

Governance Committee

Monday, 25th April, 2022
at 5.00 pm

PLEASE NOTE TIME OF MEETING

Committee Rooms 1 and 2 - Civic Centre

This meeting is open to the public

Members of the Committee

Councillor Fuller (Chair)
Councillor D Galton (Vice-Chair)
Councillor Bunday
Councillor Leggett
Councillor Magee
Councillor J Payne
Councillor Shields

Contacts

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PUBLIC INFORMATION

Role of the Governance Committee

Information regarding the role of the Committee's is contained in Part 2 (Articles) of the Council's Constitution.

[02 Part 2 - Articles](#)

It includes at least one Councillor from each of the political groups represented on the Council, and at least one independent person, without voting rights, who is not a Councillor or an Officer of the Council.

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

Public Representations At the discretion of the Chair, members of the public may address the meeting on any report included on the agenda in which they have a relevant interest. Any member of the public wishing to address the meeting should advise the Democratic Support Officer (DSO) whose contact details are on the front sheet of the agenda

Southampton: Corporate Plan 2020-2025 sets out the four key outcomes:

- Communities, culture & homes - Celebrating the diversity of cultures within Southampton; enhancing our cultural and historical offer and using these to help transform our communities.
- Green City - Providing a sustainable, clean, healthy and safe environment for everyone. Nurturing green spaces and embracing our waterfront.
- Place shaping - Delivering a city for future generations. Using data, insight and vision to meet the current and future needs of the city.
- Wellbeing - Start well, live well, age well, die well; working with other partners and other services to make sure that customers get the right help at the right time

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

Mobile Telephones:- Please switch your mobile telephones to silent whilst in the meeting

Use of Social Media:- The Council supports the video or audio recording of meetings open to the public, for either live or subsequent broadcast. However, if, in the Chair's opinion, a person filming or recording a meeting or taking photographs is interrupting proceedings or causing a disturbance, under the Council's Standing Orders the person can be ordered to stop their activity, or to leave the meeting. By entering the meeting room you are consenting to being recorded and to the use of those images and recordings for broadcasting and or/training purposes. The meeting may be recorded by the press or members of the public.

Any person or organisation filming, recording or broadcasting any meeting of the Council is responsible for any claims or other liability resulting from them doing so.

Details of the Council's Guidance on the recording of meetings is available on the Council's website.

Dates of Meetings: Municipal Year 2021/2022

2021	2022
14 June	14 February
26 July	25 April
4 October	
16 November	
13 December	

CONDUCT OF MEETING

Terms of Reference

The terms of reference of the Governance Committee are contained in Part 3 of the Council's Constitution.

[03 - Part 3 - Responsibility for Functions](#)

Rules of Procedure

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

Business to be discussed

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

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 "Disclosable Pecuniary Interest" or "Other Interest" they may have in relation to matters for consideration on this Agenda.

DISCLOSABLE PECUNIARY INTERESTS

A Member must regard himself or herself as having a Disclosable Pecuniary Interest in any matter that they or their spouse, partner, a person they are living with as husband or wife, or a person with whom they are living as if they were a civil partner in relation to:

- (i) Any employment, office, trade, profession or vocation carried on for profit or gain.
- (ii) Sponsorship:

Any payment or provision of any other financial benefit (other than from Southampton City Council) made or provided within the relevant period in respect of any expense incurred by you in carrying out duties as a member, or towards your election expenses. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.

(iii) Any contract which is made between you / your spouse etc (or a body in which the you / your spouse etc has a beneficial interest) and Southampton City Council under which goods or services are to be provided or works are to be executed, and which has not been fully discharged.

(iv) Any beneficial interest in land which is within the area of Southampton.

(v) Any license (held alone or jointly with others) to occupy land in the area of Southampton for a month or longer.

(vi) Any tenancy where (to your knowledge) the landlord is Southampton City Council and the tenant is a body in which you / your spouse etc has a beneficial interests.

(vii) Any beneficial interest in securities of a body where that body (to your knowledge) has a place of business or land in the area of Southampton, and either:

- a) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body, or
- b) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which you / your spouse etc has a beneficial interest that exceeds one hundredth of the total issued share capital of that class.

Other Interests

A Member must regard himself or herself as having an, 'Other Interest' in any membership of, or occupation of a position of general control or management in:

Any body to which they have been appointed or nominated by Southampton City Council

Any public authority or body exercising functions of a public nature

Any body directed to charitable purposes

Any body whose principal purpose includes the influence of public opinion or policy

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

1 **APOLOGIES**

To receive any apologies.

2 **DISCLOSURE OF PERSONAL AND PECUNIARY INTERESTS**

In accordance with the Localism Act 2011, and the Council's Code of Conduct, Members to disclose any personal or pecuniary interests in any matter included on the agenda for this meeting.

NOTE: Members are reminded that, where applicable, they must complete the appropriate form recording details of any such interests and hand it to the Democratic Support Officer.

3 **STATEMENT FROM THE CHAIR**

4 **MINUTES OF PREVIOUS MEETING (INCLUDING MATTERS ARISING)** (Pages 1 - 2)

To approve and sign as a correct record the Minutes of the meeting held on 14 February 2022 and to deal with any matters arising.

5 **ANNUAL REVIEW OF THE CONSTITUTION** (Pages 3 - 8)

Report of Service Director: Legal & Business Operations setting out the annual review of the Council's constitution

6 **INTERNAL AUDIT PROGRESS REPORT** (Pages 9 - 30)

Report of the Chief Internal Auditor detailing the Internal Audit Progress report for the period 25 January 2022 to 5 April 2022.

7 **ANNUAL AUDIT PLAN & CHARTER 2022-23** (Pages 31 - 62)

Report of the Chief Internal Auditor requesting approval of the Annual Internal Audit Plan 2022-23 and the Internal Audit and Counter Fraud Charter and Code of Ethics 2022-23.

8 **EXTERNAL AUDIT - AUDIT PLAN** (Pages 63 - 106)

Report of the External Auditors which outlines the External Audit Plan for 2021-22.

Wednesday, 13 April 2022

Service Director, Legal & Governance

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GOVERNANCE COMMITTEE

MINUTES OF THE MEETING HELD ON 14 FEBRUARY 2022

Present: Councillors Fuller (Chair), D Galton (Vice-Chair), Bunday, Leggett, Magee, J Payne and Shields

31. **MINUTES OF PREVIOUS MEETING (INCLUDING MATTERS ARISING)**

RESOLVED: that the minutes for the Committee meetings on 16 November 2021 and 10 January 2022 be approved and signed as a correct record.

