIONS

1. The Audit Committee forms part of the overall Corporate Governance process. The key role of the Committee is to provide independent assurance to the Standards and Governance Committee on the adequacy of the Council's risk management framework and the internal control and reporting environment. Therefore, presentation of an Annual Report to the Standards and Governance Committee by the 2010/11 Chair is in line with good practice and is also consistent with recommendations made by the Chartered Institute of Public Finance and Accountancy (CIPFA) in its publication 'Toolkit for Local Authority Audit Committees'
2. None

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

DETAIL (Including consultation carried out)

3. A self assessment against CIPFA's 'Toolkit for Local Authority Audit Committees', which recommends that Audit Committees periodically review their own effectiveness in discharging their responsibilities, was formerly carried out. One of the actions agreed as a result of this self-assessment was that an Annual Report on the Committee's work should be presented to the Standards and Governance Committee. This is the second Annual Report.

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 state 'a relevant body must 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

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

KEY DECISION? Yes/No No

WARDS/COMMUNITIES AFFECTED:	None
------------------------------------	------

SUPPORTING DOCUMENTATION

Non-confidential appendices are in the Members' Rooms and can be accessed on-line

Appendices

1.	Audit Committee – Annual Report 2010/11
----	---

Documents In Members' Rooms

1.	None
----	------

Integrated Impact Assessment

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

Other Background Documents

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

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

1.	None
----	------



SOUTHAMPTON CITY COUNCIL

AUDIT COMMITTEE – ANNUAL REPORT

2010/11



CLLR MICHAEL BALL
(CHAIR)

INTRODUCTION

This is my third year as Chairman. Cllr Bogle, the former Chair, continued as the Vice- Chair. I have served on the Audit Committee for four years, since its inception at the end of 2006. The committee continues to have a good balance of councillors with a diverse range of financial and political experience. We have continued to facilitate training and encourage other members to attend courses on finance and risk.

Meetings are held quarterly during the municipal year, with the majority of the reports set out as part of the annual calendar. The December meeting was delayed until February pending the publication of the Annual Treasury Management Strategy. In light of this the dates for the quarterly meetings have been reviewed for 2012.

The role of Chair is to understand the key issues detailed in the reports and set them in context. The core elements focus on monitoring Audit Committee recommendations, approving revised statements and reviewing the status of audit work. The challenge is to maintain the focus upon matters of finance and risk and steer away from policy.

The Audit Committee receives three key annual reports:

- Audit Commission: Annual Audit and Inspection Letter
- Chief Internal Auditor's Annual Report and Opinion
- Annual Governance Statement

During the course of the year the committee has paid particular focus to the key findings made by the internal and external auditors. In so doing it has been able to direct and focus attention on failings in internal controls and make recommendations for improvements and track their implementation, helping to ensure the issues receive the profile they deserve.

Areas flagged up during the year of particular note have been:

- Triennial Review of Self Insurance Fund – revealing a surplus position
- Financial Management in Schools – poor accounting in schools
- International Financial Reporting Standards (IFRS) – on track to meet 2010/11

The continued move to greater partnership working adds to the complexity of local government. The Audit Commission flagged up the need to maintain efforts to monitor partnership working. This has been a feature of various reports and forms part of the Annual Governance Statement with reference to the Partnership Code and Toolkit for completion in May 2012.

Under the new scrutiny structure, introduced in 2009, all performance monitoring reports were assessed by the Overview and Scrutiny Management Committee (OSMC). It is apparent that further work is required to improve members' understanding of financial reporting to ensure robust reviews of reports. The changes to reduce the scrutiny structure will place further burdens on OSMC to meet its obligations, requiring the need to determine its key priorities.

I consider that the Audit Committee has fulfilled its obligations to provide independent assurance on the governance of Southampton City Council.

Cllr Michael Ball, Chair of Audit Committee 2010/11

Purpose of the Report

1. The purpose of this report is to inform the Standards and Governance Committee of the work carried out by the Audit Committee during the 2010/11 Municipal year.

Background

2. The Audit Committee, which was created in 2006, provides independent assurance to the Standards and Governance Committee on matters of corporate governance. The Committee's role reflects guidance from CIPFA regarding best practice in the provision of effective corporate governance arrangements.
3. CIPFA good practice also recommends that an annual report is produced setting out the work that the Audit Committee has undertaken during the preceding year. This is the fourth annual report produced by the Committee.

Membership

4. The Committee comprises seven Members, reflecting the political proportionality of the Council. The Committee is independent of both the Executive and Scrutiny. The Members for 2010/11 were:
 - Cllr Michael Ball (Chair)
 - Cllr Sarah Bogle (Vice-Chair)
 - Cllr Edward Daunt
 - Cllr David Fuller
 - Cllr Steve Sollitt
 - Cllr Simon Letts
 - Cllr Andrew Wells
5. The Committee was supported by the Executive Director of Resources and the Chief Internal Auditor. Appropriate representatives from the Audit Commission also attended all four meetings held during the year.

Terms of Reference

6. The Committee's role and Terms of Reference, approved by Council, are:
 1. To provide 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 annual governance statement
 2. 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 internal and external auditors and other review and inspection bodies.

3. To have oversight of, and provide 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 cooperation 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).

7. In order to fulfil this remit, there are four significant sources of assurance available for the Committee to draw on:
 - External Audit, provided by the Audit Commission;
 - Internal Audit , provided by the Council's in-house team and led by the Chief Internal Auditor;
 - Annual Governance Statements provided by the Council's Executive Directors; and
 - The Council's strategic and operational Risk Registers

Work Programme 2010/11

8. The Committee met on four occasions during the 2010/11 municipal year:

23rd June 2010
22nd September 2010
3rd February 2011
17th March 2011

9. A full list of the reports considered during the year is attached at Appendix A. Some of the main issues considered were:

Risk Management

- One of the Committee's key functions is to provide independent assurance to the Standards and Governance Committee on the adequacy of the risk management framework. At its first meeting of the Municipal year, the Committee approved the Risk Management Action Plan for 2010/11 and reviewed the status of actions from the 2009/10 Plan. The Committee also noted that the Council's Risk Management Strategy had been reviewed and that only minor updating had been necessary.

- The Council's Strategic Risk Register and associated Risk Management Action Plans (RMAPs) are intended to capture the key strategic risks that may prevent or have a significant adverse effect on the achievement of the Council's key objectives. The Committee reviewed the 2010/11 Strategic Risk Register and was satisfied that the document adequately reflected the key strategic risks facing the Council.

Internal Control

- In accordance with proper internal audit practices, the Chief Internal Auditor is required to provide a written report reviewing the effectiveness of the system of internal control and to assist in producing the Annual Governance Statement. The Committee received the report for 2009/10 at its first meeting of the Municipal year. The Auditor's opinion was that the Council's framework of governance, risk management and management control was basically sound; however, some weaknesses were identified and evidence was found that the framework was not always consistently applied. Significant issues identified were:
 - > Historical weaknesses in the corporate co-ordination function of the Council in providing oversight, scrutiny and challenge across the Council's capital programme and major projects and therefore no means of ensuring that Directorate boards were operating effectively.
 - > Invoicing for Health and Social Care clients for services provided and the interface between the PARIS Health and Social Care system and the Agresso main accounting system.
 - > Significant internal control and governance issues in respect of financial management in educational establishments, identified through internal audit reviews

The Chief Internal Auditor considered that the system of internal control would be strengthened by the work already being carried out within the Council to improve and embed effective project management and to address concerns over Health and Social Care billing and financial management within educational establishments

- As part of its remit to provide independent assurance on the adequacy of internal control procedures, the Committee reviewed the draft Annual Governance Statement (AGS) and recommended its acceptance to the Standards and Governance Committee. The AGS is a key corporate document that should provide an accurate representation of the corporate governance arrangements in place during the year and highlight those areas where there are gaps or where improvements are required. The Committee was satisfied that the draft AGS was meaningful and that the system of internal control had operated effectively throughout the reporting period. Progress against the Action Plan, put in place to address outstanding issues, was reviewed by the Committee at a subsequent meeting. The Committee also approved the 'assurance gathering process' to support the development of the 2010/11 AGS.

Internal Audit

- At its first meeting of the year, the Committee conducted its annual review of the effectiveness of the Internal Audit function. The Committee found that:
 - > The internal audit system was compliant in every respect with the CIPFA Code of Practice;
 - > The 2009/10 Annual Audit Plan had been substantially delivered, with any amendments approved by the Committee;
 - > Based on the key lines of enquiry for 2009, the overall theme score for Internal Control in the Audit Commission's 'Use of Resources' assessment had been assessed as a 3 (good);
 - > A system of quality checks was in place to ensure all internal audit work was appropriately supervised and reviewed to monitor progress, assess quality and coach staff;
 - > Ethics training was received by all staff as part of the divisional Learning and Development Plan;
 - > The implementation of new audit management software during 2008 had enabled performance management information to be more readily provided;
 - > Results of formal client feedback mechanisms had demonstrated that management was largely satisfied with Internal Audit's ability to demonstrate compliance with standards and to deliver value.

- The Annual Operational Audit Plan provides the mechanism through which the Chief Internal Auditor can ensure the most appropriate use of internal audit resources to provide a clear statement of assurance on risk management, internal control and governance arrangements. The Committee commented on and approved the revised Annual Operational Internal Audit Plan for 2010/11, which had been updated to ensure that it remained aligned with significant business risks and was responsive to the priorities and concerns of the management team. At its final meeting of the Municipal year, the Committee approved the new Internal Audit Plan for 2011/12.

- At each meeting, the Committee also received a detailed update summarising the activities of internal audit for the period since the previous meeting and the actions taken by management to address any control issues identified.

External Audit

- The Audit Commission's Annual Audit Letter for 2009/10 was presented to the Committee in February, setting out the results of the statutory audit of the Council's 2009/10 financial statements and the assessment of the Council's arrangements to achieve value for money in the use of resources. The key messages in the Annual Audit Letter were:
 - > The Auditor issued an unqualified opinion on the financial statements for the year ending 31st March 2010. However as there were

outstanding elector queries to resolve, the Auditor was unable to conclude the audit and issue a certificate;

- > The Auditor issued an unqualified value for money conclusion stating that the Council had made proper arrangements to secure economy, efficiency, and effectiveness in its use of resources for the year ending 31 March 2010;
- > The Auditor acknowledged the Council's current and future challenges and was satisfied that the Council was taking the necessary steps to meet the challenges of its financial stability over the coming years and to ensure it can continue to deliver key services for its residents.

Going forward, the Auditor advised Members to:

- Monitor closely the delivery of the Council's savings programme;
 - Continue to support efforts to work with other public bodies to consider alternative ways to deliver services and reduce overall costs;
 - Monitor the achievement of the expected benefits from the major street lighting, highway and leisure contracts; and
 - Be satisfied that the capital programme is affordable
- At each meeting, the Committee received a progress report against the 2009/10 and 2010/11 Audit and Inspection Plans, including the Annual Governance report.

Finance

- The Committee recommended to the Standards and Governance Committee that the Statement of Accounts for 2009/10 be approved. The Committee also reviewed the new accounting policies and procedures adopted by the Council for 2009/10 and noted that the majority were in line with CIPFA's Statement of Recommended Practice (SORP).
- In order to comply with Part 1 of the Local Government Act 2003, and the established treasury management procedures that have been adopted by the Authority, each year the Council must approve a Treasury Management Strategy and set certain borrowing limits. The Committee endorsed the Treasury Management Strategy for 2011/12 prior to its submission to Council for final approval.
- The requirements of International Financial Reporting Standards (IFRS) were introduced to the Audit Committee in March 2010. In March 2011, the Committee was updated on Southampton's progress in implementing IFRS and preparing IFRS compliant accounts for 2010/11. Members were assured that the Council was on track with its transition to IFRS reporting and that the deadlines set to achieve publication of compliant accounts would be achieved.

Insurance

- In common with most large organisations, the Council self insures a proportion of its risk via an internal self insurance fund which, in line with good practice, is subject to independent external review by a specialist actuarial consultancy every three years. The purpose of the review is to consider, at a particular point in time, whether adequate funds are available to meet current and future liabilities. The Committee noted that:
 - > Based on best available data, the Consultant estimated that the Council's self insurance fund held a potential estimated surplus of £2.48M.
 - > After discussions held with the Cabinet Member for Resources and Workforce Planning the recommendation to Council would be to reduce the annual contribution to the insurance fund by £500,000 for the next three financial years and then to reassess the situation after the next triennial review.

Conclusion

10. In partnership with the Audit Commission, and with the support of Officers, the Audit Committee continues to provide robust and effective independent assurance to the Standards and Governance Committee on a wide range of risk and internal control issues, thereby making a valuable contribution to the Council's corporate governance arrangements.

Appendix A

A full list of the reports received at meetings of the Audit Committee for the Municipal year 2010/11

23rd June 2010

- Chair's Annual Report on Audit Committee 2009/10
- Statement of Accounts 2009/10
- Audit Commission: Audit and Inspection Plan Progress Report
- Review of the Effectiveness of the System of Internal Audit
- Chief Internal Auditor's Annual Report and Opinion 2009/10
- Annual Governance Statement 2009/10
- Risk Management Action Plan and Review of Strategy
- Audit Commission: Annual Audit Fee 2010/11
- Internal Audit: Status of Work – May 2010

22nd September 2010

- Audit Commission: Audit and Inspection Plan Progress Report
- Strategic Risk Register
- Triennial Review of Self Insurance Fund
- Audit Commission: Annual Governance Report 2009/10
- Internal Audit: Status of Work – August 2010

3rd February 2011

- Audit Commission: Annual Audit Letter 2009/10
- Audit Commission: Audit and Inspection Plan Progress Report
- Internal Audit: Status of Work – January 2011
- Internal Audit: Review of the Annual Operational Plan 2010/11
- Risk Management Action Plan 2010/11: Status Report
- Annual Governance Statement 2009/10: Action Plan Status Report
- Annual Treasury Management Strategy and Prudential Limits 2010/11- 2013/14

17th March 2011

- Annual Governance Statement 2010/11
- Implementation of International Financial Reporting Standards
- Internal Audit: Internal Audit Plan 2011/12
- Internal Audit: Status of Work – February 2011
- Audit Commission: Audit and Inspection Plan Progress Report

This page is intentionally left blank

Agenda Item 7

DECISION-MAKER:	AUDIT COMMITTEE
SUBJECT:	AUDIT COMMISSION: AUDIT AND INSPECTION PLAN PROGRESS REPORT
DATE OF DECISION:	23 JUNE 2011
REPORT OF:	CHIEF INTERNAL AUDITOR
STATEMENT OF CONFIDENTIALITY	
None	

BRIEF SUMMARY

An update on progress against the Plan(s), together with reports issued, is attached as appendices to this report.

The Audit Plan sets out the work proposed to be undertaken for the audit of financial statements and value for money conclusion 2010/11. The plan has been based on the Audit Commission's risk-based approach to audit planning and reflects:

- audit work specified by the Audit Commission for 2010/11;
- current national risks relevant to your local circumstances; and
- the Council's local risks.

It also explains:

- the changes to our approach because of applying the revised International Standards on Auditing (ISAs); and
- the extra work we will be doing because of the transition to accounts based on International Financial Reporting Standards (IFRSs).

RECOMMENDATIONS:

- (i) That the Audit Committee notes the Audit Commissions 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:
 - Progress report – June 2011
 - Audit Plan – 2010 /11

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

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

RESOURCE IMPLICATIONS

Capital/Revenue

5. None

Property/Other

6. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

7. The duties and powers of auditors appointed by the Audit Commission are set out in the Local Government Act 1999.

Other Legal Implications:

8. None

POLICY FRAMEWORK IMPLICATIONS

9. None

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

KEY DECISION? Yes/No No

WARDS/COMMUNITIES AFFECTED:	None
------------------------------------	------

SUPPORTING DOCUMENTATION

Appendices

1.	Audit Commission: Progress report – June 2011
2.	Audit Commission: Audit Plan – 2010 /11

Documents In Members' Rooms

1.	None
----	------

Integrated Impact Assessment

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

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	
----	------	--

This page is intentionally left blank

Progress

Report

Southampton City Council

Audit 2010/11

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Contents

Progress with 2010/11 audit.....	2
Appendix 1 Highways Partnership Project 2010/11.....	4
Introduction and background	4
Conclusions	4

Progress with 2010/11 audit

Report	AC key contact	Authority contact	Expected report	Reported to Audit Committee	Comment
Audit plan 2010/11	Kate Handy	Audit Committee	June 2010	June 2010	The initial fee letter for 2010/11 was presented at the June 2010 meeting. A detailed opinion plan has been prepared and will be discussed at the 23 June 2011 meeting of the Audit Committee.
Financial statements					
Interim audit memorandum (If appropriate)	Mike Bowers	Andrew Lowe	June 2011	N/A	The pre statements audit has been completed. The issues arising have been discussed with officers. The opinion plan includes the audit opinion risks that we will address during the audit of the financial statements.
Annual Governance Report (ISA260)	Kate Handy	Standards and Governance Committee	September 2011		
Accounts opinion	Kate Handy	Standards and Governance Committee	September 2011		
Final Accounts memorandum (If appropriate)	Mike Bowers	Andrew Lowe	October 2011		
Value for money conclusion					
Value for money conclusion	Kate Handy	Standards and Governance Committee	September 2011		The key areas that we will review were discussed at the Audit Committee meeting on 17 March 2011.

Report	AC key contact	Authority contact	Expected report	Reported to Audit Committee	Comment
Highways maintenance	Tim Thomas	Lorraine Brown	March 2011		<p>The findings from this audit have been reported to officers.</p> <p>The key points are summarised in appendix 1 to this progress report.</p>
Certification of grant claims and returns					
Annual report	Mike Bowers	Andrew Lowe	March 2011	March 2011	The report was presented at the 17 March 2011 meeting of the Audit Committee.
Annual Audit Letter					
Annual Audit Letter	Kate Handy	Alistair Neill	November 2011		

Appendix 1 Highways Partnership Project 2010/11

Introduction and background

The Council has let the contract for the provision of highways services, which is now being delivered through a strategic partnership with a private sector provider.

I have completed my audit of this contract which amounts to £100 million over a ten year period to feed into my value for money conclusion. The large scale nature of the project means that I need to consider this contract before arriving at my value for money conclusion for 2010/11.

Conclusions

In completing this review I have focussed on the key risks for my value for money conclusion arising from the Highways Services Partnership (HSP) project and contract. The table below sets out these risks and my key conclusions. More detail has been provided to officers in a summary report.

Table 1: **Highways Services Partnership**

Area of potential risk	Key conclusions
The potential for the partnership to realise the benefits that were predicted to the Council	The Council has put in place measures to ensure it realises vfm from its HSP. It has also put in place arrangements to drive benefits realisation in line with the revised business case intentions. It will become clearer whether these benefits are realised as the contract progresses.
The robustness of the governance arrangements that have been set up.	The Council, together with its partner, has formed a Strategic Partnership Board. The functions and responsibilities of the Board have been established and these should provide a basis for strong governance in relation to the partnership.
Whether the governance arrangements are working in practice	At the time of the review the HSP governance arrangements had been established but were in the initial stages of operation. If they are firmly implemented they should provide a basis for strong governance in relation to the partnership. Governance arrangements in respect of performance management were not easy to quantify at this early stage of the contract, including how they are being implemented by the Operations Board.

Source: Review of the Highways Services partnership

I am satisfied that the Council has put in place measures to ensure it realises vfm from HSP in line with the revised business case intentions. I will consider the effectiveness of the performance management arrangements that are operated through the 'Operations Board' before completing my Annual Audit Letter for 2010/11.

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

© Audit Commission 2011.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.



Audit Commission

1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

Telephone: 0844 798 3131

Fax: 0844 798 2945

Textphone (minicom): 0844 798 2946

Audit plan

Southampton City Council

Audit 2010/11

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Contents

Introduction	2
Responsibilities	3
Fee for the audit	4
Specific actions the Council could take to reduce its audit fees	5
Auditors report on the financial statements	6
Materiality	6
Identifying opinion audit risks.....	6
Identification of specific risks	7
Testing strategy	8
Value for money conclusion	11
Key milestones and deadlines	12
The audit team	13
Independence and objectivity	13
Meetings	13
Quality of service	14
Planned outputs.....	14
Appendix 1 Basis for fee	15
Assumptions	15
Appendix 2 Independence and objectivity	16
Appendix 3 Working together	18
Meetings	18
Sustainability.....	19
Appendix 4 Glossary	20

Introduction

This plan sets out the audit work that I propose to undertake for the audit of financial statements and the value for money conclusion 2010/11.

1 I have based the plan on the Audit Commission's risk-based approach to audit planning. It reflects:

- audit work specified by the Audit Commission for 2010/11;
- current national risks relevant to your local circumstances; and
- your local risks.

2 It also explains:

- the changes to our approach because of applying the revised International Standards on Auditing (ISAs); and
- the extra work we will be doing because of the transition to accounts based on International Financial Reporting Standards (IFRSs).

Responsibilities

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to every audited body.

3 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end. I undertake my audit work to meet the auditor's responsibilities.

4 I comply with the statutory requirements governing our audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice.

5 I plan and carry out my audit work in accordance with the Audit Commission's approach, which meets the requirements of the International Standards for Auditing (UK and Ireland).

Fee for the audit

The fee for the audit is £350,400, as stated in my letter of 10 February 2010.

6 The Audit Commission scale fee for a unitary council with Southampton City Council's gross expenditure is £350,245. The fee proposed for 2010/11 is 0.04 per cent above the scale fee and is within the normal variation specified by the Commission.

7 The published fee scale for 2010/11 included a 6% increase to cover the costs of additional audit work arising from the introduction of International Reporting Standards. In July 2009, in recognition of the financial pressures that public bodies were facing in the current economic climate, the Commission confirmed that it would subsidise the 'one-off' element of the cost of transition to International Financial Reporting Standards (IFRS) for local authorities and police and fire and rescue authorities from 2010/11. You therefore received a refund from the Audit Commission of £21,426 in April 2010. This refund is not reflected in the fee quoted above.

8 The published fee scale for 2010/11 did not include any increase for the extra work auditors will be required to do to meet the clarified international standards on auditing which are explained later in this letter. The Audit Commission expects auditors to accommodate this extra work within the fee scales by making efficiency savings.

9 On 9 August 2010 the Commission wrote to all audited bodies about its proposed new arrangements for local value for money audit work. The impact of this on fees for 2010/11 has now been considered as part of the December 2010 consultation on its work programme and fee scales for 2011/12. In addition to the IFRS rebate above the Commission has decided to rebate a further 3.5% (£12,259) of fees in 2010/11 reflecting the change in the approach to VFM. .

10 In setting the fee, I have assumed that:

- the level of risk for the audit of accounts is consistent with that for 2009/10 (except for IFRS);
- good quality, accurate working papers are available at the start of the financial statements audit;
- the Council will supply good quality working papers to support the 2009/10 balances restated to comply with International Financial Reporting Standards (IFRS); and
- Internal Audit undertakes appropriate work on all material systems and this is available for our review by 28 February 2011.

11 Where these assumptions are not met, I will need to undertake extra work which is likely to result in an increased audit fee. Where this is the case, I will discuss this first with the Head of Finance and will issue supplements to the plan to record any revisions to the risk and the impact on the fee.

12 Appendix 1 sets out more information on the basis for the fee.

Specific actions the Council could take to reduce its audit fees

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

Auditors report on the financial statements

I will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).

14 I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view of the financial position of the Council as at 31 March 2011.

Materiality

15 I will apply the concept of materiality in both planning and performing the audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

16 Misstatements, including omissions are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken based on the financial statements. Judgements about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both.

17 Our initial overall materiality level for the audit of Southampton City Council has been set at £12.7m. Based on this initial level we would report any errors above £127,000. Some accounts entries below this value have been identified as material due to their sensitivity; including remuneration disclosures and HRA heating charges to tenants.

Identifying opinion audit risks

18 I need to understand the audited body fully, to identify any risk of material misstatement (whether because of fraud or error) in the financial statements. I do this by:

- identifying the business risks facing the Council, including assessing your own risk management arrangements;
- considering the financial performance of the Council;
- assessing internal control - including reviewing the control environment, the IT control environment and Internal Audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Council information systems.

Identification of specific risks

I have considered the specific risks that apply to the current opinion audit and have set these out below.

Table 1: **Specific risks**

Specific opinion risks identified

Risk area	Audit response
Transition to IFRS compliant accounts	<ul style="list-style-type: none"> ■ I will review the restated accounts and comparatives for 2009/10 ahead of the year end, and the revised accounting policies. ■ I will pay particular attention to the higher risk areas of Property, Plant and Equipment (especially leases, contracts with embedded leases and component accounting), segmental reporting and accruals for employee benefits.
There are a number of areas where we have previously taken technical advice relating to the Schools PFI, the Waste Management contract, the Street Lighting PFI and BUPA care homes. The correct modelling of costs and recognition of assets remain relevant to the 2010/11 opinion audit	<ul style="list-style-type: none"> ■ we will refer to the advice previously received on these issues to ensure the accounting treatment is correct ■ we will test that the disclosure of future liabilities relating to the Highways PPP and the outsourced Leisure Contract are supported by underlying records and comply with the SORP and with IFRIC 12.
The Council will need to consider how to respond to the equal pay claims that it has received and determine to make a provision for these in 2010/11.	<ul style="list-style-type: none"> ■ We will review the Council's decision over whether a provision is required and how it proposes to disclose any provision that is made in the 2010/11 financial statements.
At the time of my pre statements audit the main bank account reconciliation included income which has not been accurately identified in both the IKON system (£3m) and the bank account (£2m). These balances are shown as reconciling items.	<ul style="list-style-type: none"> ■ We will substantively test the year end bank reconciliation to confirm whether these reconciling items have been resolved at the year end.

Testing strategy

Based on risks identified above I will produce a testing strategy which will consist of testing key controls and substantive testing of transaction streams and material account balances at the year end.

19 I can carry out the testing both before and after you have produced the draft financial statements (pre and post-statement testing).

20 Wherever possible, I will complete some substantive testing before the financial statements are available for audit. This year that work will comprise mainly my assessment of your revised accounting policies and restated prior-year balance sheets associated with the transition to IFRS-based accounting, and I plan to do this in the period from February to April 2011.

21 Wherever possible, I will seek to rely on the work of Internal Audit to help meet my responsibilities. I expect to be able to use the detailed systems documentation that has been updated by Internal Audit during 2010/11.

22 I will also seek to rely on the work of other auditors and experts, as appropriate, to meet my responsibilities. For 2010/11, I plan to rely on the work of other auditors in respect of pensions (i.e. the auditors of Hampshire Pension Fund).

23 I also plan to rely on the work of experts in the following areas.

- Property valuations - Council Valuer.
- Pensions liabilities - Pension Fund actuaries.

Clarified ISAs

24 In 2009 the auditing profession completed a comprehensive project to improve the clarity of all the ISAs. This is known as the Clarity Project. One of its main objectives was to promote greater consistency of application between auditors. This has been done by reducing the ambiguity within existing ISAs and improving their overall readability and understandability.

25 The new clarified framework will apply to my audit of your 2010/11 financial statements. Because of the new standards, you can expect to see some changes in the way my audit team delivers your audit and the information they seek from you.

26 The main changes you will see are:

- Journals - ISA (UK&I) 330 (The Auditor's response to assessed risks) requires me to review all material year-end adjustment journals. I can do this by using interrogation tools such as CAATs (Computer aided audit techniques), IDEA software or excel, depending on the compatibility of your general ledger software;
- Related Party Transactions - ISA (UK&I) 550 (Related Parties) requires me to review your procedures for identifying related party transactions and gain an understanding of the controls that you have set up to identify such transactions. I will also review minutes and correspondence for evidence of related party transactions and carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate;
- Accounting Estimates - ISA (UK&I) 540 (Auditing Accounting Estimates, Including Fair Value Accounting Estimates, And Related Disclosures) requires me to look at your accounting estimates in detail. As part of my audit I will seek a list of these from you. I will need to know in particular:
 - the process you use to make your accounting estimates;
 - the controls you use to identify them;
 - whether you use an expert to help you in making the accounting estimates;
 - whether you have considered any alternative estimates and why you rejected them;
 - how you assess the degree of estimation uncertainty (this is the level of uncertainty arising because the estimate cannot be precise or exact); and
 - the prior year's accounting estimates outcomes, and whether there has been a change in the method of calculation for the current year;
- Reporting deficiencies in internal control - ISA (UK&I) 265 (Communicating Deficiencies in Internal Control to Those Charged with Governance and Management) is a new standard. If I identify a deficiency in any of your internal controls during the audit, I will undertake more audit testing to decide whether the deficiency is significant. If I decide the deficiency is significant, I will report it in writing to your Audit Committee and the Standard and Governance Committee as those charged with governance.

IT Risk Assessment

27 An evidence based Information Technology Risk Assessment has been completed. This involved the documentation and testing of general and application IT controls in order to confirm that the controls are operating effectively and that no weaknesses are identified which might impact on our opinion on the financial statements. Controls testing has been undertaken for the Agresso, Academy and I-World systems.

28 Overall, our conclusion is that the controls in place are adequate and that the Council has an adequate IT governance environment with key policies and procedures in place. Access security, data centre and network controls, and change control arrangements are adequate.

Value for money conclusion

I am required to give a statutory VFM conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

29 I will base my VFM Conclusion for 2010/11 on two criteria, specified by the Audit Commission, which cover your arrangements for:

- securing financial resilience – focusing on whether the Council is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the Council secures economy, efficiency and effectiveness – focusing on whether the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.

30 I am planning a programme of VFM audit work based on my risk assessment. I will base this on:

- capturing what we know already from last year's work, VFM profiles, continuing reviews of minutes and discussions with officers;
- considering sector specific risks, including
 - the government's spending review,
 - maintaining essential services and effectiveness with reduced funding,
 - the new public services transparency framework, and
 - sector self-regulation and improvement.

31 In addition, I will consider how the Council is addressing issues that were raised in the Annual Audit Letter last year to achieve expected benefits from the street lighting and leisure services contracts, to closely monitor the savings programme and satisfy itself that the capital programme is affordable.

32 I will carry out more project work only where I would not be able to arrive at a VFM conclusion without it. I will report the results of my work in my Annual Governance Report and Annual Audit Letter. At this stage I have identified one project that I needed to complete in respect of the highways maintenance partnership, the estimated value of the contract is £100 million over a ten year period. This project considered whether the contracted governance arrangements have been implemented and whether the predicted benefits are being realised. The findings have been agreed with officers and reported to the Audit Committee in June 2011 and these will be relied on when assessing the value for money conclusion.

Key milestones and deadlines

The Council is required to prepare the financial statements by 30 June 2011. I am required to complete the audit and issue the opinion and value for money conclusion by 30 September 2011.

33 The key stages in producing and auditing the financial statements are in Table 2.

34 I will agree with you a schedule of working papers required to support the entries in the financial statements. The agreed fee is dependent on the timely receipt of accurate working papers.

35 Each week, during the audit of the financial statements, the audit team will meet with the key contact and review the status of all queries. I can arrange meetings at a different frequency depending on the need and the number of issues arising.

Table 2: **Proposed timetable**

Activity	Date
Meeting with Head of Finance to discuss audit approach, working paper requirements and progress.	Monthly meetings
Controls and early substantive testing	February to April 2011
Receipt and audit of re-stated 2009/10 balance sheet	March to April 2011
Receipt of accounts	30 June 2011
Receipt of supporting working papers for the accounts	1 July 2011
Start of detailed testing	July 2011 [Date to be confirmed]
Progress meetings during the audit of the financial statements	Weekly or as required
Present report to those charged with governance at the Standard and Governance and Audit Committees	22 September 2011
Issue opinion and value for money conclusion	By 30 September 2011

The audit team

Table 3 shows the key members of the audit team for the 2010/11 audit.

Table 3: **Audit team**

Name	Contact details	Responsibilities
Kate Handy District Auditor	k-handy@audit-commission.gov.uk 0844 798 1740	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Mike Bowers Audit Manager	m-bowers@audit-commission.gov.uk 07881518961	Manages and coordinates the different parts of the audit work. Key point of contact for the Head of Finance.
Steve High Team Leader	s-high@audit-commission.gov.uk 07779576294	Responsible for leading the opinion audit and day-to-day liaison with the Finance Team.

Independence and objectivity

36 I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which I am required by auditing and ethical standards to communicate to you.

37 I comply with the ethical standards issued by the APB and with the Commission's requirements on independence and objectivity as summarised in Appendix 2.

Meetings

38 The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Appendix 3 sets out our proposals.

Quality of service

39 I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team, please contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and to do what he can to resolve the position.

40 If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

Planned outputs

41 My team will discuss and agree reports with key officers before issuing them to the Audit Committee.

Table 4: **Planned outputs**

Planned output	Indicative date
Pre-statements opinion report [if necessary]	N/A not required
Annual governance report	22 September 2011
Auditor's report giving an opinion on the financial statements and a VFM Conclusion	by 30 September 2011
Final accounts memorandum [if necessary]	October 2011
Annual audit letter	November 2011

Appendix 1 Basis for fee

The Audit Commission is committed to targeting its work where it will have the greatest effect, based on assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.

Assumptions

In setting the fee, I have assumed that:

- the risk for the audit of the financial statements is not significantly different from that identified for 2009/10 (apart from the introduction of IFRS);
- you will inform me of significant developments relevant to the audit;
- Internal Audit meets the appropriate professional standards;
- Internal Audit undertakes appropriate work on systems that provide material figures in the financial statements sufficient that I can place reliance on it for our audit;
- you provide:
 - good quality working papers and records to support the financial statements by 1 July 2011;
 - information asked for within agreed timescales;
 - prompt responses to draft reports; and
- there is no allowance for extra work needed to address questions or objections raised by local government electors.

Where these assumptions are not met, I will need to undertake more work which is likely to result in an increased audit fee.

Appendix 2 Independence and objectivity

Auditors appointed by the Audit Commission have to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors also have to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).

I have summarised the main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards below.

International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires the appointed auditor:

- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee the auditor has charged the client; and
- confirms in writing the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Standards and Governance Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.

The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

The Standing Guidance for Auditors includes some specific rules. The key rules relevant to this audit appointment are as follows.

- Appointed auditors should not perform additional work for an audited body (that is work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to

carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as being 'additional work' and charged for separately from the normal audit fee.

- Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
- The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with extra safeguards in the last 2 years.
- The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.

The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

Appendix 3 Working together

Meetings

The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers. My proposal for the meetings is as follows.