32. **INTERNAL AUDIT PROGRESS REPORT**

The Committee received and noted the report of the Chief Internal Auditor detailing the Internal Audit Progress report for the period 1 November 2021 to 24 January 2022.

The Committee noted the Travel and Expenses Exceptions Raised figures but heard that the error rate was low, when compared to the large number of expenses submitted. However, it was requested that a more detailed report on application and monitoring of expenses under the expenses policy be included as a future agenda item.

33. **CORPORATE PLAN AND PROJECTS GOVERNANCE REPORT**

The Committee received and noted the report of the Executive Director – Business Services detailing the latest governance progress regarding key programmes and initiatives outlined in the Corporate Plan 2021-25.

It was noted that for future reports, the use of coloured printed appendices to show Rag Ratings in the Corporate Plan would be useful.

34. **AUDITOR'S ANNUAL REPORT**

The Committee received and noted the report of the External Auditor detailing the Auditor's Annual Report showing key findings across the range of the auditor's work and responsibilities under statute and the Code, in relation to the 2020/21 audit.

The Committee noted that under new requirements of the Code regarding value for money, the report also included a commentary on the Council's arrangements regarding financial sustainability, governance, and improving economy, efficiency and effectiveness.

35. **TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS 2022/23 TO 2025/26**

The Committee considered the report of the Executive Director for Finance, Commercialisation and S151 Officer seeking approval of the Treasury Management Strategy and Indicators for 2022/23 to 2025/26.

The Committee particularly noted paragraph 11 of the report which detailed the core elements of the strategy.

RESOLVED:

- (i) That the Council's Treasury Management (TM) Strategy and Indicators for 2022/23 to 2025/26, as detailed in appendix 1 of the report be approved;
- (ii) That at the time of writing this report it was noted that it had been assumed that the budget proposals within the Medium Term Financial Strategy 2022/23 to 2025/26, Revenue Budget 2022/23 and Capital Programme 2020/21 to 2026/27 report, to be submitted to Council on the 23 February 2022, would be approved. Should the recommendations change and have any impact on the Prudential Indicators this would be reported to Council on 23 February 2022;
- (iii) That the Executive Director – Finance and Commercialism would report any amendments and in year revisions to the TM Strategy as part of quarterly financial and performance monitoring; and
- (iv) That the proposal to continue to explore an alternative Treasury Strategy to generate additional income that could support local services, whilst maintaining a prudent approach be endorsed.

36. **FINANCIAL MANAGEMENT CODE**

The Committee received and noted the report of the Executive Director for Finance, Commercialisation and S151 Officer reporting on the introduction of the new Code of Practice on Financial Management and the responsibilities within it. The Committee further received and noted the principles included in the Code and the self assessment shown in Appendix 1, including the action plan to ensure alignment to the Code.

The Committee noted that the Code was designed to support good practice in financial management and to assist with demonstrating financial sustainability. The Committee particularly noted the principles of good financial management as set out in paragraph 8 of the report.

Agenda Item 5

DECISION-MAKER:	GOVERNANCE COMMITTEE FULL COUNCIL
SUBJECT:	ANNUAL REVIEW OF THE CONSTITUTION
DATE OF DECISION:	25 TH APRIL 2022 (GOVERNANCE COMMITTEE) 18 TH MAY 2022 (COUNCIL)
REPORT OF:	SERVICE DIRECTOR: LEGAL & BUSINESS OPERATIONS & MONITORING OFFICER

<u>CONTACT DETAILS</u>			
Executive Director	Title	Acting Chief Executive	
	Name:	Mike Harris	Tel: 023 8083 2882
	E-mail	Mike.harris@southampton.gov.uk	
Author:	Title	Service Director: Legal & Business Operations	
	Name:	Richard Ivory	Tel: 023 8083 2794
	E-mail	Richard.ivory@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY	
N/A	
BRIEF SUMMARY	
This report sets out the annual review of the Constitution. This will be considered and initially discussed by Governance Committee on 25 th April 2022. The recommendations to both the Governance Committee and Council are included below.	
As ever, the Constitution is a document that changes regularly and, therefore, further revisions may be proposed prior to or at Council.	
RECOMMENDATIONS:	
<u>Governance Committee</u>	
	(i) To consider and recommend the changes to the Constitution to Council for adoption.
<u>Council</u>	
	(ii) To agree the minor changes to the Constitution and associated arrangements as set out in this report;
	(iii) To authorise the Service Director: Legal & Business Operations to finalise the arrangements as approved by Full Council and make any further consequential or minor changes arising from the decision;
	(iv) To approve the City Council's Constitution, as amended, including the Officer Scheme of Delegation, for the Municipal Year 2022-23.
REASONS FOR REPORT RECOMMENDATIONS	
1.	It is appropriate as a core tenet of good governance for the Council to keep its Constitution under regular review and to amend it, both to reflect experience