Table 5: **Proposed meetings with Members and officers**

Council officers	Audit Commission staff	Timing	Purpose
Chief Executive, Solicitor to the Council and Head of Finance.	DA and Audit Manager (AM)	Quarterly	General update plus: <ul style="list-style-type: none"> ■ April - audit plans ■ June - VFM Conclusion ■ September - annual governance report ■ November - annual audit letter
Head of Finance	AM and Team Leader (TL)	Monthly	General update plus: <ul style="list-style-type: none"> ■ March - audit plan ■ May - pre-statements ■ August - opinion progress ■ September - annual governance report
Head of Finance	AM and TL	Weekly during post-statements audit	Opinion progress and issues arising
Head of Internal Audit, Risk and Assurance	AM and TL	Monthly	Update on progress and audit issues
Audit Committee and Chair's briefings	DA and AM, with TL as appropriate	Quarterly, as determined by the Committee	Formal reporting of: <ul style="list-style-type: none"> ■ Audit plan ■ Annual governance report ■ Annual audit letter ■ Other issues as appropriate
Standards and Governance Committee	DA and AM, with TL as appropriate	Quarterly as determined by the Committee	As above

Sustainability

The Audit Commission is committed to promoting sustainability in our working practices and I will actively consider opportunities to reduce our impact on the environment. This will include:

- reducing paper flow by encouraging you to present documentation and working papers electronically;
- use of video and telephone conferencing for meetings as appropriate; and
- reducing travel.

Appendix 4 Glossary

Annual audit letter

Report issued by the auditor to an audited body that summarises the audit work carried out in the period, auditors' opinions or conclusions (where appropriate) and significant issues arising from auditors' work.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by auditors under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor, comprising both the members of the body and its management (the senior officers of the body). Those charged with governance are the members of the audited body. (See also 'Members' and 'Those charged with governance'.)

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and other guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB, which contain basic principles and essential procedures with which auditors are required to comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles that apply to the conduct of audits and with which auditors are required to comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts or accounting statements that audited bodies are required to prepare, which summarise the accounts of the audited body, in accordance with regulations and proper practices for accounts.

Internal control

The whole system of controls, financial and otherwise that is set up to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality (and significance)

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; similarly a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a significance level that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Members

The elected, or appointed, members of local government bodies who are responsible for the overall direction and control of the audited body. (See also ‘Those charged with governance’ and ‘Audited body’.)

Annual Governance Statement

Local authorities are required to publish an Annual Governance Statement (AGS) with their financial statements. The AGS is prepared in accordance with guidance issued by CIPFA and disclosures in the AGS are supported and evidenced by the body’s assurance framework.

Those charged with governance

Those charged with governance are defined in auditing standards as 'those persons entrusted with the supervision, control and direction of an entity'.

In local authorities, those charged with governance, for the purpose of complying with auditing standards, are the full council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements.

Audit committees are not compulsory for local authorities. Authorities are expected to put in place proper arrangements to allow those charged with governance to discuss audit matters with both internal and external auditors. Auditors should satisfy themselves that these matters, and auditors' reports, are considered at the level within the audited body that they consider to be most appropriate.

Whole of Government Accounts

The Whole of Government Accounts initiative is to produce a set of consolidated financial accounts for the entire UK public sector on commercial accounting principles. Local authorities are required to submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, their statutory accounts.

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

© Audit Commission 2011.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.



Audit Commission

1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

Telephone: 0844 798 3131

Fax: 0844 798 2945

Textphone (minicom): 0844 798 2946

This page is intentionally left blank

Agenda Item 8

DECISION-MAKER:	AUDIT COMMITTEE
SUBJECT:	AUDIT COMMISSION: ANNUAL AUDIT FEE 2011/12
DATE OF DECISION:	23 JUNE 2011
REPORT OF:	CHIEF INTERNAL AUDITOR
STATEMENT OF CONFIDENTIALITY	
None	

BRIEF SUMMARY

The attached letter (appendix 1) sets out the audit work the Audit Commission will undertake for the 2011/12 financial year at Southampton City Council.

The fee reflects the risk-based approach to audit planning set out in the Code of Audit Practice and work mandated by the Commission for 2011/12.

The audit fee covers the:

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

RECOMMENDATIONS:

- (i) The Audit Committee is asked to note content of the Audit Commission's Annual audit fee letters for 2011/12

REASONS FOR REPORT RECOMMENDATIONS

1. The Audit Committee has, within its terms of reference, specific responsibility for oversight and provision of assurance to the Standards and Governance Committee on the arrangements made for cooperation between internal and external audit;
2. Presentation of the Audit Plan to the Audit Committee is in line with good practice and consistent with the CIFPA 'Code of Practice for Internal Audit in Local Government 2006' which requires that internal and external audit plans are co-ordinated.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

3. None

DETAIL (Including consultation carried out)

4. The detailed Audit Commission's Annual audit fee letter for 2011/12 is attached for consideration in the appendix. The external auditor will be in attendance at the Committee meeting to answer any questions. Officers have been consulted on the Audit Commission's Audit and Inspection plan for 2010/11

RESOURCE IMPLICATIONS

Capital/Revenue

5. None.

Property/Other

6. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

7. The duties and powers of auditors appointed by the Audit Commission are set out in the Local Government Act 1999.

Other Legal Implications:

8. None

POLICY FRAMEWORK IMPLICATIONS

9. None

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

KEY DECISION? Yes/No No

WARDS/COMMUNITIES AFFECTED:	None
------------------------------------	------

SUPPORTING DOCUMENTATION

Non-confidential appendices are in the Members' Rooms and can be accessed on-line

Appendices

1.	Audit Commission: Annual audit fee 2011/12
----	--

Documents In Members' Rooms

1.	None
----	------

Integrated Impact Assessment

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

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	
----	------	--

28 April 2011

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

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

Dear Alistair

Annual audit fee 2011/12

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

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

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

Audit fee

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

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

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

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

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

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

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

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

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

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

Audit team

Your audit team must meet high specifications and must:

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

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

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

I am committed to providing you with a high-quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me. Alternatively you may wish to contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk)

Yours sincerely

Kate Handy
District Auditor

Appendix 1: Planned outputs

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

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

This page is intentionally left blank

Agenda Item 9

DECISION-MAKER:	AUDIT COMMITTEE		
SUBJECT:	ANNUAL GOVERNANCE STATEMENT 2010-11		
DATE OF DECISION:	23 JUNE 2011		
REPORT OF:	DIRECTOR OF CORPORATE SERVICES		
AUTHOR:	Name:	Peter Rogers	Tel: 023 8083 2835
	E-mail:	peter.rogers@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY

NOT APPLICABLE

SUMMARY

In accordance with the Accounts and Audit Regulations the Council is required to develop and publish an Annual Governance Statement ('AGS'). The AGS is a key corporate document and should provide an accurate representation of the corporate governance arrangements in place during the year and highlight those areas where gaps or improvements are required.

An important part of the process, in respect of the development of a robust AGS, is for the Audit Committee to review and approve the draft AGS and recommend its acceptance to the Standards and Governance Committee prior to the document being forwarded to the Chief Executive and Leader of the Council for signing.

RECOMMENDATIONS:

The Audit Committee is asked to:-

- (i) Review the draft AGS (Appendix 1) together with sources of assurance upon which the statement is based to confirm that the statement is meaningful and that the system of internal control has operated effectively throughout the reporting period;
- (ii) Approve the draft AGS and recommend its acceptance to the Standards and Governance Committee;

REASONS FOR REPORT RECOMMENDATIONS

1. The Audit Committee has responsibility to provide 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 annual governance statement. This responsibility extends to receiving and reviewing the draft AGS, and where necessary challenging the sources of assurance, prior to the draft document being reported to Standards and Governance Committee for approval.

CONSULTATION

2. The AGS has been developed by the Council's 'Controls Assurance Management Group' and has been referred to the Management Board of Directors for review and comment.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

3. No alternative options have been considered.

DETAIL

4. Regulation 4 (2) of the Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment)(England) Regulations 2006, requires local authorities to 'conduct a review at least once a year of the effectiveness of its system of internal control' and 'to prepare a statement on internal control in accordance with proper practices'.
5. The purpose of the AGS is to provide an accurate representation of the corporate governance arrangements in place during the year and to identify or highlight those areas where there are significant gaps or where improvements are required.
6. The review of the effectiveness of the Council's overall corporate governance arrangements requires the sources of assurance, which the council relies on, to be brought together and reviewed with any with any significant gaps in assurance or areas for improvement being recorded and disclosed within the AGS.
7. Overall assurance on the adequacy and effectiveness of the overall governance framework was sought from the following sources: Internal Audit, External Audit, Risk Management, Legal and Regulatory Assurance, assurances provided by Directors (via Self Assessment Statements), Performance Management and external inspection or review and reports. The foregoing sources of assurance are underpinned by a range of corporate policies and procedures.
8. A 'Controls Assurance Management Group' comprising the Section 151 Officer, Monitoring Officer, Head of Corporate Policy and Performance, Chief Internal Auditor and the Chair of the Audit Committee is responsible for drawing together, evaluating and, where necessary, challenging the sources of assurance and supporting evidence in addition to drafting the AGS. This group also has responsibility to monitor and review progress of any agreed actions arising from the AGS throughout the year.

FINANCIAL/RESOURCE IMPLICATIONS

Capital

9. NONE

Revenue

10. NONE

Property

11. No specific property implications have been identified in this report.

Other

12. NONE.

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

13. The Audit Commission Act 1998 and the Accounts and Audit Regulations 2003 require the Council to adopt Good Governance arrangements in respect of the discharge of its functions. The above arrangements are intended to meet those responsibilities.

Other Legal Implications:

14. NONE

POLICY FRAMEWORK IMPLICATIONS

15. NONE

SUPPORTING DOCUMENTATION

Appendices

1.	Draft Annual Governance Statement 2010-11
----	---

Documents In Members' Rooms

1.	NONE
----	------

Background Documents

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	
----	------	--

Background documents available for inspection at:

Internal Audit, Risk and Assurance Office, North Block Basement, Civic Centre

E-mail: peter.rogers@southampton.gov.uk

KEY DECISION?

N/A

WARDS/COMMUNITIES AFFECTED: N/A

This page is intentionally left blank

ANNUAL GOVERNANCE STATEMENT

1. SCOPE OF RESPONSIBILITY

Southampton City Council (“the Council”) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

The Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code is on our website at <http://www.southampton.gov.uk/council-partners/decisionmaking/corporategovernance/> or can be obtained from the:

Head of Legal and Democratic Services,
Southampton City Council,
Civic Centre,
Southampton,
SO14 7LY

This statement explains how the Council has complied with the code and also meets the requirements of regulation 4 (2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment)(England) Regulations 2006 in relation to the publication of a statement on internal control.

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems and processes for the direction and control of the Council and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council’s policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the Council for the year ended 31 March 2011 and up to the date of approval of the annual report and statement of accounts.

ANNUAL GOVERNANCE STATEMENT

3. THE GOVERNANCE FRAMEWORK

The key elements of the systems and processes that comprise the Council's governance arrangements are as described below and include arrangements for:

- **Identifying and communicating the authority's vision of its purpose and intended outcomes for citizens and service users**

There is a clear vision of the Council's purpose and intended outcomes for citizens and service users that is clearly communicated both within the organisation and to stakeholders.

The **City of Southampton Strategy** which sets out a 20-year vision up to 2026, underpins aspirations for the city. During the course of 2010/11 Southampton Partnership conducted a review and revised its priorities and challenges.

The **Southampton Partnership** is the local strategic partnership (LSP) for the city and brings together the private, public and community and voluntary sectors to work together in tackling the key challenges facing Southampton, thereby securing quality of life improvements for all those who live, work and visit the city. During 2010/11 the Southampton Partnership completed a fundamental 'root and branch' review of the current partnership arrangements in light of the agreed city challenges and national best practice. This review was completed with the agreement in February 2011 that a new successor body ('Southampton Connect') will replace the Southampton Partnership from April 2011. The new Southampton Connect collaborative model is a radical departure from our previous partnership approach, as it aims to build on personal relationships, networks and goodwill to work together through a 'task and finish approach' wherever possible to tackle our city priorities and challenges.

The Southampton Partnership has overseen the delivery of Southampton's Local Area Agreement ("LAA") which is a three-year agreement between central government and key partners working together in an area to deliver joined-up public services which meet local people's needs. Southampton's 2008-11 Local Area Agreement was approved by the Secretary of State for Communities and Local Government and comprises of 34 'designated' targets, 16 'statutory' targets and a number of local indicators carried forward from the previous LAA. In 2010/11, The Southampton Partnership Delivery Board approved the basis for the allocation of the final LAA Performance Reward Grant and agreed arrangements for the allocation of this grant. They agreed to set up a Cross Service Development Fund to secure the delivery of cross organisational efficiencies, the development of shared public sector services, support arrangements or facilities within the city and the implementation of initiatives which underpin the delivery of the city's agreed 3 Community Based Budgeting / Total Place initiatives.

The **Corporate Plan** sets out the Council's commitment and overall approach to secure on-going improvements across the range of council services provided to residents, businesses and visitors to the city and reflect the organisations agreed priorities and values. It demonstrates the organisation's commitment to securing the statutory duty of best value in all aspects of service delivery. It also reflects the leadership role of the Executive in delivering the Council's policy objectives, value for money and service improvement for the benefit of residents and businesses in the city. The 2010/11 Corporate Plan reflected local priorities, as well as known national policy and budgetary changes which will have a significant impact on the city.

- **Reviewing the authority's vision and its implications for the authority's governance arrangements**

The Council has six agreed priorities and five organisational values that shape the Council's policy

ANNUAL GOVERNANCE STATEMENT

framework plans and budget, and hence the Council's policy decision making and resource allocation process.

The Council has adopted a Code of Corporate Governance ("CCG") which identifies in one document how the Council ensures that it runs itself in a lawful, structured, ethical and professional manner. The CCG is administered by the Monitoring Officer and is reviewed formally by Council's Standards and Governance Committee on a biennial basis.

- **Measuring the quality of services for users, ensuring they are delivered in accordance with the authority's objectives and ensuring that they represent the best use of resources**

The Corporate Plan provides key information on the quality and level of services provided by the council. It sets out key performance targets and improvement initiatives for the ensuing year including the approved budget for each Portfolio. The Plan, which is approved by Council, includes a range of performance measures which are monitored on a quarterly basis.

- **Defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication**

The Council has a Constitution that sets out how it operates, how decisions are made and the procedures followed to ensure that these are efficient, transparent and accountable to local people. Some of these processes are required by the law, while others are a matter for the Council to choose. The Constitution is divided into 15 Articles and sets out the detailed rules governing the Council's business. The Constitution may be accessed on the internet at:
<http://www.southampton.gov.uk/council-partners/decisionmaking/constitution.aspx>

- **Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff**

The Council's Constitution contains both an Officer Code of Conduct and a Members Code of Conduct that have been formally approved and widely communicated. In addition, a 'Code of Conduct and Disciplinary Rules' exists for employees which details the standards of service and conduct that are expected of employees. The Council also has in place an Anti Fraud and Anti Corruption Policy and Strategy.

- **Reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks**

The Council's Constitution includes information on how the council operates, how decisions are made and the role of overview and scrutiny. The Solicitor to the Council conducts an annual review of the Council's constitutional arrangements, which are considered by the Council's Standards and Governance Committee, in its governance role, prior to submission to the Annual General Meeting of the Council in May. All reports submitted to the Executive, the Council, a Committee or a Sub-Committee for a decision must receive corporate clearance in respect of legal, financial and policy implications prior to publication. Report authors' are also required to identify and report on any significant risks within the body of the report. In addition, there is published information on the Council's internet site regarding how the system of decision-making in Southampton works and how the public can have their voice heard ('Having Your Say').

ANNUAL GOVERNANCE STATEMENT

- **Ensuring the authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on The Role of the Chief Financial Officer in Local Government (2010)**

The Council conforms to the governance requirements of the CIPFA Statement on The Role of the Chief Financial Officer (CFO) in Local Government (2010), the CFO is professionally qualified, reports directly to the Chief Executive and is a member of the leadership team, with a status at least equivalent to other members.

- **Undertaking the core functions of an audit committee, as identified in CIPFA's Audit Committee – Practical Guidance for Local Authorities**

The Council has a formally constituted Audit Committee, who operate in accordance with CIPFA guidance, and whose role it is to provide independent assurance to the Council's 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 annual governance statement.

- **Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful**

'Corporate Standards' are published on the intranet and provide a summary of the most significant and important rules in the areas where the Council must achieve compliance. They cover Legality and Corporate Governance (including decision-making, freedom of information and data protection), Finance, IS/IT, Property and Procurement.

In addition, the Financial Procedure Rules, which provide the framework for managing the Council's financial affairs, and the Council's Contract Procedure Rules, which govern the method by which the Council spends money on the supplies, services and works, form part of the Council's Constitution.

- **Whistle blowing and for receiving and investigating complaints from the public**

The Council is committed to the highest possible standards of openness, probity and accountability and this is reflected in one of the Council's core organisational values which states that 'we will work with integrity, openness and honesty'. There are a range of interrelated policies and procedures in place that seek to create an anti fraud and anti corruption culture. This includes a Duty to Act Policy which reflects the legal framework and obligation on the Council to enable staff to raise concerns which may involve unlawful conduct, illegality, financial malpractice or dangers to the public, employees or the environment. In addition, a corporate complaints process and policy is in place which has been formally approved and communicated to all relevant staff, the public and other stakeholders.

- **Identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training**

The Council has a Member Development Strategy in place which is aimed at providing a long-term view to learning and development whilst remaining sufficiently flexible to reflect changing priorities. The Member learning and development programmes include the following:-

- Induction Programme;
- Personal Development Planning;
- Member Mentoring Scheme

ANNUAL GOVERNANCE STATEMENT

- Cabinet Member training;
- Regulatory Panel training;
- Scrutiny training;
- Skills training and workshops;
- Standards and Governance; and
- Member Briefing sessions.

Priorities for learning and development form part of the annual performance appraisal process with a requirement that training priorities link to achievement of objectives and service plans as well as on-going professional competence. Individual learning and development priorities are then used to develop Directorate Learning and Development plans. In addition, a 'Foundations of Management' programme is in place for all new managers who require an understanding of what is expected of them and provides an opportunity to develop core skills that will assist them in performing effectively in their role.

• Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation

The Southampton Partnership, which is the Local Strategic Partnership for the City of Southampton, has its membership drawn from private, public, voluntary and community sectors in order to act collectively as a strategic force for change.

The views of citizens and stakeholders are seen as important in prioritising and measuring the quality and value for money of council services. This is in addition to taking account of formal external assessments and comparative benchmarking data. The views of local people and communities are sought in many ways both formally (i.e. the 2010 City Survey) and informally (i.e. Neighbourhoods Management meetings, public meetings and consultation events, market research polls, input from voluntary sector forums and networks and through methods specifically designed to involve children and young people in making positive decisions about the issues that are important to them). In addition, the 'Your City, Your Say' Budget Consultation was undertaken and aimed to engage local residents in the process of developing council budgets and priorities and to help identify potential cost and efficiency savings that may enable the Council to offset reductions in government spending and grant funding. Alongside this work, the Council also ran a 'Your Council, Your Say' consultation with its staff – giving them the opportunity to use their insight to identify solutions that may generate revenue or reduce inefficiency within the organisation.

• Incorporating good governance arrangements in respect of partnerships and other group working as identified by the Audit Commission's report on the governance of partnerships, and reflecting these in the authority's overall governance arrangements

A Partnership Code is in place and forms part of the Council's Constitution. The Code has been developed to ensure that where the Council leads a partnership and/or co-ordinates its work, it will do so ensuring sound governance is in place, but within a flexible, efficient and robust approach to such engagement. This forms an important element of the Council's overall framework for partner and partnership engagement.

The Code covers key partnerships established by the Council that have been charged with developing specific strategies or plans and are 'held to account' for the delivery of those strategies or plans. The Code applies equally to Government initiated 'statutory' partnerships as well as nationally required and/or locally determined 'non-statutory' partnerships.

ANNUAL GOVERNANCE STATEMENT

4. REVIEW OF EFFECTIVENESS

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The review process, applied in respect of maintaining and reviewing the effectiveness of the system of internal control, is informed by:-

- the work of Members/Officers within the Council;
- audit and other periodic reports from the Chief Internal Auditor;
- the Annual report and opinion of the Chief Internal Auditor;
- the Audit Committee;
- the Standards and Governance Committee;
- reports received from service review agencies or inspectorates, and
- the external auditors in their annual audit letter.

• The Authority

The Council's Constitution forms the cornerstone of effective corporate governance. Whilst the Council's constitutional arrangements continue to be recognised as being of a high standard, Full Council agreed in 2002 that it would, on an annual basis, robustly review the Constitution and its operation. Full Council is the ultimate decision-making body as to the Council's Constitution. The purpose of the annual review and subsequent report is to bring forward any proposed changes to the Constitution, these having been considered by Standards and Governance Committee (in its governance role) with a view to building upon the constitutional arrangements for the Council.

• The Executive

The Executive ('the Cabinet') make executive decisions relating to services provided by the Council, except for those matters which are reserved for decision by the full Council, and planning and licensing matters which are dealt with by specialist regulatory Panels. Proceedings of the Cabinet take place in accordance with Article 7 of the Council's Constitution.

• Audit Committee

The Council has a formally constituted Audit Committee whose role it is to provide 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 annual governance statement.

The Council's Internal Audit, Risk and Assurance service reports to the Audit Committee on the following:

- the Chief Internal Auditor's annual report and opinion;
- review of the effectiveness of the system of internal audit;
- the Internal Audit Strategy and annual operational plan;

ANNUAL GOVERNANCE STATEMENT

- summary internal audit reports across all portfolios;
- reports of external audit and inspection agencies;
- assurances that action is being taken on risk and control-related issues identified by the internal and external auditors and other assurance providers;
- the effectiveness of the Council's internal control, risk management and associated anti-fraud and anti-corruption arrangements; and
- the Council's Annual Governance Statement, financial statements and external auditor's opinion;

• **Overview and Scrutiny Committees**

Overview and Scrutiny is a key mechanism for enabling Councillors to represent their constituents' views to the Executive to inform policy development. There is an Overview and Scrutiny Management Committee (parent committee) which manages this process. The Committee appoints Panels as necessary to undertake the statutory review of the activities of key partners and to carry out scrutiny inquiries, which support the work of the Executive and the Council as a whole. These arrangements allow citizens to have a greater say in Council matters by holding public inquiries into matters of local concern. These lead to reports and recommendations which advise the Executive and the Council as a whole on its policies, relationship with key partners and local service delivery. The Overview and Scrutiny Management Committee also monitors the decisions of the Executive. Scrutiny members can 'call-in' a decision which has been made by the Executive but not yet implemented. This enables them to consider whether the decision is appropriate and they may recommend that the Executive reconsider the decision. The Overview and Scrutiny Management Committee are also consulted by the Executive on forthcoming decisions and the development of Policy Framework plans.

• **Risk Management**

Risk management activity is co-ordinated by Chief Officers Management Team. This followed a transfer of responsibilities during the year from Council's 'Resources Board' which no longer sits.

The Council has in place a Risk Management Strategy and Policy which is reviewed annually and submitted to the Audit Committee for approval. In addition, an annual Risk Management Action Plan is developed with progress against the agreed actions being reported to the Audit Committee bi-annually. The Council has in place a 'Strategic Risk Register' which seeks to identify the key risks that may prevent or have a significant adverse affect on the achievement of the Council's key objectives. In addition, each Directorate is required to develop and maintain its own risk register which is developed around the 'key priorities and risks' identified as part of the corporate business planning process. Risk management also features as an integral part of the Council's Project Management methodology.

• **Standards and Governance Committee**

The Council has a Standards and Governance Committee with specific responsibility 'to lead on all aspects of Corporate Governance by promoting the values of putting people first, valuing public service and creating a norm of the highest standards of personal conduct'. Throughout the course of the year the Standards and Governance Committee receives the draft report on 'Changes to the Constitution' (in its governance role) prior to the report being presented to Full Council, an annual report on 'Internal complaints and local government ombudsman's complaints' and the 'Annual Governance Statement' for review and approval. This Committee is also responsible for reviewing and approving the updated Code of Corporate Governance.

ANNUAL GOVERNANCE STATEMENT

- **Chief Financial Officer**

The Council conforms to the governance requirements of the CIPFA Statement on The Role of the Chief Financial Officer (CFO) in Local Government (2010), the CFO is professionally qualified, reports to the Director of Corporate Services and is a member of the leadership team, with a status at least equivalent to other members.

- **Internal audit**

The Council has an Internal Audit function whose role is to provide an assurance function that provides an independent and objective opinion to the Council on risk management, control and governance. Internal audit may also provide an independent and objective consultancy service, specifically to help management improve the Council's internal control, risk management, and governance. The Council's Internal Audit Strategy was approved by the Audit Committee in September 2007 covers a five year period to 2011. The Strategy, which was reviewed in June 2009, outlines how the service will be managed, delivered and developed to facilitate:

- delivery of an internal audit opinion on the Council's internal control, risk management and governance arrangements, to inform the annual governance statement;
- audit of the Council's internal control, risk management and governance systems through periodic audit plans, in a way which affords due consideration to the Council's key priorities and significant risks;
- continuous improvement of the internal control, risk management and governance framework and processes within the Council;
- identification of the resources and skills required and method of delivery of an internal audit service that meets the CIPFA Code;
- effective cooperation with the Audit Commission and other external review bodies; and
- provision of assurance, consultancy and advisory services by internal audit.

The Chief Internal Auditor reports to the Audit Committee including progress against the annual internal audit operational plan and bringing to the attention of the Committee any significant control issues. The Chief Internal Auditor has the authority to independently report at any time to the Chief Executive, Chief Financial Officer, Officers and Members.

The Internal Audit Section is subject to regular review by the Council's external auditors who seek to place reliance on the work carried out by the section. An annual review of the effectiveness of the system of internal audit is undertaken by the Audit Committee.

- **Other review/assurance mechanisms**

Assurances are sought from Executive Directors regarding the effectiveness of the key controls within their areas of operation. The assurances are obtained via an 'Annual Governance Statement – Self Assessment' statement which is required to be completed in full and with due diligence by each Director. Internal Audit then undertakes a sample check of the completed self assessments and supporting evidence and provides an overall opinion on the level of assurance that can be placed on the returns.

The review is further informed via the completion of a "Controls Assurance Framework" document developed in line with CIPFA guidance. It identifies the key components of the Council's overall governance and internal control environment. The document records the key controls in place and sources of assurance and identifies any gaps in key controls or assurance noting any improvements planned for the forthcoming period to address the identified gaps.

ANNUAL GOVERNANCE STATEMENT

5. SIGNIFICANT GOVERNANCE ISSUES

The following significant governance issues have been identified:

	Issue	Action	Responsible Officer	Target for completion/ implementation
1	Guidance in respect of the governance of partnerships, including how it relates to shared services, to be reviewed and updated to reflect changing circumstances.	The Partnership Code and Toolkit, adopted as part of the Council's Constitution in 2009, is to be reviewed to ensure that it is aligned with the revised approach to partnerships as reflected in the new Southampton Connect collaborative model . Formal shared service arrangements with other authorities or organisations are generally governed via contracts or Service Level Agreements. As these expand a review may be required to consider whether a revision to the Constitution and guidance is required.	Director of Economic Development / Director of Corporate Services	May 2012 (in the expectation that it will require a change to the Constitution and would there need to be presented at the Council's Annual General Meeting).
2	Ensure consistent understanding of the council's corporate standards by relevant officers.	A review of corporate standards is to be undertaken to ensure that the arrangements currently in place are appropriate, robust and fit for purpose. This will then shape and inform the associated training and development activities which are targeted to commence from October 2011 onwards.	Director of Corporate Services	March 2012
3	Governance arrangements in respect of the management of health and safety will not enable the provision of an appropriate level of assurance to officers and members that the health and safety compliance regime is robust.	Governance arrangements for health and safety accountabilities to be through a Health and Safety Management Board comprising the Chief Executive, Directors and Capita. This Board is to meet on a quarterly basis.	Director of Corporate Services	March 2012
4	Changes being made to directorate and management structures in order to develop and improve the organization and ensure that effective services are delivered to its customers	The changes to directorate and management structures are intended to focus on delivering high quality, low cost services that meet customer needs and will be reflected in the employment (job description), constitutional and governance framework to ensure clarity of roles and responsibilities.	Chief Executive / Director of Corporate Services	March 2012

ANNUAL GOVERNANCE STATEMENT

I/we have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Standards and Governance Committee and Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

I/we propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed

.....
Alistair Neill
(Chief Executive)

on behalf of Southampton City Council

.....
Councillor Royston Smith
(Leader of the Council)

Agenda Item 10

DECISION-MAKER:	AUDIT COMMITTEE		
SUBJECT:	RISK MANAGEMENT ACTION PLAN AND REVIEW OF STRATEGY		
DATE OF DECISION:	23 JUNE 2011		
REPORT OF:	DIRECTOR OF CORPORATE SERVICES		
AUTHOR:	Name:	Peter Rogers	Tel: 023 8083 2835
	E-mail:	peter.rogers@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY

NOT APPLICABLE

SUMMARY

In accordance with the Council's 'Risk Management Strategy' document an annual report shall be presented to the Audit Committee summarising achievements and outlining the planned activities for the forthcoming year.

RECOMMENDATIONS:

The Audit Committee is asked to:-

- (i) Note and approve the Risk Management Action Plan for 2011-12 (Appendix 1);
- (ii) Note the Risk Management Action Plan 2010-11: Status Report (Appendix 2);
- (iii) Note the Risk Management Strategy 2011-12 (Appendix 3).

REASONS FOR REPORT RECOMMENDATIONS

1. This report is presented to the Audit Committee in their capacity as the member body with responsibility for providing 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 annual governance statement.
2. The Audit Committee is also responsible for 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.

CONSULTATION

3. The development of the action plan has been informed by discussions with the Management Board of Directors in the course of reviewing and updating the Strategic Risk Register.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

4. No alternative options have been considered.

DETAIL

5. Effective management of risk is a key component of the Council's overall corporate governance arrangements, and is recognised as such in:-
 - The CIPFA/SOLACE Corporate Governance Framework; and
 - CIPFA's guidance on the Annual Governance Statement
6. The Accounts and Audit (Amendment) (England) Regulations 2006 also state that 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 its functions, and which includes arrangements for the management of risk".
7. The 2011-12 Risk Management Action Plan is intended to encompass the range of actions considered necessary to ensure that existing good practice is maintained and, where appropriate, to build upon or develop robust risk management arrangements that are aligned with and support the organisation in meeting its objectives
8. The Risk Management Strategy 2010-11 has also been reviewed and updated for 2010-11 (Appendix 3). No significant amendments were considered necessary although the 'roles and responsibilities' section has been updated to reflect the revised management structure.

FINANCIAL/RESOURCE IMPLICATIONS

Capital

9. NONE

Revenue

10. NONE

Property

11. No specific property implications have been identified in this report.

Other

12. NONE

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

13. The Audit Commission Act 1998 and the Accounts and Audit Regulations 2003 require the Council to adopt Good Governance arrangements in respect of the discharge of its functions. The above arrangements are intended to meet those responsibilities.

Other Legal Implications:

14. NONE

POLICY FRAMEWORK IMPLICATIONS

15. NONE

SUPPORTING DOCUMENTATION

Appendices

1.	Draft Risk Management Action Plan 2011-12
2.	Risk Management Action Plan 2010-11: Status Report
3.	Risk Management Strategy 2011-12

Documents In Members' Rooms

1.	NONE
----	------

Background Documents

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	
----	------	--

Background documents available for inspection Internal Audit, Risk and Assurance Office, North Block Basement, Civic Centre

E-mail: peter.rogers@southampton.gov.uk

KEY DECISION? N/A **WARDS/COMMUNITIES AFFECTED:** N/A

This page is intentionally left blank

RISK MANAGEMENT ACTION PLAN 2011-12

	THEME / SOURCE / ISSUE	ACTION	LEAD OFFICER	TARGET DATE / MILESTONE
1.	Reporting risk - Implementation (in-house) of further developments to improve and enhance the risk functionality developed within CorVu (the council's performance management software).	Develop a suite of 'exception' style reports for use by Directorate Management Teams and the Management Board of Directors, to assist and inform the risk register review process and feed into the quarterly business review process. Reports options to include all 'red risks', outstanding actions, new/closed risks.	Risk and Assurance Manager	June 2011
2.	Decision Making - Ensure that key decision makers are aware of key risks	Refinement of the 'Portfolio Risk Registers' (derived from the Strategic and Directorate Risk Registers) and subsequent communication to Cabinet Members. It will also be used as a training opportunity in terms of explaining how risks were arrived at.	Risk and Assurance Manager	Oct 2011
3.	Business Planning - Ensure that key risks are aligned with the Council's key priorities and challenges as reflected in the business planning process.	Review, and where necessary, challenge the content of the Directorate Risk Registers to ensure quality and consistency of approach. Facilitate the update and review of the Strategic Risk Register in consultation with the Management Board of Directors.	Risk and Assurance Manager	June 2011
4.	Managing Risks in Partnerships (including shared service arrangements). Guidance in respect of 'managing risks in partnerships' forms part of the Council's Partnership Code and Toolkit and was formally adopted as part of the Council's Constitution in 2009.	Guidance in respect of the governance of partnerships, including how it relates to shared services, is to be reviewed and updated to reflect the revised approach to partnerships as reflected in the new Southampton Connect collaborative model. The review will include the associated guidance in respect of 'managing risks in partnerships'.	Strategic Partnerships Manager / Risk and Assurance Manager / Head of Legal and Democratic Services.	March 2012

	THEME / SOURCE / ISSUE	ACTION	LEAD OFFICER	TARGET DATE / MILESTONE
5.	Risk Reviews – Facilitate and direct a programme of property and liability risk reviews either at the request of insurance underwriters or in response to an adverse claims experience or area of concern.	Work with both property and liability insurers (via their risk survey / loss control service teams) to identify and develop an appropriate risk survey/ risk review programme encompassing both strategic and operational risk issues.	Risk and Assurance Manager	March 2012
6.	Training (also see Item 2)	SCC to facilitate a 'mock trial' training event involving insurers, solicitors and barristers for the benefit of those internal service areas who are involved in the investigation of liability (personal injury, loss or damage) claims. Event to be co-hosted with IOW Council.	Risk and Assurance Manager	Sept 2011
7.	Guidance - Ensure that a range of risk management guidance documents and templates (including those relating to insurance) are available and are aligned with the requirements of service areas.	Review and update the intranet.	Risk and Assurance Manager	March 2012
8.	Policy and Strategy - Ensure that the Risk Management Strategy and Policy are still relevant and appropriate.	Review and update the Risk Management Strategy and Policy as necessary and report any significant changes to the Audit Committee for approval.	Risk and Assurance Manager	June 12