	and changing circumstances. No additions to the comprehensive Officer Scheme of Delegation are proposed.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
2.	The Council has previously resolved to review its Constitution annually. Therefore, it is appropriate that this report is considered by Members. There are a range of recommendations set out within the report, none of which are substantial changes. Members have a range of options about various changes not least of which is to amend or reject some or all of them.
DETAIL (Including consultation carried out)	
<u>Contract Procedure Rules (CPRs)</u>	
3.	Minor changes are proposed to the CPRs as indicated below. Additional wording is proposed to the exemption section to require a contract award notice is published for all approved exemptions that fall within the High Value Transaction Procedure. This will clarify that all approved exemptions above £25k will be required to have a notice published on the web via Contracts Finder/Find A Tender.
4.	Amendment of wording to make clear that the Medium Value Transaction Procedure and the Low Value Transaction Procedure threshold values will remain exclusive of VAT. This will clarify the application of the Public Procurement (Agreement on Government Procurement) (Threshold) (Amendment) Regulations 2021 and PPN 10/21 – Thresholds and Inclusion of VAT in respect of the CPRs and make the assessment of Contract Value at this value clearer for users.
5.	Amendment of wording to make clear that in respect of procurements with a Contract Value of or in excess of the PCR Thresholds, the value must now be calculated inclusive of VAT. This is to apply the Public Procurement (Agreement on Government Procurement) (Threshold) (Amendment) Regulations 2021 and PPN 10/21 – Thresholds and Inclusion of VAT to PCR Procedure procurements.
6.	Updates to the following PCR Thresholds to reflect legislative threshold changes applicable between 1 st January 2022 and 31 st December 2023: <ul style="list-style-type: none"> • Works Contracts £5,336,937 • Supply and Service Contracts £213,477 This is to reflect changes to legislative thresholds which are amended every two years in line with the Public Procurement (Agreement on Government Procurement) (Threshold) (Amendment) Regulations 2021 and PPN 10/21 – Thresholds and Inclusion of VAT.
7.	Update to the Concession Contract Procedure to include reflect legislative threshold changes which increase the relevant threshold to £5,336,937. This is to reflect changes to legislative thresholds which are amended every two years in line with the Public Procurement (Agreement on Government Procurement) (Threshold) (Amendment) Regulations 2021 and PPN 10/21 – Thresholds and Inclusion of VAT.
8.	Addition of wording to provide clarity that Rule 15.7 applies when a variation to a contract is not explicit within the terms and conditions of the contract. To clarify that Executive Directors can approve variations and extensions where

	they are envisaged under the contract and the approach for approving them when this is not the case.
<u>Health & Wellbeing Board</u>	
9.	As members will be aware Health and Wellbeing Boards (HWBs) were established under the Health and Social Care Act 2012 to act as a forum in which key leaders from the local health and care system could work together to improve the health and wellbeing of their local population. HWB have limited formal powers; these being to deliver a joint strategic needs assessment and a health and wellbeing strategy. They are constituted as a partnership forum rather than an executive decision-making body. Southampton's HWB is accountable to Cabinet.
10.	<p><i>Membership</i></p> <p>The Board's current voting membership is:</p> <ul style="list-style-type: none"> • Elected member lead for Health & Social Care (Chair) – Cllr Ivan White • Clinical Director for Southampton (representative of Hampshire, Southampton and Isle of Wight Clinical Commissioning Group) – Dr Sarah Young (Deputy Chair) • Opposition member lead for Health & Social Care – Cllr Lorna Fielker • Three additional Councillors appointed by Council under the rule of proportionality – Cllr Peter Baillie, Cllr Terry Streets, Cllr Robert Stead • Executive Director Wellbeing (Children & Learning) – Rob Henderson • Executive Director Wellbeing (Adults & Health) – Guy Van Dichele • Director of Public Health – Dr Debbie Chase • Healthwatch representative – Rob Kurn
11.	The Board previously also included a voting representative from NHS England (Dr Shahed Ahmed), but this membership responsibility has recently been discharged to CCGs, so the Board has reduced in number by one, and there is now only one representative from a health organisation (Dr Young). In addition, the Chief Medical Officer at University Hospital Southampton and the Council's Clinical Director for Quality and Integration receive Board papers and regularly join as invited guests.
12.	At its meeting of 18 January 2022, the Board reviewed its membership and discussed whether or not to expand it to include representatives from additional health and wellbeing organisations. Members noted that it was important to ensure the right expertise was available to the Board when needed. However, it was recognised that retaining a smaller Board may enable it to remain more agile. When considering the addition of members to represent organisations from the wider health and wellbeing sector it was also felt that it may not be the most efficient use of representatives' limited time to join every meeting of the Board.
13.	Members instead proposed that individual expertise and representation be sought on a per case basis. Individuals could be invited to contribute to and attend HWB meetings according to need.
14.	However, the Board's current small membership may put its meetings at risk of not being quorate. The quorum required is for at least one Councillor, one member of Healthwatch and one representative from health to be present. It may be sensible to invite Healthwatch to either appoint an additional member

	<p>or to nominate a deputy who could attend if needed. The number of members from the health sector could also be increased to include representatives who could add value, vision and skills in areas of crucial importance to the HWB, for example in children and young people and in mental health. The contributions of the Chief Medical Officer at University Hospital Southampton and the Council's Clinical Director for Quality and Integration could also be formalised by inviting them to join as full Board members. Amendments to the HWB terms of reference must be approved by Council.</p>
15.	<p>It is was therefore resolved by HWB to recommend to Council that:</p> <ul style="list-style-type: none"> • For agenda items requiring additional expertise, the Chair, in discussion with the relevant Executive Directors, invite contributions from and attendance of additional individuals on a per case basis • The HWB terms of reference are amended: <ul style="list-style-type: none"> ○ to remove the seat previously allocated to NHS England; and ○ to include additional members with a focus on strategic system working <ul style="list-style-type: none"> ▪ a local mental health clinician ▪ a local community paediatrician; and ○ to include deputy HSIOW CCG and Healthwatch representatives; and <p>to formalise as full voting members the inclusion of the Chief Medical Officer at University Hospital Southampton and the SCC Clinical Director for Quality and Integration.</p>
16.	<p>The Southampton Health and Wellbeing Board voting membership would therefore comprise:</p> <ul style="list-style-type: none"> • Elected member lead for Health & Social Care (Chair); • Clinical Director for Southampton (representative of Hampshire, Southampton and Isle of Wight Clinical Commissioning Group), or nominated deputy; • Opposition member lead for Health & Social Care; • Three additional councillors appointed by Council under the rule of proportionality; • Executive Director Wellbeing (Children & Learning); • Executive Director Wellbeing (Adults & Health); • Director of Public Health; • Healthwatch representative, or nominated deputy; • Local mental health clinician; • Local community paediatrician; • Chief Medical Officer at University Hospital Southampton NHS Foundation Trust; • SCC Clinical Director for Quality and Integration. <p>The quorum will comprise at least one Councillor, one member of Healthwatch and one representative from health (to include HSIOW CCG, a mental health clinician, a community paediatrician, and University Hospital Southampton).</p>
<p>RESOURCE IMPLICATIONS</p>	

<u>Capital/Revenue</u>	
	None
<u>Property/Other</u>	
	None
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
	An up to date Constitution is a requirement under the Local Government Act 2000
<u>Other Legal Implications:</u>	
	None
RISK MANAGEMENT IMPLICATIONS	
	None
POLICY FRAMEWORK IMPLICATIONS	
	None

KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	None
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	Link to tracked changes Constitution - Constitutional Review 2022
2.	