RISK MANAGEMENT ACTION PLAN 2010-11: Status Report

	THEME / SOURCE / ISSUE	ACTION	TARGET DATE / MILESTONE	STATUS	COMMENTS
1.	<p>Embedding Risk Management Implementation of further in-house developments and refinements to the risk functionality developed within CorVu (the council's performance management software).</p>	<p>Further review regarding whether the development of a 'risk indicator' field, when reporting on the status of key priorities and objectives, would be useful.</p> <p>Explore the relationship between PM Connect (the Council's centralised project management system) and CorVu in terms how 'high risk' projects might feature on the risk registers held in CorVu.</p> <p>Roll out of the 'Portfolio Risk Reports',</p>	<p>SEPT 10 REVISED (to Mar 11)</p> <p>MAR 11</p> <p>SEPT 10 REVISED (to Mar 11)</p>	<p>COMPLETED (Mar 11)</p> <p>COMPLETED (Mar 11)</p> <p>NOT PROGRESSED</p>	<p>See the proposed action on the 2011-12 RM Action Plan which is aligned with the business need going forward and was informed following a discussion at the Management Board of Directors in March 2011.</p> <p>The monthly Highlight Report, that all Project Managers are required to complete, includes an overall RAG status to confirm whether the project is on track. It is therefore considered that there would be limited added value in replicating this information on the directorate risk registers. The respective Project, Programme and Capital Boards receive the Highlight Reports and would be expected to ensure that appropriate action is taken to manage risk.</p> <p>Portfolio Risk Reports were developed within CorVu however they will not be 'rolled out' until after the 2011-12 Directorate and Corporate Business Plans and associated risk registers have been developed. See the proposed action on the 2011-12 RM Action Plan.</p>
2.	<p>Embedding Risk Management The focus of the Council's integrated business planning process is to ensure that service areas clearly identify their key priorities and the associated resources implications. The key priorities are then used to inform development of the Directorate Risk Registers for the forthcoming period recognising that 'significant risks' will need to be identified and managed.</p>	<p>Review the content of the Directorate Risk Registers to ensure consistency of approach.</p> <p>Facilitate review of the Strategic Risk Register in consultation with the Chief Officers Management Team.</p>	<p>SEPT 10</p> <p>SEPT 10</p>	<p>COMPLETED (Sept 10)</p> <p>COMPLETED (Sept 10)</p>	<p>Service areas are directed to update both their Directorate and any Strategic risks on CorVu to reflect the end of quarter position. The review process is aligned with the updating of performance information on CorVu.</p> <p>Review undertaken with the Chief Officers Management Team on 31st August 2010 and updated document reported to Audit Committee at the 22nd September 2010 meeting.</p>

	THEME / SOURCE / ISSUE	ACTION	TARGET DATE / MILESTONE	STATUS	COMMENTS
3.	<p>Managing Risks in Partnerships Guidance in respect of 'managing risks in partnerships' forms part of the Council's Partnership Code and Toolkit formally adopted in May 2009 and forming part of the Council's Constitution.</p> <p>Key statutory and non-statutory partnerships are required to undertake a self-assessment using the Code and Toolkit by Jan 2011.</p>	<p>Ensure that any feedback or comments on the 'risk management' element of the Code or Toolkit arising from the completed self assessments are appropriately actioned.</p> <p>Develop a review mechanism so that a sample check of 'partnership risk registers' can be undertaken to review both the quality and ensure compliance with the agreed process.</p>	<p>MAR 11 (DEFERRED) 2011-12</p> <p>MAR 11 (DEFERRED) 2011-12</p>	<p>NOT PROGRESSSED</p> <p>NOT PROGRESSSED</p>	<p>The proposed actions were not able to be progressed as the Southampton Partnership Delivery Board commissioned a fundamental 'root and branch' review of the partnership framework. The outcome of the review has resulted in a revised approach to partnerships as reflected in the new Southampton Connect collaborative model.</p> <p>See the proposed action on the 2011-12 RM Action Plan.</p>
4.	<p>Managing Risks in Projects PM Connect (the Council's centralised project management system) is now in place and from 1st April 2010 all projects will need to comply with the principles and guidelines of PM connect.</p> <p>Assurance that the risk management elements, which form an intrinsic part of PM Connect, are being consistently complied with and are fit for purpose.</p>	<p>Review the existing on-line risk matrix template in consultation with the officer responsible for the implementation and development of PM Connect (Programme Management Officer) to ensure that is it aligned with the corporate approach to risk management.</p> <p>Support the Programme Management Officer in respect of any questions that may arise during the course of the monthly PM Connect 'drop-in' sessions relating to risk.</p> <p>Develop a review mechanism so that a sample check of 'project risk registers' can be undertaken to review both the quality and ensure compliance with the agreed process.</p>	<p>SEPT 10</p> <p>MAR 11</p> <p>DEC 10</p>	<p>COMPLETED (Dec 10)</p> <p>COMPLETED (Mar 11)</p> <p>COMPLETED (Nov 10)</p>	<p>A step by step guide to 'managing risks in projects', explicitly aligned with the Council's project management methodology, has been developed and published on both the PM Connect (Sharepoint) system and on the intranet.</p> <p>The focus of the support has now changed with the emphasis on supporting individuals as opposed to providing group sessions. To date, no specific issues have been flagged in respect of the elements relating to identifying and managing risk.</p> <p>All project documents are required to be held on PM Connect including Outline Project Proposals, Business cases etc which all make reference to the need for key risks to be identified and considered thereby enabling sample checking to be undertaken.</p>

	THEME / SOURCE / ISSUE	ACTION	TARGET DATE / MILESTONE	STATUS	COMMENTS
5.	<p>Risk Reviews As part of the new insurance programme the Council will receive 5 days of liability risk management support and 3 days of property risk management support from the respective insurers. The risk management support is provided on an annual basis and at no cost to the Council.</p>	To work with the new insurers (via their risk survey / loss control service teams) and identify and develop an appropriate risk survey/ risk review programme encompassing both strategic and operational risk issues.	MAR 11	COMPLETED (Mar 11)	<p>A number of fire and security surveys have been undertaken by insurers at a selection of premises. The surveys are primarily to enable insurers to better understand the risks that they are covering. The survey programme has included the Civic Centre Complex (incl ASAP & Sea City projects), St Anne's School, Netley Court School and Itchen Bridge. In addition, Motor Accumulation surveys have been undertaken at both Town Depot and Red Lodge Depot. In all cases no significant issues were identified.</p> <p>In addition, liability insurers have undertaken a risk review which has identified some areas where further guidance/training may be of benefit and are therefore being pursued.</p>
6.	<p>Risk Financing Triennial actuarial review of the internal self insurance fund in line with good practice.</p>	Commission, via the Council's appointed insurance broker/advisor (Marsh), an actuarial review of self insurance funds.	SEPT 10	COMPLETED (Sept 10)	As reported to the Audit Committee at the 22 nd September 2010 meeting. Recommendation to Council that contributions be reduced by £500k. Recharges for 2012-13 and 2013-14 to remain at this reduced contribution level.
7.	<p>Training To provide appropriate risk management training opportunities for members and council officers relevant to their needs / responsibilities.</p>	<p>Review the completed feedback forms received in respect of the 2009-10 Management Academy programme and to consider what further actions may be required to support and build upon the learning.</p> <p>Develop and make available appropriate risk management training opportunity for Members.</p>	<p>DEC 10</p> <p>MAR 11</p>	<p>COMPLETED (Dec 10)</p> <p>NOT PROGRESSED</p>	<p>Now forms part of the corporate Learning and Development programme with the 'Business Tools' subject area. No further action required at this point.</p> <p>See the proposed action on the 2011-12 RM Action Plan in terms of using the roll out of the Portfolio Risk Reports as a training opportunity for the key decision makers.</p>

	THEME / SOURCE / ISSUE	ACTION	TARGET DATE / MILESTONE	STATUS	COMMENTS
8.	Communication Ensure that a range of risk management guidance documents and templates (including those relating to insurance) are available and are aligned with the requirements of service areas.	Review and update the intranet.	DEC 10	COMPLETED (Nov 10)	Essential changes to reflect the new insurance contract were made but noting that a corporate project to redesign the intranet is currently being undertaken with an intended launch by 31 st March 2011.
9.	Communication To ensure that a relevant and appropriate risk action plan is in place and that arrangements are in place to review progress.	Prepare an annual risk management action plan/status report and interim report for the Audit Committee.	JUNE 10 DEC 10	COMPLETED (June 10) COMPLETED (Feb 11)	
10.	Policy and Strategy To ensure that the Risk Management Strategy and Policy are still relevant and appropriate.	Review and update the Risk Management Strategy and Policy as necessary and report any significant changes to the Audit Committee for approval.	JUNE 10	COMPLETED (June 10)	As approved by the Audit Committee at the 23 rd June 2010 meeting.



RISK MANAGEMENT STRATEGY 2011-12

June 2011

CONTENTS

- 1. Introduction**
- 2. Definitions**
- 3. Risk Management Policy Statement**
- 4. Risk Management process**
- 5. Roles and responsibilities**
- 6. Integration with corporate processes**
- 7. Communication and training**
- 8 Reporting**
- 9. Review**

Appendix 1 - Glossary of common terms used in relation to risk management

Appendix 2 - Risk Financing Strategy

Appendix 3 - Risk Register Template

1. Introduction

- 1.0 This strategy provides an overview of the operating framework, arrangements and responsibilities for managing risk within the Council. The strategy is relevant to Directors, Senior Managers and Managers as risk owners and the Audit Committee who are responsible for overseeing the council's risk management arrangements.
- 1.1 The strategy has been developed in line with good practice and taking into account the international standard, ISO 31000, Risk Management – Principles and Guidelines' and the 'Structured Approach to Enterprise Risk Management and the requirements of ISO 31000' document issued by the Institute of Risk Management ("IRM"), the Association of Insurance and Risk Managers ("AIRMIC") and the Association of Local Authority Risk Managers ("ALARM").
- 1.2 Effective risk management is a key element of corporate governance, and is recognised as such in:-
- The CIPFA/SOLACE Corporate Governance Framework; and
 - CIPFA's guidance on the Annual Governance Statement.
- 1.3 The Accounts and Audit (Amendment) (England) Regulations 2006 also state that 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 its functions, and which includes arrangements for the management of risk".
- 1.4 The Council's risk management function is provided via the Internal Audit, Risk and Assurance Service within the Corporate Services Directorate.

2. Definitions

- 2.0 Every organisation exists for a purpose and, as such, every organisation should be able to define its purpose in terms of objectives or what it is seeking to achieve. The achievement or otherwise of those objectives depends upon:-
- the organisation doing certain things and not doing others;
 - the occurrence of (internally and externally caused) events that could affect the organisation; and
 - the circumstances in which the organisation finds itself.
- 2.1 There are many definitions of risk and risk management however in simple terms:
- **Risk** - 'the effect of uncertainty on objectives'.
 - **Risk Management** - 'the culture, processes and structures that are directed towards effective management of potential opportunities and threats to the organisation achieving its objectives'.

- 2.2 The definitions link risks to objectives. Therefore the definitions of risk can most easily be applied when the objectives of the organisation, directorate or service area are clearly defined.
- 2.3 Risk Management is not simply a compliance issue. It is concerned with providing a framework and process that enables an organisation to manage uncertainty in a systematic, effective, consistent and efficient way thereby enabling informed decision making in order to allow opportunities to be exploited or action to be taken mitigate or manage risks to an acceptable level.

3. Policy Statement

The Council recognises the need to identify and understand its' key business risks and is committed to ensuring that appropriate arrangements are in place to enable informed risk decision taking, recognising that effective risk management seeks to optimise the balance between risk and reward.

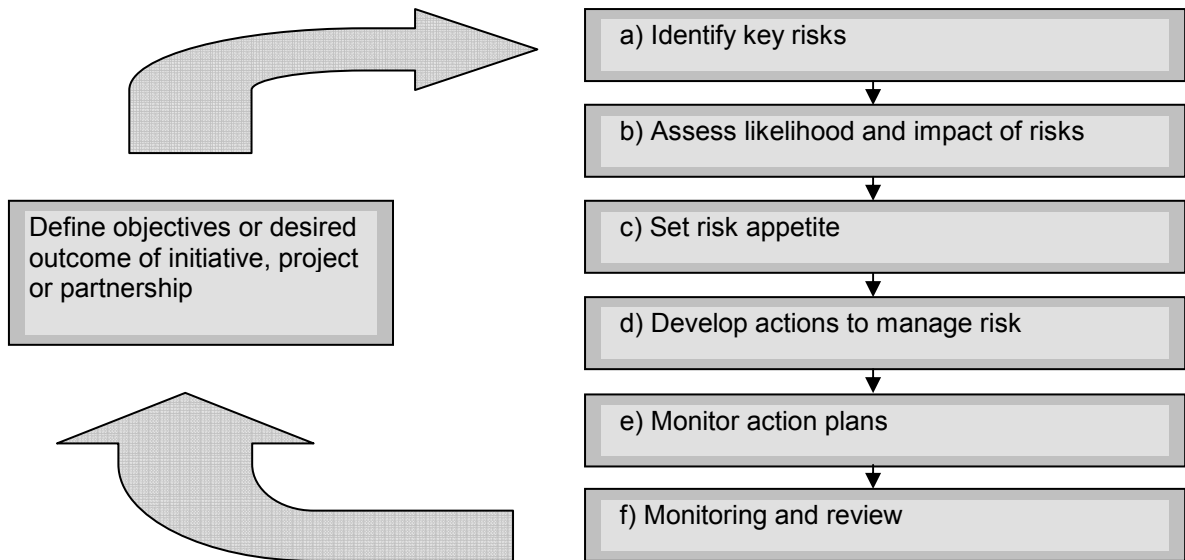
Risk management is an essential part of good management and is a key component of the council's overall corporate governance arrangements. It is recognised that, in order to be effective, the approach to risk management should be structured and consistent and operate at both strategic and operational levels within the organisation. It is also recognised that risks should be aligned with key priorities and that actions should be proportionate to the level of risk.

In seeking to manage risk, the Council will develop policies and procedures to:

- Embed risk management into the culture of the organisation using consistent and common terminology;
- Raise the profile and understanding of risk management at all levels throughout the organisation including members;
- Develop a structured and consistent approach to the identification and management of risk throughout the organisation;
- Develop a consistent risk assessment process or framework that can be applied to both current activities and new initiatives;
- Promote widespread understanding of the principles, processes and benefits of risk management via training, guidance documents etc;
- Assist both the directorates and corporate body identifying and understanding key risks and in determining an appropriate risk appetite; and
- Ensure that risk is managed in accordance with best practice and in accordance with the Council's approach to corporate governance.

4. Risk Management Process

4.0 In order to manage risk effectively it is necessary to develop a systematic approach to identifying, analysing and managing risk. The following diagram illustrates the risk management methodology adopted by the Council.



- a) The first step is to identify the key risks that could have a significant adverse effect or prevent key business objectives or outcomes from being met and/or prevent opportunities from being exploited;
- b) The key risks are then assessed in terms of likely frequency (probability of risk event occurring) and severity (potential impact should such an event occur);

LIKELIHOOD	Very High	A					
	High	B					
	Significant	C					
	Low	D					
	Very Low	E					
	Almost impossible	F					
RISK RATING MATRIX			5	4	3	2	1
			Negligible	Marginal	Significant	Critical	Catastrophic
			IMPACT				

**SOUTHAMPTON CITY COUNCIL
RISK MANAGEMENT STRATEGY**

- c) 'Risk appetite' is defined as the amount and type of risk that the Council, Directorate, project board, partnership etc is prepared to accept, tolerate or seek. 'Risk appetite' can be illustrated via a 'risk matrix' which may be used to 'sense check' the assessment and assist in determining the appropriate level of response. The aim is not to seek to drive all key risks into the 'green area' as this would reflect an extremely (and probably unreasonably) risk averse approach.
- d) 'Action plans', normally in the form of risk registers, record the actions required to manage the risk, the person responsible for implementing the actions and the timescale or key dates. A risk register is not only evidence that the key risks have been identified and assessed but also reflects the commitment to managing the risk to a level that reflects the agreed risk appetite.
- e) Appropriate governance or management arrangements should be in place to ensure that the 'action plans' are reviewed on an appropriate basis
- f) The monitoring and review process is used to determine whether the agreed actions to manage the risk are effective and whether the 'risks' and 'risk appetite' are still appropriate taking into account any changes in the organisation or external factors.

4. Roles and responsibilities

4.0 To be effective, a structured approach to risk management needs to be adopted and embedded as part of good management. All employees, members and those who act on behalf of the Council have a role to play in the effective management of risk.

4.1 The principal roles and responsibilities are summarised below:-

Individual/Group	Role/Responsibility
Members	<ul style="list-style-type: none"> • To have an understanding of the key principles of risk management;
Cabinet Members	<ul style="list-style-type: none"> • To ensure that there is an appropriate consideration of risk in relation to the decision making process; • To be aware of the council's strategic risks and those relating to their respective portfolio.
Standards & Governance Committee (as the member body responsible for leading on all aspects of Corporate Governance).	<ul style="list-style-type: none"> • To receive assurance from the Audit Committee on the adequacy and effectiveness of the risk management framework.
Audit Committee (as the Member body responsible for providing independent assurance to the Standards and Governance Committee on the adequacy and effectiveness of the risk management framework)	<ul style="list-style-type: none"> • To ensure that an appropriate Risk Management Strategy and Policy is in place; • To approve, support and monitor the implementation and ongoing processes for embedding risk management throughout the Council; and • To receive regular reports from the Chief internal Auditor (or nominated deputy) and/or take appropriate action to ensure that corporate business risks are being actively managed • To receive copies of the annual and interim reports for noting and action as appropriate.