Documents In Members' Rooms

1.	
2.	

Equality Impact Assessment

Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	No
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Data Protection Impact Assessment

Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.	No
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Other Background Documents

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.		
2.		

Agenda Item 6

DECISION-MAKER:	GOVERNANCE COMMITTEE
SUBJECT:	INTERNAL AUDIT PROGRESS REPORT 2021-22
DATE OF DECISION:	25th April 2022
REPORT OF:	CHIEF INTERNAL AUDITOR

<u>CONTACT DETAILS</u>			
Executive Director	Title	FINANCE & COMMERCIALISATION	
	Name:	John Harrison	Tel: 023 8083 4897
	E-mail	John.Harrison@southampton.gov.uk	
Author:	Title	CHIEF INTERNAL AUDITOR	
	Name:	Elizabeth Goodwin	Tel: 023 8083 4616
	E-mail	Elizabeth.Goodwin@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY
N/A
BRIEF SUMMARY
<p>The Public Sector Internal Audit Standards 2017 (PSIAS), requires the Chief Internal Auditor (CIA) to provide periodical updates to the Governance Committee on:</p> <ul style="list-style-type: none">• Progress made against the agreed annual audit plan.• Results of audit activities and• Management's response to risk that in the CIA's judgement maybe unacceptable to the Authority <p>All other PSIAS requirements are communicated in either the charter or annual audit opinion, which are reported separately to this committee at various times throughout the year.</p> <p>There are a total of 70 audit reviews in the revised plan for 2021/22. To date all audits have been completed or are in progress as at 5th April 2022. This represents 59 (84%) audits where the report has been finalised, 6 (9%) where the report is in draft and 5 (7%) audits currently in progress.</p> <p>There are currently no 'no assurance' reports or critical exceptions contained in this report for this period. Progress has been made implementing agreed actions despite significant pressures across the organisation with the ongoing COVID-19 requirements. In addition to this, it is positive to note that the internal control environment specifically in relation to compliance has also improved.</p> <p>Internal Audit progress for the period 25th January to 5th April 2022 is covered in in the report attached as Appendix 1.</p>

RECOMMENDATIONS:	
(i)	That the Governance Committee notes the Internal Audit Progress report for the period 25 th January to 5 th April 2022.
REASONS FOR REPORT RECOMMENDATIONS	
1.	In accordance with the Public Sector Internal Audit Standards the Chief Internal Auditor is required to provide an update on progress against the annual audit plan to the Governance Committee for information.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
	None
DETAIL (Including consultation carried out)	
	As above
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
	None
<u>Property/Other</u>	
	None
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
	The Accounts and Audit (England) Regulations 2015 state 'a relevant body must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the Public Sector Internal Auditing Standards.
<u>Other Legal Implications:</u>	
	None
RISK MANAGEMENT IMPLICATIONS	
	The report is for note only, there is no decision to be made.
POLICY FRAMEWORK IMPLICATIONS	
	None

KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	None
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	Internal Audit Progress Report for the period 25 th January to 5 th April 2022.
Documents In Members' Rooms	
1.	None
Equality Impact Assessment	
Do the implications/subject of the report require an Equality and	No

Safety Impact Assessment (ESIA) to be carried out.		
Data Protection Impact Assessment		
Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.		No
Other Background Documents		
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.		
2.		

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SOUTHAMPTON
CITY COUNCIL

Internal Audit Progress Report

25th April 2022

Elizabeth Goodwin, Chief Internal Auditor

1. Introduction

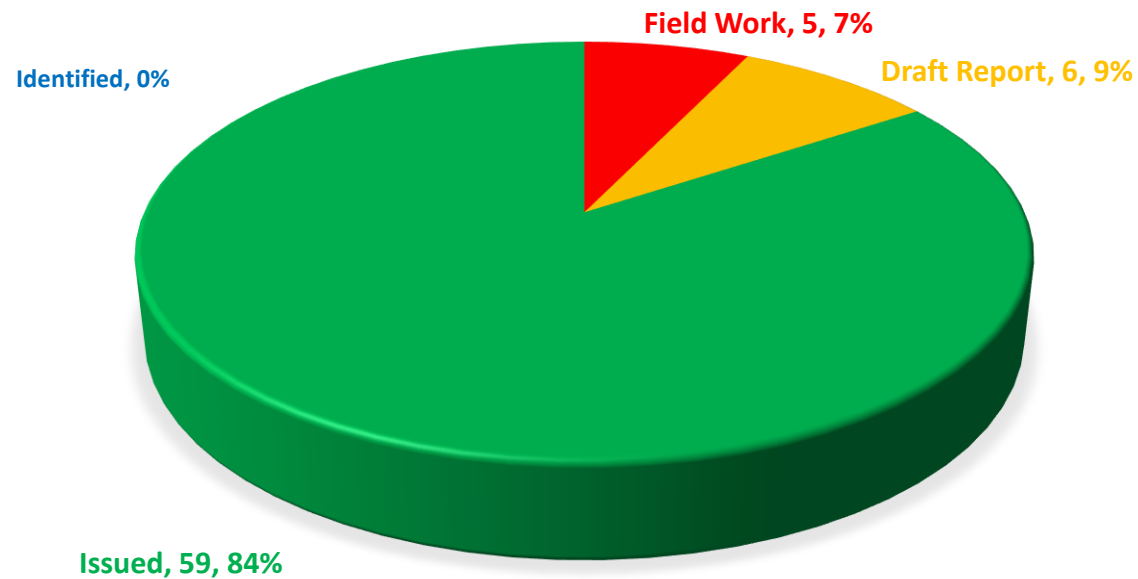
This report includes the status against the 2021/22 internal audit plan for this reporting period (25th January to 5th April 2022).

In summary all audits from the 2021/22 plan have been concluded or are in progress. All items yet to be fully completed will be finalised by the end of the financial year to enable an annual opinion to be given.

There are currently no ‘no assurance’ reports or critical exceptions contained in this report for this period. Progress has been made implementing agreed actions despite significant pressures across the organisation. It is positive to note that the internal control environment specifically in relation to compliance has also improved.

All items completed since the last committee attendance are detailed at a summary level in this report. This includes, full audits, follow up work and grant work completed.