**SOUTHAMPTON CITY COUNCIL
RISK MANAGEMENT STRATEGY**

Individual/Group	Role/Responsibility
Director of Corporate Services	<ul style="list-style-type: none"> • To undertake the role of 'corporate lead on risk management'; • To jointly champion, with a Member (who would normally be the Cabinet Member for Resources, Leisure and Culture), the processes for embedding risk management throughout the Council;
Management Board of Directors	<ul style="list-style-type: none"> • To support and monitor the implementation and ongoing processes for embedding risk management throughout the Council; • To identify the Council's key strategic risks to enable the Strategic Risk Register and associated "Action Plans" to be developed and actioned;
Directors / Directorate Management Teams	<ul style="list-style-type: none"> • To support the council's risk management strategy; • To ensure that a co-ordinated and consistent approach to the identification and management of risk is adopted; • To ensure that risks are appropriately managed and to have in place appropriate review and monitoring arrangements; • To ensure that robust business continuity plans are in place covering key service areas and that the plans are reviewed and tested within agreed timescales; and • To provide evidence, based on sources of internal and external assurance to support preparation of the Annual Governance Statement.
Senior Managers	<ul style="list-style-type: none"> • To manage risk effectively in their service areas and in accordance with the agreed risk appetite or tolerance.
Risk and Assurance Manager	<ul style="list-style-type: none"> • To facilitate the continuing development of the Council's risk management arrangements; • To develop, maintain and communicate appropriate risk management guidance and information; • To support directorates in developing their risk management arrangements in line with the agreed Risk Management Strategy; • To maintain and facilitate the periodic review of the Strategic Risk Register; • To review and report upon the adequacy and effectiveness of the Council's risk management arrangements; • To arrange appropriate risk financing measures and provide advice and guidance on the extent of insurance cover or self insurance arrangements; • Where appropriate, arrange the placement of cover with insurers including the negotiation of premium rates and policy terms; and • To provide and manage a claims handling service to process claims made by directorates and by members of the public.
Employees	<ul style="list-style-type: none"> • To manage risk in the course of undertaking their duties;
Health and Safety	<ul style="list-style-type: none"> • To ensure that appropriate arrangements are in place to manage health and safety risks to prevent or minimise the risk of accident or injury and to comply with legislation and statutory requirements.

Individual/Group	Role/Responsibility
<i>Internal Audit</i>	<ul style="list-style-type: none"> • To develop a risk based internal audit programme. • To audit the risk and internal control processes across the council. • To co-ordinate fraud and irregularity investigations including assessing the effectiveness of Fraud prevention controls and detection processes; and • To receive and provide assurance to Members and senior management of the effectiveness of risk management and controls;

6. Integration with corporate processes

6.0 Business Planning

The purpose of the Directorate Business Plans is to detail the contribution to the council's vision and priorities, the business objectives to be achieved in period and how they will be achieved in the context of the resources, customer needs, challenges and any changes that are expected resources.

6.1 The development of risk registers is a key component of the business planning process with the priorities and challenges used to inform the development of the associated risk register. This process applies to both the Council Plan and Directorate Business plans which generate the Strategic Risk Register and the Directorate Risk Registers.

6.2 Directorate Risk Registers are reviewed on a regular basis by the respective Directorate Management Team with the Strategic Risk Register reviewed by the Management Board of Directors.

6.3 Decision making

The need to identify and communicate key risks features in the [Decision Standards Guidance](#) document which instructs the report author to 'consider whether there are any significant risks associated with the idea / proposal and how these might need to be presented'. In addition it suggests that the 'Detail' section on the corporate report template be used to highlight any significant risks associated with the decision and, where appropriate, for the decision maker to be provided with assurance that appropriate actions or controls are in place'.

6.4 Partnership Working

The Partnership Code forms part of the Council Constitution and contains explicit reference to risk with the associated Protocol document including a '[Partnership Risk Management Model](#)'. The Partnership Code is to be reviewed to ensure that it is aligned with the future approach to partnership working as reflected in the formation of Southampton Connect as the successor body to the Southampton Partnership.

6.5 Project Management

The need to identify and manage risk features throughout the various Gateways within the PM Connect Project Management Methodology. Supporting information and guidance, intended for both Project Managers, Sponsors and Boards, sets out the recommended approach to risk relevant to the category of project together with the required action at each gateway.

6.6 Corporate Governance

Defined as 'how local government bodies ensure that they are doing the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable manner. It comprises the systems and processes, and cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities'.

Source: Chartered Institute of Public Finance & Accounts and Society of Local Authority Chief Executives – Annual Governance Statement Guidance document 2008.

6.7 In accordance with the Account and Audit Regulations the Council is required to publish an 'Annual Governance Statement' ("AGS") with its accounts. The AGS is a key corporate document and intended to provide an accurate representation of the corporate governance arrangements in place during the year and highlight those areas where improvement is required. Risk Management is an integral part of good governance and a key component of the AGS in terms of how it serves to support transparent decision-making and accountability to stakeholders.

6.8 Performance Management

Risk management is inextricably linked to performance management as it is intended to assist managers in identifying those key risks that need to be managed in order to enable business objectives to be achieved and/or opportunities to be exploited. This is reflected in the fact that risk management features prominently in the Council business planning process.

6.9 Fraud Risk Management

The day to day management of fraud risk is the responsibility of everyone within the organisation and internal control systems should be designed to minimise the opportunity for fraud or misappropriation of assets. Whistleblowing (Duty to Act) arrangements are in place together with an Anti Fraud and Anti Corruption Policy and Strategy.

6.10 The annual Internal Audit plan of work is developed using a risk based approach with 'fraud' being one of the key risk indicators.

6.11.1 Certain areas of operation will have an inherent risk of fraud e.g. housing and council tax benefits, insurance etc and appropriate arrangements to manage these risks are in place within the respective service areas.

7. Communication and training

7.0 The Risk Management Strategy and other associated guidance and template documents are made available on the intranet. The site is updated on at least an annual basis by the Risk and Assurance Manager.

7.1 Appropriate risk management training opportunities will be made available to both members and staff relevant to their needs and responsibilities.

7.2 Risk management training for manager's forms part of the corporate learning and development training opportunities.

8. Reporting

- 8.0 The “Corporate Lead on Risk Management” shall present an annual report to the Audit Committee summarising achievements and outlining the planned activities for the forthcoming year as well as an interim, six-monthly report.

9. Review

- 9.0 This document will be reviewed annually by the Council’s Risk and Assurance Manager and any significant amendments reported to the Audit Committee for approval. The Audit Committee is the Member body responsible for providing independent assurance to the Standards and Governance Committee on the adequacy and effectiveness of the risk management framework.

Glossary of common terms used in relation to risk management

Audit Committee	<i>The Member body charged with providing independent assurance to the Council's Standards and Governance Committee on the adequacy of the risk management framework, the internal control and reporting environment including (but not limited to) the reliability of the financial reporting process and the statement of internal control.</i>
Assessing risks	<i>The evaluation of risk with regard to the impact if the risk is realised and the likelihood of the risk being realised.</i>
Consequence	<i>The outcome of an event.</i>
Contingency	<i>An action or arrangement that can be put into place to minimise the impact of a risk if it should occur.</i>
Control	<i>Any action, procedure or operation undertaken to either contain a risk to an acceptable level, or to reduce the likelihood.</i>
Corporate Governance	<i>The system by which an organisation is directed and controlled.</i>
Exposure	<i>The consequences, as a combination of impact and likelihood, which may be experienced by the organisation if a specific risk is realised.</i>
Fraud	<i>The intentional distortion of financial statements or other records by persons internal or external to the organisation, which is carried out to conceal the misappropriation of assets or otherwise for gain.</i>
Horizon Scanning	<i>Systematic activity designed to identify, as early as possible, indicators of changes in risk.</i>
Identifying Risks	<i>The process by which events which that could affect the achievement of key objectives, are drawn out, described and recorded.</i>
Impact	<i>The effect that a risk would have if it occurs.</i>
Inherent Risk	<i>The level of risk before any action has been taken to manage it.</i>
Internal Control	<i>The policies, procedures, practices and organisational structures designed to provide reasonable assurance that business objectives will be achieved and that undesired events will be prevented or detected and corrected.</i>
Likelihood	<i>The probability that an identified risk event will occur.</i>

Operational Risk	<i>Risks concerned with day-to-day operational issues that an organisation might face as it delivers its services.</i>
Residual Risk	<i>The level of risk remaining after action has been taken to manage it.</i>
Risk	<i>The effect of uncertainty on objectives.</i>
Risk Appetite/Tolerance	<i>The amount of risk that the Council is prepared to accept, tolerate or be exposed to at any point in time.</i>
Risk Financing	<i>The mechanisms (e.g. insurance programmes) for funding the financial consequences of risk.</i>
Risk Management	<i>The culture, processes and structures that are directed towards effective management of potential opportunities and threats to the organisation achieving its objectives.</i>
Risk Management Action Plan (RMAP)	<i>The document that records the existing controls together with any additional controls required to manage the risk to an acceptable level in line with the risk appetite.</i>
Risk Owner	<i>The person with responsibility for ensuring that the controls identified in the RMAPs are adequate and appropriate and that the actions are being progressed.</i>
Risk Matrix	<i>The number of levels of likelihood and impact against which to measure the risk and to record the risk appetite.</i>
Risk Register	<i>A framework for capturing information about each risk, e.g. a description of the risk, its likelihood, its impact, how we are controlling it and who is managing that risk.</i>
Risk Strategy	<i>The overall organisational approach to risk management.</i>
Strategic risk	<i>Risks concerned with the high level strategic aims and objectives of the organisation.</i>



RISK FINANCING STRATEGY

June 2011

CONTENTS

- 1. Introduction**
- 2. Definitions**
- 3. Structure, Resources and Accountability**
- 4. Process and procedures**
- 5. Risk Transfer**
- 6. Alternative Risk Transfer**
- 7. Communication and Consultation**
- 8. Benchmarking**
- 9. Review**

1. Introduction

- 1.0 This document sets out the council's approach to risk financing and will be of particular relevance to the Audit Committee in respect of their responsibility for overseeing the council's risk management arrangements.
- 1.1 The Risk Financing Strategy is a component of the council's overall Risk Management Strategy. This document therefore needs to be considered in conjunction with the Risk Management Strategy document.

2. Definitions

- 2.0 **Risk Financing** - "Utilisation of source(s) of funds to pay for losses. Source(s) of funds can be classified as:
- Internal* - a risk retention arrangement is established to use funds from within the organisation to pay for losses;
- External* - a risk transfer arrangement (generally through the purchase of insurance) is established to provide access to funds to pay for losses".
- 2.1 Although this document refers primarily to self insurance and external insurance cover in some case other risk financing options may be available and these will be referred to as appropriate.

3. Structure, Resources and Accountability

- 3.0 In accordance with the Council's Financial Procedure Rules the Chief Financial Officer has responsibility 'to advise the Cabinet on proper insurance cover where appropriate, and effect corporate insurance cover, through external insurance and internal funding'.
- 3.1 The Risk and Assurance Manager reports to the Chief Financial Officer on all strategic risk financing issues and is responsible for ensuring that the adopted strategy is implemented and is subject to annual review.
- 3.2 The council's Risk Management and Insurance section is responsible for:
- Maintaining adequate and cost effective risk financing measures;
 - Managing the self insurance fund including the setting of contribution levels;
 - Providing risk management advice, guidance and support;
 - Arranging, where appropriate, the placement of cover with external insurers including the negotiation of premium rates and policy terms; and
 - The provision of an appropriate insurance claims handling service.
- 3.3 The council will appoint an external independent 'insurance broker/advisor' to support and assist the council in respect of the periodic tender of its insurance portfolio. The appointment will normally include provision of ongoing risk and insurance support and advice on a retained basis for the duration of the agreement or contract.

- 3.4 The appointment of an 'insurance broker/advisor' will be led by the Risk and Assurance Manager with the timing of any appointment, renewal or extension of an agreement normally taking place at least six months prior to or post renewal (or tender) of external insurances.
- 3.5 External insurance will be procured in accordance the Council's Contract Procedure Rules. The Council will award contracts for the provision of insurance services on the basis of the most economically advantageous terms in respect of price and quality.
- 3.6 The tender of the council's insurance portfolio will normally take place every three or five years (unless a longer or shorter term contract or agreement is proven to be beneficial to the Council). In accordance with good practice the council will normally seek to enter into a 'long term agreement' ("LTA") with insurer(s) which is in line with the standard market approach. The LTA, which normally includes a discount on the premium, provides continuity of cover, an element of financial certainty and is in line with the standard market approach.

4. Process and procedures

- 4.0 An effective risk financing programme is one that provides appropriate and adequate protection for the Council to support and enable current and future service delivery in addition to being able to demonstrate value for money.
- 4.1 The overall objective of the risk financing strategy is to ensure that funds are available to pay for losses using the most cost effective sources of finance. In doing so the council seeks to protect its financial position through the selective purchase of insurance cover and seeks to ensure that the risk financing structure is as financially efficient as possible, whilst accepting that financial certainty has a cost.
- 4.2 The aim is to achieve the optimum balance between self insurance and external insurance with the latter intended primarily to protect the Council against the effects of a catastrophic loss and to limit the Council's financial exposure in any one period. The approach seeks to smooth the cost of risk and minimise year on year fluctuations. The long term aim is to self insure to the highest possible levels where the cost benefit case can be proved, whilst also securing an acceptable level of financial certainty.
- 4.3 The structure of the risk financing programme will be subject to detailed review prior to each insurance tender exercise. The purpose of the review is to identify any gaps, or potential gaps, duplication etc in cover, and to evaluate self insurance against risk transfer options.
- 4.4 The arrangements for claims handling, including litigated claims, are reviewed as part of the insurance tender exercise with a view to securing the best quality service at a cost that can be demonstrated as providing value for money.
- 4.5 The risk financing programme is also subject to annual review as part of the insurance renewal process to ensure that the scope and type of external insurance cover is still appropriate.
- 4.6 The cost of risk (i.e. external insurance premium and contribution to the internal insurance fund) is allocated to service area on an equitable basis via an annual insurance recharge.

- 4.7 Losses within the deductible or excess are met from the self insurance fund which is reviewed on a monthly basis by the Risk and Assurance Manager to monitor the cost of claims settled in the period and estimated value of claims outstanding. If, at any point, a shortfall of funds is anticipated then the matter will be referred immediately to the Chief Financial Officer.
- 4.8 In line with good practice the 'self insurance fund' is subject to independent actuarial review which is normally undertaken every three years. The purpose of the review is to consider, at a particular point in time, whether adequate funds are available to meet current and future liabilities based on forecasts for expected losses and taking into account claims that have been 'incurred but not yet reported'. A summary of the report is provided to the Chief Financial Officer and to the Audit Committee.

5. Alternative Risk Transfer

- 5.0 The Council is committed to securing value for money and securing the most cost efficient source of risk financing. The insurance market for local authorities has traditionally been a specialist market with only a limited number of insurers prepared to offer cover.
- 5.1 The Council, in consultation with its Insurance Broker/Advisor will keep abreast of all options for alternative risk financing structures such as consortia purchasing or joint procurement, risk pooling, captive insurers or the formation of a mutual insurance company. The foregoing options would however only be considered where any such proposals provided an acceptable level of financial certainty and security and where a cost benefit case is proved to actuarial standards.

6. Communication and Consultation

- 6.0 The Risk Management Strategy will be published on the council's intranet site.
- 6.1 The Risk and Assurance Manager will also produce an annual 'Insurance Renewal' briefing paper for the Chief Financial Officer summarising the outcome of the annual insurance renewal process and highlighting any areas where significant changes to cover were made or where certain types of cover were not taken.

7. Benchmarking

- 7.0 The council will seek to compare both the structure and scope of its risk financing programme with peer authorities and will draw on benchmarking data in order to identify potential gaps in cover or areas for review.

8. Review

- 8.0 This document will be reviewed annually by the Risk and Assurance Manager and with any significant changes reported to the Audit Committee.

Risk Register Template

Appendix 3

RISK MATRIX							
LIKELIHOOD	Very High	A	Yellow	Red	Red	Red	Red
	High	B	Yellow	Yellow	Red	Red	Red
	Significant	C	Yellow	Yellow	Yellow	Red	Red
	Low	D	Green	Yellow	Yellow	Yellow	Red
	Very Low	E	Green	Green	Yellow	Yellow	Yellow
	Almost impossible	F	Green	Green	Green	Green	Green
RISK RATING MATRIX			5	4	3	2	1
			Negligible	Marginal	Significant	Critical	Catastrophic
			IMPACT				

Key Priority/ Objective	Council Plan Ref	Action/controls already in place	Required Action/controls	Responsibility for Action	Due/ Target Date	Update of Required Management Action Controls	Status	Critical Success Factors and KPI's	Date last update	Date of next review	Risk Status
Directorate											
Risk Number : 001 Risk Owner: Portfolio: Risk Category:											
Risk Description -											
Initial Risk Score: Likelihood: Impact:											
Current Risk Score: Likelihood: Impact:											
Target Risk Score: Likelihood: Impact:											

DECISION-MAKER:	AUDIT COMMITTEE
SUBJECT:	CHIEF INTERNAL AUDITOR'S ANNUAL REPORT AND OPINION 2010/11
DATE OF DECISION:	23 JUNE 2011
REPORT OF:	CHIEF INTERNAL AUDITOR
STATEMENT OF CONFIDENTIALITY	
None	

BRIEF SUMMARY

In accordance with proper internal audit practices, the Chief Internal Auditor is required to provide a written report reviewing the effectiveness of the system of internal control and to assist in producing the Annual Governance Statement.

The attached report provides the Chief Internal Auditor's opinion on the system of internal control and summarises audit work from which that opinion is derived for the year ending 31st March 2011.

The report concludes that Southampton City Council's framework of governance, risk management and management control is basically sound, however, some weaknesses have been identified through internal audit's work or evidence was found that the framework may not be consistently applied.

The Chief Internal Auditor considers that the system of internal control will be strengthened by the work that is being carried out within the Council to improve and embed general compliance with corporate policy, strengthened operation of the heating charges account and the transfer of Thornhill Plus You to Plus You Limited.

RECOMMENDATIONS:

- (i) That the Audit Committee notes the Chief Internal Auditor's Annual Report and Opinion for 2010/11.