2. Audit Plan Progress as of 5th April 2022



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There are a total of 70 reviews in the 2021/22 Audit Plan. The previous position was at 24th January 2022, the current is as at 5th April 2022.

To date, all audits have been completed or are in progress as at 5th April 2022. This represents 59 (84%) audits where the report has been finalised, 6 (9%) where the report is in draft and 5 (7%) audits currently in progress.

Status	Previous Position	Current Position
Identified	6	0
Fieldwork	14	5
Draft Report	10	6
Final Report	44	59
Total	74	70

3. Audit Plan Status/Changes

The Audit Plan has been more flexible this year to take into account additional work predominately in the area of grants and long-term sickness within the audit service. Since the last reporting period the following should be noted; **Additions, removals and amendments to the 2021/22 Audit Plan:**

- Addition – Protect and Vaccinate Grant
- Removed – Multi Agency Safeguarding Hub (MASH) - moved at the request of the service.
- Removed – Payroll - pension return already covered.
- Removed – Public Health Outcomes - moved due to long-term sickness within the audit service.
- Removed – Supplier Performance - follow up moved due to long-term sickness within the audit service.
- Removed – Waste Operations - moved due to long-term sickness within the audit service.

All the audits removed above will now be performed as part of the 2022/23 audit plan.

4. Areas of Concern

There are no 'no assurance' opinion audits being reported on this period, all other findings are noted below.

5. Assurance Levels

Internal Audit reviews culminate in an opinion on the assurance that can be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives for the area under review.

Assurance Level	Description / Examples
Assurance	<i>No issues or minor improvements noted within the audit but based on the testing conducted, assurance can be placed that the activity is of low risk to the Authority</i>
Reasonable Assurance	<i>Control weaknesses or risks were identified but overall the activities do not pose significant risks to the Authority</i>
Limited Assurance	<i>Control weaknesses or risks were identified which pose a more significant risk to the Authority</i>
No Assurance	<i>Major individual issues identified or collectively a number of issues raised which could significantly impact the overall objectives of the activity that was subject to the Audit</i>
NAT	<i>No areas tested</i>

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Audits rated No Assurance are specifically highlighted to the Governance Committee along with any Director's comments. The Committee is able to request any director attends a meeting to discuss the issues.

6. Exception Risk Ranking

The following table outline the exceptions raised in audit reports, reported in priority order and are broadly equivalent to those previously used.

Priority Level	Description
Low Risk (Improvement)	<i>Very low risk exceptions or recommendations that are classed as improvements that are intended to help the service fine tune its control framework or improve service effectiveness and efficiency. An example of an improvement recommendation would be making changes to a filing system to improve the quality of the management trail.</i>
Medium Risk	<i>These are control weaknesses that may expose the system function or process to a key risk but the likelihood of the risk occurring is low.</i>
High Risk	<i>Action needs to be taken to address significant control weaknesses but over a reasonable timeframe rather than immediately. These issues are not 'show stopping' but are still important to ensure that controls can be relied upon for the effective performance of the service or function. If not addressed, they can, over time, become critical. An example of an important exception would be the introduction of controls to detect and prevent fraud.</i>
Critical Risk	<i>Control weakness that could have a significant impact upon not only the system function or process objectives but also the achievement of the Council's objectives in relation to: The efficient and effective use of resources, The safeguarding of assets, The preparation of reliable financial and operational information, Compliance with laws and regulations and corrective action needs to be taken immediately.</i>

Any critical exceptions found the will be reported in their entirety to the Governance Committee along with Director's comments

7. 2021/22 Audits completed since the last reporting period

Woodlands Community College

Exceptions Raised

Critical	High	Medium	Low
0	0	3	0

Overall Assurance Level

Reasonable

Assurance Level by Scope Area

Achievement of Strategic Objectives	Reasonable
Compliance with Policies, Laws & Regulations	Reasonable
Safeguarding of Assets	Reasonable
Effectiveness and Efficiency of Operations	Reasonable
Reliability and Integrity of Data	No Areas Tested

The first medium risk relates to 3/9 Finance & Personnel Group meetings having been cancelled and only 1 of the remaining 6 meetings indicate that a Finance Governor was in attendance. The second medium risk relates to a review of school employee files were DBS confirmation as well as supporting documentation such as council tax bills were being retained longer than permitted under GDPR requirements. The final medium risk relates to a lack of annual checks on inventory and authorisation of asset disposals.

Children's Direct Payments

Exceptions Raised

Critical	High	Medium	Low
0	7	1	1

Overall Assurance Level

Limited

Assurance Level by Scope Area

Achievement of Strategic Objectives	No Areas Tested
Compliance with Policies, Laws & Regulations	Limited
Safeguarding of Assets	No Areas Tested
Effectiveness and Efficiency of Operations	Limited
Reliability and Integrity of Data	No Areas Tested

The first high risk relates to sample testing finding 10 out of 20 panel reviews being overdue. The second high risk relates to testing of Jigsaw direct payment users where 4 out of 20 cases did not have a support plan and a review of 11 uplifts found 5 of these did not have an updated support plan since the direct payment personal budget amount had changed. The third high risk relates to 1/20 direct payments did not match the allocated funding amount. The fourth high risk relates to 8/20 annual audits being overdue. The fifth high risk relates to 8/20 case audits not being completed with appropriate financial records and evidence submitted. The sixth high risk relates to a lack of process maps and guidance for checking for fraudulent activity. The final high risk relates to 13/20 cases having an incorrect next audit date on the monitoring spreadsheet. The medium risk relates to 3/20 not having signed direct payment agreements.

Ridge Progress Review

Outcomes:	Consultancy Work
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Following a commissioned assessment to identify the state of SCC's compliance work (water safety, asbestos, fire, electrical and gas inspections etc) and an action plan to resolve issues, Internal Audit removed compliance audits from the 2021/22 audit plan. This was agreed at the Health & Safety Board to reduce potential duplication of work and resource pressures on the service whilst they focused on implementing agreed actions. Instead of performing these reviews Internal Audit monitored progress against the proposed timeframe of actions. The results of this work confirms that whilst the initial timetable for agreed actions have not always been achieved, the position/ deviations from plan have been regularly communicated to the Health & Safety Board, who have when relevant taken addition actions to ensure the work required is back on track and blocks or barriers are resolved.