REASONS FOR REPORT RECOMMENDATIONS

1. The Accounts and Audit (England) Regulations 2011 state 'a relevant body must 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'.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. None

DETAIL (Including consultation carried out)

3. The Chief Internal Auditor's Annual Report and Opinion for 2010/11 is attached for consideration in the appendix. The main purpose of this report is to give the Chief Internal Auditor's opinion on the adequacy and effectiveness of the Council's internal control environment for the year ending 31st March 2011.

4. The Audit Committee's attention is drawn to the following points:
- internal audit was compliant with the CIPFA Code of Practice for Internal Audit in 2010/11;
 - the revised internal audit plan for 2010/11 has been substantially delivered;
 - the Council's framework of governance, risk management and management control is considered to be basically sound, however, some weaknesses have been identified through internal audit's work or evidence was found that the framework may not be consistently applied;
 - where our work identified areas where management controls could be improved or where systems and laid down procedures were not fully followed, appropriate corrective actions and a timescale for improvement were agreed with the responsible managers.
5. Significant issues identified during the course of our work related to:
- In response to local government elector queries raised with the District Auditor, internal audit have supported the Audit Commission in reviewing the way the Council operates its heating charges account Review highlighted some significant weakness in internal control. Testing carried out identified inadequate controls in place to govern changes made to the record of electricity meters. Additionally the Council had poorly managed commissioned surveys of electricity meters and failed to set up an accurate meter record.
 - Following a number of internal audit reviews during 2010–11, commonalities in control weaknesses were identified exposing both individual service areas and the Council to the risk of loss and / or failure to comply with corporate policy
Common failings were identified with regard compliance with:
 - Contract procedure rules;
 - Declarations of interest; and
 - Financial procedure rules
 - The TPY programme ended in March 2011. To continue the improvements identified during the life of the programme a charitable company was created, by TPY members, 'Plus You Limited' (PYL) to deliver the future needs of the area. PYL will take over the ownership of TPY assets and will generate income to re-invest into projects when the funding ceases.
 - At the time of the audit there was no action plan in respect of close down procedures for TPY to hand over to PYL or clear distinction between assets belonging to PYL or the Council. Additionally the succession strategy was pending approval both locally and by the CLG.
6. The Chief Internal Auditor's Annual Report and Opinion 2010/11 has been consultation with the Management Board of Directors.

RESOURCE IMPLICATIONS

Capital/Revenue

7. None

Property/Other

8. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

9. The Accounts and Audit (England) Regulations 2011 state 'a relevant body must 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:

10. None

POLICY FRAMEWORK IMPLICATIONS

11. None

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

KEY DECISION? Yes/No No

WARDS/COMMUNITIES AFFECTED:	None
------------------------------------	------

SUPPORTING DOCUMENTATION

Non-confidential appendices are in the Members' Rooms and can be accessed on-line

Appendices

1.	Chief Internal Auditor's Annual Report and Opinion 2010/11
----	--

Documents In Members' Rooms

1.	None
----	------

Integrated Impact Assessment

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

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	
----	------	--

This page is intentionally left blank



CHIEF INTERNAL AUDITOR'S ANNUAL REPORT AND OPINION 2010 - 2011

Prepared by:	Neil Pitman, Chief Internal Auditor
Date:	31 st May 2011

1. INTERNAL CONTROL AND THE ROLE OF INTERNAL AUDIT

- 1.1. Under the Accounts and Audit (Amendment) (England) Regulations 2006¹, the Council was required to 'maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'. The standards for 'proper practices' for internal audit are laid down in the Chartered Institute of Public Finance and Accountancy's *Code of practice for internal audit in Local Government in the United Kingdom (2006)* ["CIPFA Code"].
- 1.2. Internal audit is an assurance function that provides an independent and objective opinion to the Council on the control environment, comprising risk management, internal control and governance, by evaluating its effectiveness in achieving the Council's objectives.
- 1.3. It is a management responsibility to establish and maintain internal control systems and to ensure that resources are properly applied, risk is appropriately managed and outcomes achieved.

2. INTERNAL AUDIT OPINION

- 2.1. The purpose of this report is to give my opinion as Chief Internal Auditor for Southampton City Council on the adequacy and effectiveness of the Council's framework of risk management, internal control and governance from the work internal audit have carried out for the year ending 31st March 2011.
- 2.2. The report and opinion provides as a key contributor to the Annual Governance Statement, however, remains only one element of the wider assurance process.
- 2.3. In giving this opinion, it should be noted that 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;
 - 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 CIPFA Code;
 - any limitations which may have been placed on the scope or operation of internal audit; and
 - the proportion of Southampton City Council's audit need that has been covered within the period.

¹ Accounts and Audit (England) Regulations 2011 effective 31 March 2011 state 'a relevant body must 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'

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 basically sound, however, some weaknesses have been identified through our work or we have found evidence that the framework may not be consistently applied. Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement.

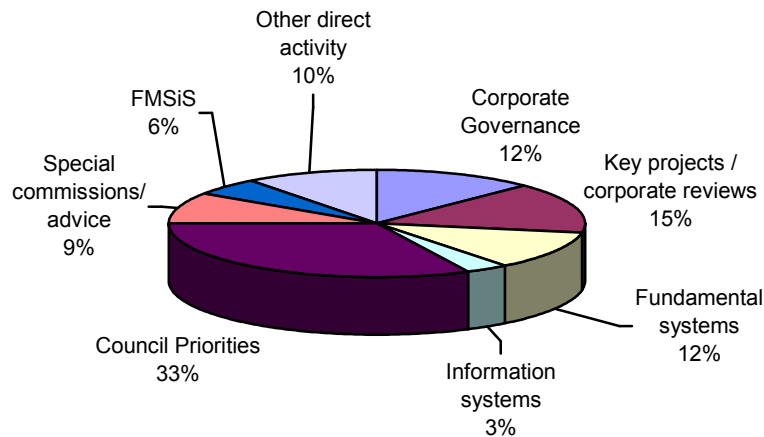
The system of internal control will be strengthened by the work that is being carried out to improve and embed general compliance with corporate policy, strengthened operation of the heating charges account and the transfer of Thornhill Plus You to Plus You Limited.

This overall audit opinion should be read in conjunction with the key issues set out in the following paragraphs.

3. INTERNAL AUDIT COVERAGE AND OUTPUT

- 3.1. The *Strategic internal audit plan* details a rolling, three-year programme of audits, designed to support preparation of the *Annual governance statement* and encompasses the following core principles:
- focus on the Council's defined purpose and outcomes;
 - effective performance in clearly defined functions and roles;
 - promoting values that underpin good governance through upholding high standards of conduct and behaviour;
 - taking informed and transparent decisions within a framework of controls and managing risk;
 - developing the capacity and capability of members and officers to be effective; and
 - engaging stakeholders to ensure robust public accountability.
- 3.2. The 2010 -11 internal audit plan, approved by the Audit Committee 18 March 2010 (revised 3 February 2011) was informed by the corporate risk register and performance framework, supplemented with internal audit's own assessment of risk and materiality.
- 3.3. Internal audit delivered 1215 audit days across 79 review areas over the course of the year ending 31st March 2011.

Analysis of audit days by review type



3.4. The revised 2010-11 internal audit plan has been delivered with the following exceptions:

- At the time of this report, the following reviews are work in progress:
 - Contract management
 - Procurement
 - Cash collection and banking
 - Joint Commissioning Standards

I do not consider these exceptions to have an adverse impact on the delivery of my overall opinion for the period.

3.5. We have published an opinion in final or draft reports (where we are concluding discussions with management in the agreement of action plans) in respect of 55 reviews completed during the year².

3.6. Where our work identified risks that we considered fell outside the parameters acceptable to the Council, we agreed appropriate corrective actions and a timescale for improvement with the responsible managers.

3.7. We actively monitor progress against the agreed action plans until we receive confirmation from management that all agreed actions have been completed or as happens in time of significant change, superseded.

² 20 reviews did not culminate in a formal opinion, these include grant certification work, walkthrough tests, National Fraud Initiative, fraud and irregularity advice

3.8. The opinion assigned to each internal audit review on issue of the report is defined as follows:

Opinion	Framework of governance, risk management and management control	Number of published opinions in this category (2010-11)	Number of open audits with opinions in category at year end
Substantial assurance	A sound framework in place that is operating effectively. Some immaterial evidence of inconsistent application.	29	10
Adequate assurance	Basically a sound framework in place but with repeated evidence of inconsistent application.	16	3
Limited assurance	Critical weakness (es) identified within the framework or significant evidence of inconsistent application.	7	3
No assurance	Fundamental weaknesses have been identified or the framework is ineffective or absent.	3	-

4. SIGNIFICANT ISSUES ARISING

4.1. Heating Charges – No assurance

In response to local government elector queries raised with the District Auditor, internal audit have supported the Audit Commission in reviewing the way the Council operates its heating charges account

Review highlighted some significant weakness in internal control. Testing carried out identified inadequate controls in place to govern changes made to the record of electricity meters. Additionally the Council had poorly managed commissioned surveys of electricity meters and failed to set up an accurate meter record.

A number of actions have since been addressed or are being developed to rectify key control weaknesses identified:

- Review of the record of electricity meters and implementation of a more effective database and system of control;
- Confirmation of the designation of electricity meters; and
- Establishment of the extent of the errors in meter records and assessment of the impact on past charges to tenants and leaseholders.

4.2. Compliance with corporate policy – No assurance (x2)

Following a succession of internal audit reviews during 2010–11, commonalities in control weaknesses were identified exposing both individual service areas and the Council to the risk of loss and / or failure to comply with corporate policy

Common failings were identified with regard compliance with:

- Contract procedure rules;
- Declarations of interest; and
- Financial procedure rules

In response internal audit have compiled a 'health check' for completion by all relevant service managers to enable a self assessment to be carried out against the recurring areas of concern.

The checklist is intended as a self-assessment to assist service departments evaluate local levels of internal control and should represent an honest critique of arrangements in place.

On completion internal audit will review completed assessments to ensure appropriate actions are in place to mitigate potential control weaknesses.

4.3. Thornhill Plus You – Limited assurance³

An internal audit review of Thornhill Plus You (TPY) highlighted a high level of risk in respect of grant monies being recouped by the Department for Communities and Local Government (CLG) as a result of unallocated funds and project underspends. Concerns were also raised with regard the lack of transparency in the authorisation and movement of funds between projects exposing a further risk of claw back from the CLG.

The TPY programme ended in March 2011. To continue the improvements identified during the life of the programme a charitable company was created, by TPY members, 'Plus You Limited' (PYL) to deliver the future needs of the area. PYL will take over the ownership of TPY assets and will generate income to re-invest into projects when the funding ceases.

At the time of the audit there was no action plan in respect of close down procedures for TPY to hand over to PYL or clear distinction between assets belonging to PYL or the Council. Additionally the succession strategy was pending approval both locally and by the CLG.

A significant resource has since been invested in ensuring an effective succession strategy is in place and a further internal audit review will be undertaken during 2011/12 to assess residual accountabilities for the Council following transfer to PYL.

³ Highlighted as a significant issue due to potential corporate connotations. The remaining 'Limited' assurance reviews relate primarily to establishment visits with key issues mirroring those detailed in section 4.2

5. ADVICE TO MANAGEMENT

- 5.1. During the year internal audit has worked with management on a consultancy/advisory basis on a number of projects, including:
- Putting People First (In Control)
 - Partnership governance and reviews
 - Investigations into fraud, corruption and improper practice

6. ANTI FRAUD AND CORRUPTION

- 6.1. Within the year we have conformed to the National Fraud Initiative (NFI) timetable to submit datasets relevant for the period and received 11,348 data matches which are currently under review.
- 6.2. In addition, we have assessed and where appropriate, advised, investigated or supported the investigation of a number of allegations of fraud, corruption or improper practice. A number of these cases were allegations made under the Duty to Act (“Whistleblowing”) Policy. Evidence, advice and guidance have been passed to management to pursue internal disciplinary processes or to the Police to pursue criminal investigation where appropriate.

7. INTERNAL AUDIT PERFORMANCE

<i>Annual performance indicators 2010-11</i>		
Aspect of service	Target output or performance measure	Actual output or performance
Cost and quality of input	Service costs are within budget	Outturn report showed under spend resulting from efficiency proposals
	Direct audit days account for 65% of total time available	Direct audit days accounted for 73% of total time available
Productivity and process efficiency	A minimum of 90% of the annual plan is delivered	95% of the revised annual plan has been delivered
	100% of high risk audits are delivered	100% of high risk audits have been delivered.
	Draft reports are issued within 10 days of completion of fieldwork	83 % of draft reports are issued within 10 days of completion of fieldwork

Annual performance indicators 2010-11		
Aspect of service	Aspect of service	Aspect of service
Productivity and process efficiency	Client response received to draft audit reports within 10 days of issue	*Estimated 70% of client responses are received to draft audit reports within 10 days of issue
	Final reports are issued within 10 days after agreement with client	75% of final reports are issued within 10 days after agreement with client
Quality of output	80% of clients are satisfied with the service delivered	A quality survey conducted during 2010 reported that 83.3% of respondents rated the internal audit service as good, very good or excellent.
	External audit place reliance on work of internal audit	External audit placed reliance on the work of internal audit during 2010/11
Compliance with professional standards	CIPFA Code of practice for internal audit in local government (2006) is complied with	Compliant
Outcomes and degree of influence	90% of agreed high priority actions are implemented within agreed timescale	*Estimated 75% of agreed high priority actions are implemented within agreed timescale

* Currently configuring audit management software to provide accurate measures in this performance area.

7.2 Internal Audit Resources

The resource profile has changed significantly during 2010 -11. On 1 November 2010 Southampton City Council and Hampshire County Council agreed to a collaborative approach for the provision of a shared internal audit service. The agreement introduces a shared Chief Internal Auditor role across both authorities

This initiative provides further scope to develop the shared service approach to best utilise areas of expertise across both authorities and generate economies of scale through training and development.

The service operated at a 15% shortfall in planned FTE staff over a six month period. Supplementary resources were bought in from South Coast Audit for the delivery of IT reviews within the 2010-11 internal audit plan.

7.3 Quality control

Our aim is to provide a service that remains responsive to the needs of the Council and maintains consistently high standards. This was achieved in 2010-11 through the following internal processes:

- Compliance with CIPFA Code of practice for internal audit in local government (2006);
- ongoing liaison and communication with the management to ascertain the risk management, control and governance arrangements, key to corporate success;
- ongoing development of a constructive working relationship with the Audit Commission to ensure development of a cooperative assurance approach;
- a tailored audit approach using a defined methodology and assignment control documentation;
- the review and quality control of all internal audit work by professional qualified senior staff members.

8. ACKNOWLEDGEMENT

- 8.1. 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
Chief Internal Auditor
31st May 2011

This page is intentionally left blank

DECISION-MAKER:	AUDIT COMMITTEE
SUBJECT:	FUTURE OF LOCAL PUBLIC AUDIT - CONSULTATION
DATE OF DECISION:	23 JUNE 2011
REPORT OF:	HEAD OF FINANCE
STATEMENT OF CONFIDENTIALITY	
Not Applicable	

BRIEF SUMMARY

On 13 August 2010, the Secretary of State for Communities and Local Government announced plans to disband the Audit Commission, transfer the work of the Audit Commission's in-house practice into the private sector and put in place a new local audit framework.

Local authorities would be free to appoint their own independent external auditors and there would be a new audit framework for local health bodies. The Secretary of State was clear that safeguards would be developed to ensure independence, competence and quality, regulated within a statutory framework.

This report provides an overview of the key aspects of the 'Future of local public audit – Consultation' paper providing a draft response on behalf of Southampton City Council. The consultation covers four distinct areas:

- Regulation of local public audit;
- Commissioning local public audit services;
- Scope of audit and work of auditors;
- Arrangements for smaller bodies

RECOMMENDATIONS:

- (i) That the Audit Committee consider, the draft response to the 'Future of public audit – Consultation' (appendix 1)

REASONS FOR REPORT RECOMMENDATIONS

1. To provide a contribution to assist in the further development of the framework of the future of local public audit

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. None

DETAIL (Including consultation carried out)

Regulation of local public audit (consultation questions 3 – 10)

3. The Audit Commission is currently responsible for setting audit standards through codes of practice for local government (and health) bodies. Once the Commission has been abolished, there will be a requirement for local public audit to be regulated differently.

4. The consultation paper proposes a regulatory system for local public audit that is similar to that for private company audit under the Companies Act 2006. The consultation proposes that:
- The National Audit Office would develop and maintain codes of audit practice and any supporting guidance. Any codes of practice will require parliamentary approval as under the current system.
 - The Financial Reporting Council, the body responsible for the supervision of private sector external auditors, will regulate who can undertake local public audit work.
 - There would be a list (referred to as the register of local public statutory auditors elsewhere in the consultation paper) of audit firms who are recognised as qualified to undertake public audit work. Local councils would be required to appoint their external audit from those firms on the register.
 - The consultation paper states that the costs of the new regulatory regime will be passed on to individual audit firms, who may wish to recover such costs as part of their audit fee

Commissioning local public audit services (consultation questions 11 – 28)

5. The consultation paper proposes that all larger local public bodies (defined as those with income/expenditure over £6.5million as in the revised Accounts and Audit Regulations recently subject to separate consultation) will be able to appoint its own auditor. The appointed auditor must be on the register of local public statutory auditors.
6. The appointment will be made by Full Council, on the advice of an Audit Committee with opportunities for the electorate to make an input. It is proposed that the Secretary of State should have the power to appoint an external auditor to any local public body who fails to appoint a suitable one themselves.
7. Auditors would be appointed annually, but with a requirement to open the role to competition at least every five years. The council could re-appoint the incumbent audit firm for a maximum of ten years, after which a different audit firm must be used for further audit work.
8. The consultation paper recognises that there is more than one way of arranging an Audit Committee but sets out the following possible structure:
- The audit committee chair and vice-chair would both be independent of the local public body (i.e. not elected members);
 - The elected members on the audit committee should be non-executive, non-cabinet members sourced from the audited body. At least one should have recent and relevant financial experience, but with a recommendation that a third of the members have recent and relevant financial experience where possible; and
 - There would be a majority of members of the committee who are independent of the local public body

9. Independent members can only be considered for a position if:
- they have not been a member or an officer of the public body within five years before the date of appointment;
 - is not a member or officer of any other relevant body;
 - is not a relative or close friend of a member or an officer of the body;
 - has applied for the appointment;
 - has been approved by a majority of the members of the council; and
 - the position has been advertised in at least one local newspaper and in other similar publications and / or websites.
10. The consultation paper also seeks views on the role of the new audit committee and presents two options:
- Option One: The Audit Committee would be required to provide advice to the council on the engagement and resignation or removal of the auditor. It would then be for the council to decide whether or not the committee has any other function or duty.
 - Option Two: There would be a much more detailed mandatory role for the Audit Committee, possibly including, providing advice on the procurement and selection of an auditor, ensuring effective relations between internal and external audit and reviewing audit reports and quality. Under this option the Audit Committee would report annually to the Full Council on its activities during the year.
11. The consultation paper recognises that individual bodies might wish to collaborate on the appointment of an auditor and so the following legislation will allow both joint procurement of audit services and joint audit committees

Scope of audit work and the work of the auditors (consultation questions 29 – 41)

12. Currently, public sector bodies are subject to audit with a wider scope than in the private sector, including, for example, value for money and legality issues. The consultation paper presents four possible options for the scope of the audit of councils. These are:
- Option one: The scope of the audit would become similar to private companies with the auditor giving an opinion on the financial statements and review and report on other information published with the financial statements;
 - Option two: The scope would be similar to the current system in local government, with auditors providing an opinion of the financial statements, concluding as to whether there were proper arrangements to secure value for money and reviewing and reporting on other information including the annual governance statement;
 - Option three: New arrangements to provide stronger assurances on regularity and propriety, financial resilience and value for money; or

- Option four: A new requirement for councils to prepare and publish an annual report, which would be reviewed by the auditor with them providing reasonable assurance on the annual report.

13. Auditors would continue to have the power to prepare public interest reports, with the costs of such reports being recovered from the audited body. Local people would still be able to question the auditor, but the right to make formal objections to the accounts would be removed.
14. Audit firms would be able to provide non-audit services as long as they adhere to the ethical standards produced by the Auditing Practice Board and that permission is sought from the Audit Committee.

Arrangements for smaller bodies (consultation questions 42 – 50)

15. Different arrangements are proposed for local public bodies with income and expenditure lower than £6.5million.
16. These are summarised in the following table.

	Number of Bodies	Income / Expenditure	Scrutiny Required
Level 1	1,200	<£1,000	<ul style="list-style-type: none"> • Existing governance and accounting arrangements • No external audit required • Annual accounts published, with positive confirmation that this has been done via the precept request, or its equivalent.
Level 2	Approx 6,400	£1,000 - £50,000	<ul style="list-style-type: none"> • An Independent Examiner appointed to assess the accounts • The body must publish the details of the Examiner
Level 3	Approx 1,625	£50,000 - £250,000	<ul style="list-style-type: none"> • As Level two, but • The Independent Examiner must have a professional qualification to assess accounts appointed • Existing internal audit arrangements
Level 4	Approx 675	£250,000 - £6.5m	<ul style="list-style-type: none"> • As Level 3 but, • The Independent Examiner must hold a Professional qualification and be registered as a public auditor

17. The consultation paper proposes that either the Independent Examiner could be appointed by the County or Unitary council for the smaller public body, or the smaller public body themselves appoints such a person via their own audit committee.

18. The consultation incorporates 50 questions covering the key aspects of the DCLG proposals. Responses to the consultation are to be submitted by 30 June 2011

RESOURCE IMPLICATIONS

Capital/Revenue

19. None

Property/Other

20. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

21. The Accounts and Audit (Amendment) (England) Regulations 2006 require the Council to 'maintain an adequate and effective system of 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:

22. None

POLICY FRAMEWORK IMPLICATIONS

23. None

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

KEY DECISION? Yes/No No

WARDS/COMMUNITIES AFFECTED:	None
------------------------------------	------

SUPPORTING DOCUMENTATION

Appendices

1.	Consultation Repose
----	---------------------

Documents In Members' Rooms

1.	Future of local public audit - Consultation
----	---

Integrated Impact Assessment

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

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	
----	------	--

Appendix 1

Future of local public audit – Consultation response

Regulation of local public audit (consultation questions 3 – 10)

3. Do you think that the National Audit Office would be best placed to produce the Code of audit practice and the supporting guidance?

Proposed response: Yes

4. Do you agree that we should replicate the system for approving and controlling statutory auditors under the Companies Act 2006 for statutory local public auditors?

Proposed response: Yes, with the assurance that the process is independent, transparent and robustly monitored.

Whilst the introduction of a register of audit firms may restrict the choice local councils have in appointing their own external auditor, advantages are evident in that individual local authorities will have an assurance regarding the quality, qualification and experience of the firm employed.

The cost benefit of such monitoring / control would need to be assessed against the potential impact of audit firms reflecting costs in their audit fees.

5. Who should be responsible for maintaining and reviewing the register of statutory local public auditors?

Proposed response: See Q4, potentially the Financial Reporting Council

6. How can we ensure that the right balance is struck between requiring audit firms eligible for statutory local public audit to have the right level of experience, while allowing new firms to enter the market?

Proposed response: Quality must be the cornerstone in attaining an appropriate balance

7. What additional criteria are required to ensure that auditors have the necessary experience to be able to undertake a robust audit of a local public body, without restricting the market?

Proposed response: Any criteria should include appropriate skills, knowledge and experience of the entity being audited (including understanding of accounting and reporting requirements) and demonstrable compliance with the Code of Audit Practice

8. What should constitute a public interest entity (i.e. a body for which audits are directly monitored by the overall regulator) for the purposes of local audit regulation? How should these be defined?

Proposed response: Consideration should be proportionate to scope and magnitude, those listed in Appendix B to the consultation would appear appropriate.

9. There is an argument that by their very nature all local public bodies could be categorised as 'public interest entities.' Does the overall regulator need to undertake any additional regulation or monitoring of these bodies? If so, should these bodies be categorised by the key services they perform, or by their income or expenditure? If the latter, what should the threshold be?

Proposed response: The regulator should have the ability to undertake additional regulation or monitoring, but this should be proportionate and risk assessed taking full account of current processes in place to meet the transparency agenda. Income / expenditure alone maybe a slightly narrow view and impact should also be considered.

10. What should the role of the regulator be in relation to any local bodies treated in a manner similar to public interest entities?

Proposed response: See question 9

Commissioning local public audit services (consultation questions 11 – 28)

11. Do you think the arrangements we set out are sufficiently flexible to allow councils to cooperate and jointly appoint auditors? If not, how would you make the appointment process more flexible, whilst ensuring independence?

Proposed response: Yes, however whilst the proposed value of joint procurement with other local authorities is accepted the practicalities of joint Audit Committees is questioned. Therefore in order to support opportunities for joint procurement, the mandatory terms for the Audit Committee should be limited to the appointment of external auditors which would facilitate a 'joint Audit Committee' approach to joint procurement.

12. Do you think we have identified the correct criteria to ensure the quality of independent members? If not, what criteria would you suggest?

Proposed response: These proposals significantly change the role and make up of the Audit Committee. Whilst it could be argued that proposals ensure an audit committee is totally independent, the justification for appointing individuals with no accountability to the local electorate is questioned unless the mandatory role of the Audit Committee is limited to the appointment of External Auditors.

Councillors take very seriously their stewardship role in ensuring that the Authority acts responsibly and has high standards in relation to its corporate governance arrangements, as well as performing effectively. Elected members' wider role in the activities of the Authority puts them in a strong position to do this.

Elected members on audit committees, as currently constituted, are independent of the Executive.

If there are to be independent members it is questioned whether they should hold a majority on the Committee. Additionally, it is considered that anyone appointed should not be politically active or be a member of any recognised political party

13. How do we balance the requirements for independence with the need for skills and experience of independent members? Is it necessary for independent members to have financial expertise?

Proposed response: Members of the audit committee, as currently constituted, should display a clear spread of competencies to ensure there is not over reliance on any one individual. Financial expertise is clearly one of the competencies that should be considered.

14. Do you think that sourcing suitable independent members will be difficult? Will remuneration be necessary and, if so, at what level?

Proposed response: It is considered that sourcing willing members may be difficult, but finding those with an appropriate skills mix may prove even harder. If the mandatory role is limited to the appointment of external auditors from a pre-determined short list there would be a question regarding the added-value particularly if it were to add a further cost burden. It is also questionable whether independent members would wish to take up such a role limited to just the appointment of the external auditor.

It would be important for the question of remuneration to be determined locally, in accordance with the Members' Allowance Regulations, having regard to the advice of the relevant Remuneration Panel.

15. Do you think that our proposals for audit committees provide the necessary safeguards to ensure the independence of the auditor appointment? If so, which of the options described in paragraph 3.9 seems most appropriate and proportionate? If not, how would you ensure independence while also ensuring a decentralised approach?

Proposed response: Elected members on audit committees are currently independent of the Executive. The appointment of External Auditors will be from a pre-determined short list and the proposals within the consultation are to limit re-appointment, therefore it is not at all clear that mandatory changes to the current constitution of the Audit Committees will add any value nor indeed further independence.

If the desire was to enforce further independence in membership option a) ‘only the chair and perhaps a minority of members are independent of the local public body’ provides greatest flexibility

16. Which option do you consider would strike the best balance between a localist approach and a robust role for the audit committee in ensuring independence of the auditor?

Proposed response: Option 1 provides a clear remit / requirement whilst allowing for greater local discretion

17. Are these appropriate roles and responsibilities for the Audit Committee? To what extent should the role be specified in legislation?

Proposed response: The role should be specified as briefly and simply as possible, in line with Option one, but with sufficient detail to allow Audit Committees to have consistent Terms of Reference in the appointment of External Auditors, which is the matter being addressed by this review.

18. Should the process for the appointment of an auditor be set out in a statutory code of practice or guidance? If the latter, who should produce and maintain this?

Proposed response: Good practice guidance could be supplied by the National Audit Office but would have to be appreciative of local procurement requirements / regulations

19. Is this a proportionate approach to public involvement in the selection and work of auditors?

Proposed response: Whilst transparency is essential it is questioned the added value this will provide, however, we concur the process proposed is not overly bureaucratic.

20. How can this process be adapted for bodies without elected members?

Proposed response: N/A

21. Which option do you consider provides a sufficient safeguard to ensure that local public bodies appoint an auditor? How would you ensure that the audited body fulfils its duty?

Proposed response: Options 1 and 2 could be combined as a two stage process with a timeframe being allocated to option 1, if a public body does not appoint an auditor within given timeframes then option 2 would be invoked.

22. Should local public bodies be under a duty to inform a body when they have appointed an auditor, or only if they have failed to appoint an auditor by the required date?

Proposed response: Only if they have failed to appoint an auditor

23. If notification of auditor appointment is required, which body should be notified of the auditor appointment/failure to appoint an auditor?

Proposed response: N/A

24. Should any firm's term of appointment be limited to a maximum of two consecutive five-year periods?

Proposed response: Yes

25. Do the ethical standards provide sufficient safeguards for the rotation of the engagement lead and the audit team for local public bodies? If not, what additional safeguards are required?

Proposed response: Yes

26. Do the proposals regarding the reappointment of an audit firm strike the right balance between allowing the auditor and audited body to build a relationship based on trust whilst ensuring the correct degree of independence?

Proposed response: Yes

27. Do you think this proposed process provides sufficient safeguard to ensure that auditors are not removed, or resign, without serious consideration, and to maintain independence and audit quality? If not, what additional safeguards should be in place?

Proposed response: Yes

28. Do you think the new framework should put in place similar provision as that in place in the Companies sector, to prevent auditors from seeking to limit their liability in an unreasonable way?

Proposed response: Yes

Scope of audit work and the work of the auditors (consultation questions 29 – 41)

29. Which option would provide the best balance between costs for local public bodies, a robust assessment of value for money for the local taxpayer and provides sufficient assurance and transparency to the electorate? Are there other options?

Proposed response: Only option 1 will reduce costs. Other options will increase or maintain costs at existing levels.

30. Do you think local public bodies should be required to set out their performance and plans in an annual report? If so, why?

Proposed response: No, there is currently a host of financial and performance information transparently available to the public. An annual report would further add to the burden of reporting currently in place and indeed cost to the local taxpayer.

31. Would an annual report be a useful basis for reporting on financial resilience, regularity and propriety, as well as value for money, provided by local public bodies?

Proposed response: See response to 30.

32. Should the assurance provided by the auditor on the annual report be 'limited' or 'reasonable'?

Proposed response: See response to 30.

33. What guidance would be required for local public bodies to produce an annual report? Who should produce and maintain the guidance?

Proposed response: See response to 30.

34. Do these safeguards also allow the auditor to carry out a public interest report without his independence or the quality of the public interest report being compromised?

Proposed response: Yes

35. Do you agree that auditors appointed to a local public body should also be able to provide additional audit-related or other services to that body?

Proposed response: Yes, subject to appropriate safeguards with regard independence.

36. Have we identified the correct balance between safeguarding auditor independence and increasing competition? If not, what safeguards do you think would be appropriate?

Proposed response: Yes

37. Do you agree that it would be sensible for the auditor and the audit committee of the local public body to be designated prescribed persons under the Public Interest Disclosure Act? If not, who do you think would be best placed to undertake this role?

Proposed response: The proposal assumes independent members in the make up of the Audit Committee. If this were not to be the case the designated person may have to be considered further.

38. Do you agree that we should modernise the right to object to the accounts? If not, why?

Proposed response: Yes, however, the cost benefit that auditors should be brought within the remit of the Freedom of Information Act requires careful consideration as does the potential impact on the auditor / audit body relationship

39. Is the process set out above the most effective way for modernising the procedures for objections to accounts? If not, what system would you introduce?

Proposed response: Yes

40. Do you think it is sensible for auditors to be brought within the remit of the Freedom of Information Act to the extent of their functions as public office holders? If not, why?

Proposed response: See response to question 38, however enquiries on the financial affairs of the audited body should still be answered by that body.

41. What will be the impact on (i) the auditor/audited body relationship, and (ii) audit fees by bringing auditors within the remit of the Freedom of Information Act (to the extent of their functions as public office holders only)?

Proposed response: See response to question 38, potential of fees to increase dependent on the level of FOI requests administered.

Arrangements for smaller bodies (consultation questions 42 – 50)

42. Which option provides the most proportionate approach for smaller bodies? What could happen to the fees for smaller bodies under our proposals?

Proposed response: Whilst option 1 removes the burden of procurement and appointment it does place a significant administrative burden on the county / unitary authority. which is deemed inappropriate in terms of both the additional role and also the resultant costs to the Local Authority.

Option 2 places a far greater emphasis on smaller bodies and enables them to retain accountability for the appointment of their own independent examiner. The logistics of smaller bodies coordinating to form joint audit committees to provide independence in the appointment process may be challenging but that is a matter for them to determine.

Therefore Option 2 is the most appropriate approach.

43. Do you think the county or unitary authority should have the role of commissioner for the independent examiners for smaller bodies in their areas? Should this be the section 151 officer, or the full council having regard to advice provided by the audit committee? What additional costs could this mean for county or unitary authorities?

Proposed response: No there should not be a role for the Unitary Council, this is a matter for individual 'smaller organisations'. It would be inappropriate to add this cost burden to the Unitary Council and therefore local tax payers. See response to question 42. Costs could be reduced by ensuring that any new audit framework allows local bodies, both small and large, to share contracts for audit services where it is advantageous to do so.

44. What guidance would be required to enable county/unitary authorities to:

- Appoint independent examiners for the smaller bodies in their areas?
- Outline the annual return requirements for independent examiners?
- Who should produce and maintain this guidance?

Proposed response: This proposal is inappropriate, smaller local bodies should be allowed to continue to operate in their current manner, independent of the Unitary Council. The required guidance for smaller bodies should be set up in a standard manner and maintained by the overall regulator (potentially the NAO)

45. Would option 2 ensure that smaller bodies appoint an external examiner, whilst maintaining independence in the appointment?

Proposed response: Yes - See response to question 42

46. Are there other options given the need to ensure independence in the appointment process? How would this work where the smaller body, e.g. a port health authority, straddles more than one county/unitary authority?

Proposed response: Option 2 ensures smaller bodies maintain current level of independence, that should be continued complete with any required guidance from NAO per responses to Q 42 – 45 above.

47. Is the four-level approach for the scope of the examination too complex? If so, how would you simplify it? Should the threshold for smaller bodies be not more than £6.5m or £500,000? Are there other ways of dealing with small bodies, e.g. a narrower scope of audit?

Proposed response: Four-level approach appears reasonable in line with Option One

48. Does this provide a proportionate, but appropriate method for addressing issues that give cause for concern in the independent examination of smaller bodies? How would this work where the county council is not the precepting authority?

Proposed response: Yes, however, our response relates to Option one with continued independence of smaller bodies, no additional role for the County Council

49. Is the process set out above the most appropriate way to deal with issues raised in relation to accounts for smaller bodies? If not, what system would you propose?

Proposed response: Yes, Option One is the most appropriate.

50. Does this provide a proportionate but appropriate system of regulation for smaller bodies? If not, how should the audit for this market be regulated?

Proposed response: Yes, Option One achieves this.