Internal Audit will resume auditing of compliance areas as part of the 2022/23 audit plan.

List of Completed Grants

Grant Outcomes:	Assurance/Certified
Family Matters Grant	

8. 2021/22 Follow-up Audits completed since the last reporting period

Bank Account – Follow Up Audit

Original Exceptions Raised

Critical	High	Medium	Low
0	1	1	0

Latest implementation date scheduled was September 2021.
 Revised date: September 2022

Original Assurance Level

Reasonable

Follow Up Assurance

Reasonable

Follow Up Action

Open	Pending	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
1 (Medium)	0	1 (High)	0	0	0	0	0

Follow up testing found that the high risk relating to the clearing of suspense accounts remained in progress with approximately £590,000 payments requiring allocation, this position has improved since the previous audit. The medium risk relating to banking arrangements remains open as monitoring arrangements have not changed as the banking contract is due to end in September 2022. New contract monitoring arrangements considered for the next contract.

Blue Badge – 2nd Follow Up Audit

Original Exceptions Raised

Critical	High	Medium	Low
0	1	0	0

Latest implementation date scheduled was February 2020.
 Revised date: March 2022

Original Assurance Level

Reasonable

2nd Follow Up Assurance

Reasonable

Follow Up Action

Open	Pending	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
1 (High)	0	0	0	0	0	0	1 (Medium)

Follow up testing identified issues with record retention which remains open as a new system is procured which will include data deletion capabilities and ensure compliance with the Record Retention Schedule.

Business World (Key Controls) – Follow Up Audit
Original Exceptions Raised

Critical	High	Medium	Low
0	3	1	0

Latest implementation date scheduled was July 2021
 Revised date: December 2022

Original Assurance Level

Limited

Follow Up Assurance Level

Reasonable

Follow Up Action

Open	Pending	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
0	0	1 (High)	0	1 (High) 1 (Medium)	1 (High)	0	0

Follow up testing was able to close 2 high and 1 medium risk exceptions. One high risk relating to the implementation of the financial planning and analysis software remains in progress as the purchased software was not fit for purpose and therefore the team has reverted back to using Excelerator reports with forecasting expected to occur late in 2022/23.

Direct Payments Adults – Follow Up Audit
Original Exceptions Raised

Critical	High	Medium	Low
0	4	1	1

Latest implementation date scheduled was March 2021
 Revised date:

Original Assurance Level

Limited

Follow Up Assurance Level

Assurance

Follow Up Action

Open	Pending	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
0	0	1 (Low)	0	4 (High) 1 (Medium)	0	0	0

Follow up testing was able to close four high and one medium risk exception. The low risk relates to policies and procedures and remains in progress as the draft policy is yet to be published.

Fleet Management – Follow Up Audit
Original Exceptions Raised

Critical	High	Medium	Low
0	2	0	1

Latest implementation date scheduled was March 2021
 Revised date: April 2022

Original Assurance Level

Limited

Follow Up Assurance Level

Reasonable

Follow Up Action

Open	Pending	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
1 (High)	0	1 (High)	0	1 (Low)	0	0	0

Follow up testing was able to close one low risk exception. The first high risk remains open due to the procurement for liquid fuel requiring a specification before it can go to market. The second high risk relating to the vehicle replacement strategy remains in progress as while there is now capital in place and vehicle purchases are being made, there is no overarching vehicle replacement strategy in place.

Implementation of Care Director (Project Governance Arrangements) – Follow Up Audit
Original Exceptions Raised

Critical	High	Medium	Low
0	1	0	0

Latest implementation date scheduled was November 2021
 Revised date: N/A

Original Assurance Level

Reasonable

Follow Up Assurance Level

Assurance

Follow Up Action

Open	Pending	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
0	0	0	0	1 (High)	0	0	0

Follow up testing was able to close one high risk exception. Assurance can be provided that governance controls remained in place leading up to implementation of Care Director. This review did not offer comment on the technical specifications and operational suitability of the system as this was outside the scope of this review.

IT Procurement, Inventory Control and Disposal – 2nd Follow Up Audit
Original Exceptions Raised

Critical	High	Medium	Low
0	2	0	1

Latest implementation date scheduled was March 2021
 Revised date: April 2022

Original Assurance Level

Limited

Follow Up Assurance Level

Limited

Follow Up Action

Open	Pending	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
0	0	3 (High)	0	1 (High)	1 (High)	0	0

Follow up testing was able to close two high risk exceptions. The first high risk that remains in progress is due to being unable to locate disposal records for 6 /12 laptops sampled. The second high risk remains in progress as while there had been changes to the physical status of devices to reflect home working, a method for undertaking annual checks on IT equipment is not currently in place. The final high risk that remains in progress is due to an inadequate disposal trail and 10/20 assets still being listed as installed or in stock after disposal.

Mount Pleasant – Follow Up Audit
Original Exceptions Raised

Critical	High	Medium	Low
0	3	0	0

Latest implementation date scheduled was September 2021
 Revised date: TBC

Original Assurance Level

Reasonable

Follow Up Assurance Level

Reasonable

Follow Up Action

Open	Pending	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
1 (High)	0	0	0	1 (High)	1 (High)	0	0

Follow up testing was able to close two high risk exceptions. The remaining high risk relating to the Governing Body Terms of Reference remains open as there is no evidence to confirm the documentation is in place to evidence it has been completed and approved.

Fleet Management – 2nd Follow Up Audit
Original Exceptions Raised

Critical	High	Medium	Low
0	2	3	0

Latest implementation date scheduled was April 2021
 Revised date: May 2022

Original Assurance Level

Limited

2nd Follow Up Assurance

Limited

Follow Up Action

Open	Pending	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
0	0	2 (High) 3 (Medium)	0	0	0	0	0

Follow up testing identified the first high risk relating to a supplier contract remained in progress as it is currently operating via an exemption. The second high risk relating to the monitoring of outstanding payments remains in progress, as while there has been a small percentage decrease in outstanding amounts (debt) for some permits the percentage outstanding for season tickets has increased. The first medium risk remains in progress while a stock take needs to be undertaken. The second medium risk remains in progress awaiting the publication of the 2020/21 Annual Parking report. The final medium risk remains in progress as the service level agreements are reviewed and updated.

Public Protection Notices – Follow Up Audit
Original Exceptions Raised

Critical	High	Medium	Low
0	3	0	0

Latest implementation date scheduled was December 2021
 Revised date: TBC

Original Assurance Level

Limited

Follow Up Assurance Level

Reasonable

Follow Up Action

Open	Pending	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
0	0	2 (High)	0	1 (Low)	0	0	0

Follow up testing was able to close one high risk exception. The high risk exception relating to risk assessments for sharing information remains in progress while the Data Protection Impact Assessment remains in draft and a new post is approved to review and determine Level 2 and Level 3 Public Protection Notices. The other high risk relates to data sharing agreements while the sharing protocol/agreement is finalised.

Short Breaks – 2nd Follow Up Audit
Original Exceptions Raised

Critical	High	Medium	Low
0	2	1	0

Latest implementation date scheduled was March 2021
 Revised date: April 2022

Original Assurance Level

Limited

2nd Follow Up Assurance

Reasonable

Follow Up Action

Open	Pending	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
0	1 (Medium)	0	1 (High)	1 (High)	0	0	0

Follow up testing was able to close one high risk exception. The remaining high risk exception remains open as the implemented action was not effective due to follow up testing identifying non-compliance in overdue annual reviews and recording of short break provisions in Education, Health and Care Plans. The medium risk remains pending due to the individual who produces the Local Offer Annual Report is off on long-term sickness.

9. Follow-up Action Categorisation

The following table outlines the follow up categories used to describe the outcome of follow up testing completed.

Follow Up Categories	Description
Open	<i>No action has been taken on agreed action.</i>
Pending	<i>Actions cannot be taken at the current time but steps have been taken to prepare.</i>
In Progress	<i>Progress has been made on the agreed action however they have not been completed.</i>
Implemented but not Effective	<i>Agreed action implemented but not effective in mitigating the risk.</i>
Closed: Verified	<i>Agreed action implemented and risk mitigated, verified by follow up testing.</i>
Closed: Not Verified	<i>Client has stated action has been completed but unable to verify via testing.</i>
Closed: Management Accepts Risk	<i>Management has accepted the risk highlighted from the exception.</i>
Closed: No Longer Applicable	<i>Risk exposure no longer applicable.</i>

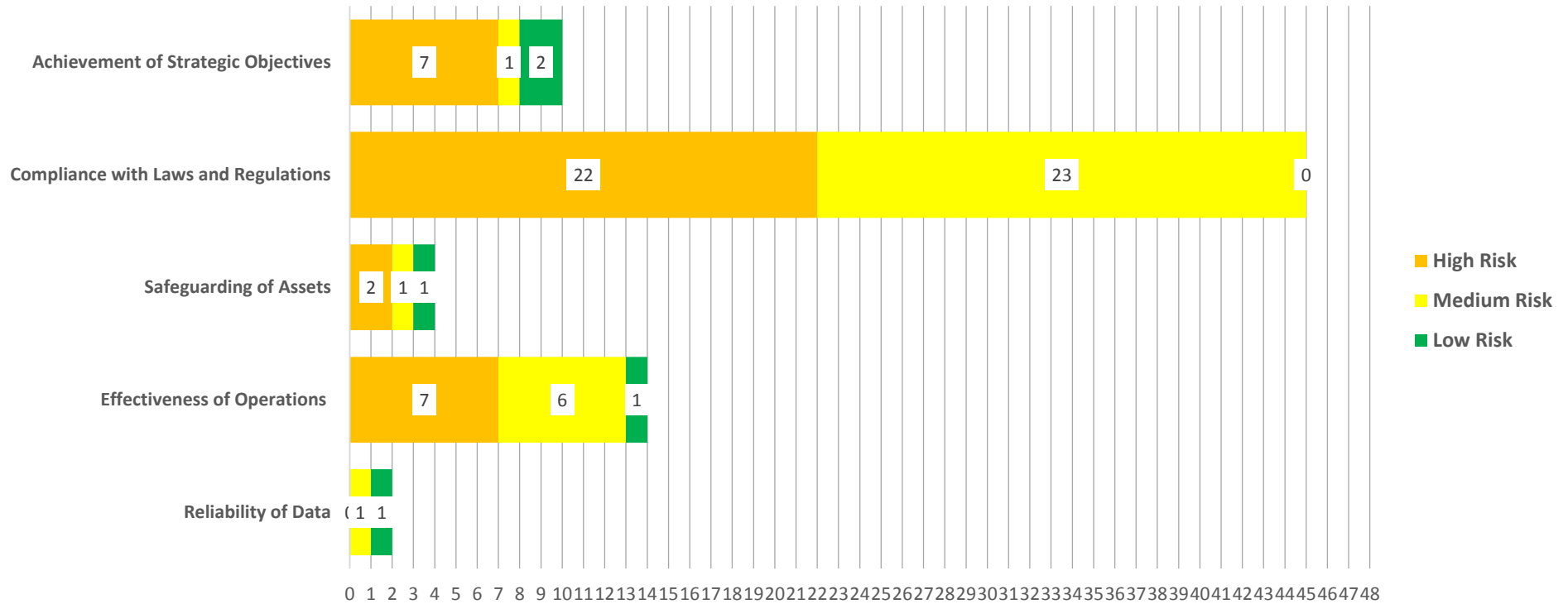
10. Audits in Draft

Audit	Directorate	Projected Reporting	Revised	Comments
Adults Safeguarding	Wellbeing (Health & Adults)	June 2022		
Child Protection Planning	Wellbeing (Children & Learning)	June 2022		
Contract Monitoring ICU	Wellbeing (Health & Adults)	June 2022		
Emergency Procedures/Fire Safety	Communities, Culture & Homes	June 2022		
Grounds Maintenance	Business Services	June 2022		
Housing Rents & Arrears Collection	Finance & Commercialisation	June 2022		

11. Audits in Progress

Audit	Directorate	Comments
Accounts Payable	Finance & Commercialisation	
Homelessness Prevention Grant 2021-22	Grant Work	
Housing Benefits	Finance & Commercialisation	
Mandated Services	Wellbeing (Health & Adults)	
Protect and Vaccinate Grant	Grant Work	

12. Exception Analysis to Date



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	Achievement of Strategic Objectives	Compliance	Effectiveness of Operations	Reliability & Integrity	Safeguarding of Assets	Total
Critical Risk						
High Risk	7	26	10		2	45
Medium Risk	3	24	6	1	1	35
Low Risk - Improvement	2		1	1	2	6
Grand Total	12	50	17	2	5	86

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DECISION-MAKER:	GOVERNANCE COMMITTEE
SUBJECT:	ANNUAL INTERNAL AUDIT PLAN 2022-23 INTERNAL AUDIT & COUNTER FRAUD CHARTER & CODE OF ETHICS 2022-23
DATE OF DECISION:	25th April 2022
REPORT OF:	CHIEF INTERNAL AUDITOR

<u>CONTACT DETAILS</u>			
Executive Director	Title	FINANCE	
	Name:	John Harrison	Tel: 023 8083 4897
	E-mail	John.Harrison@southampton.gov.uk	
Author:	Title	CHIEF INTERNAL AUDITOR	
	Name:	Elizabeth Goodwin	Tel: 023 8083 4616
	E-mail	Elizabeth.Goodwin@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY
N/A
BRIEF SUMMARY
<p>On 1st April 2013 the 'Public Sector Internal Audit Standards' (PSIAS) were formally adopted in respect of Local Government across the UK. The PSIAS apply to all internal service providers, whether in-house, shared services or outsourced.</p> <p>The purpose of the PSIAS are to:</p> <ul style="list-style-type: none"> • Define the nature of internal auditing within the UK public sector • Set basic principles for carrying out internal audit in the public sector • Establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations • Establish the basis for the evaluation of internal audit performance and to drive improvement planning. <p>Conformance to the standards must be reported by the Chief Internal Auditor in the annual audit report as part of the opinion on the internal control framework. The requirements of the Standard are covered in the attached Internal Audit & Counter Fraud Charter & Code of Ethics, Appendix 2.</p> <p>Further to this, on an annual basis, the Chief Internal Auditor is required to produce an Annual Plan that translates into a schedule of audit assignments. The plan defines the areas and potential scope inclusion and must provide a sufficient review of the Authority's functions in order to form an annual opinion on the effectiveness of the control framework. The plan must be proportionate to the risk exposure and appropriately aligned to the strategic objectives of the Council.</p>

The plan contains a mixture of full audits, follow ups, and grant verification work. The follow ups will be carried out to ensure that residue 'open or in progress' actions have been fully implemented within revised agreed timescales, following the original audit. Only the outstanding areas will be retested.

RECOMMENDATIONS:

	(i)	That the Governance Committee approves the provisional Annual Internal Audit Plan for 2022-23 as attached.
	(ii)	That the Governance Committee approves the Internal Audit & Counter Fraud Charter & Code of Ethics as attached.

REASONS FOR REPORT RECOMMENDATIONS

1.	In accordance with internal audit practices and protocol, the Governance Committee is required to approve, but not direct the annual audit plan for Internal Audit & Counter Fraud.
2.	In accordance with the Public Sector Internal Audit Standards the Chief Internal Auditor is required to periodically review the internal audit charter and present it to the Governance Committee for approval.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

	None
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DETAIL (Including consultation carried out)

	The provisional Internal Audit Plan for 2022-23 has been discussed with the Council's Executive Management Team, Senior Officers, the Cabinet Member for Finance and Capital Assets and the Chair of the Governance Committee.
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RESOURCE IMPLICATIONS

Capital/Revenue

	None
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Property/Other

	None
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LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

	The Accounts and Audit (England) Regulations 2015 state 'a relevant body must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the Public Sector Internal Auditing Standards.
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Other Legal Implications:

	None
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RISK MANAGEMENT IMPLICATIONS

	Failure to maintain an effective internal audit functions would result in a failure of the organisation meeting its statutory responsibilities in relation to the Annual Governance Statement and Annual Audit Opinion.
	To ensure the safety of all staff and clients, a risk assessment will be completed prior to each item of work in relation to risks relating to COVID-19. Specifically to assess whether evidence to support audit testing or an

	<p>investigation can be obtained safely and in accordance with the required evidential levels.</p> <p>Actions to minimise risk will be completed and a determination made on whether the activities can be undertaken or if the evidence strategy can be substituted by alternative means. The risk assessment will be treated as a live document until the activity has been completed. Any activities that are deemed not safe to complete will be deferred to later in the financial year, escalated to the Executive Director of Finance or cancelled. The underlining processes for all activities will not fundamentally change.</p>
POLICY FRAMEWORK IMPLICATIONS	
	None

KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	None
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	Annual Internal Audit Plan 2022-23
2.	Internal Audit & Counter Fraud Charter & Code of Ethics 2022-23

Documents In Members' Rooms

1.	None
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Equality Impact Assessment

Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	No
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Data Protection Impact Assessment

Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.	No
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Other Background Documents

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.		
2.		

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SOUTHAMPTON
CITY COUNCIL

2022/23 Internal Audit Plan

Elizabeth Goodwin, Chief Internal Auditor

Executive Summary

This document sets out Internal Audit's programme of work for 2022/23, following appropriate engagement across the authority including but not limited to; CEO, Executive Directors, Chair of Governance Committee and Cabinet Member for Finance & Capital.

The Plan is informed by:

- Legal/ government requirements, specifically including grant sign offs by Internal Audit.
- Outcomes of prior Internal Audit reviews, for example all 2021/22 higher risk exceptions will be followed up during 2022/23. Any outstanding 'open or in progress' actions from follow up reviews performed during 2021/22 will be revisited as part of an ongoing schedule of work to support directorates implementation of actions to address risk exposure.
- Consultation with the Council's senior management and members as noted above.
- Risk assessment methodology and adequate coverage of activities across the authority in order to inform the annual opinion on the effectiveness of the control environment.

Primarily the Plan is risk based, although a number of fundamental areas, for example key financial processes such as Payroll, Accounts Payable and Receivable are reviewed every year due to the inherent risk exposures and transaction levels.

Detail regarding the standards applicable to Internal Audit are set out in the Public Sector Internal Audit Standards:

<http://www.cipfa.org/policy-and-guidance/standards/public-sector-internal-audit-standards>

Proposed Audits

Business Services				
Audits	Type	Provisional Scope	Strategic Risks	Corporate Outcomes
Project Governance	Full	Scope to include a review of the new framework post implementation.	All	All
Expenses, Travel & Subsistence	Full	Annual review and sample testing for compliance with rules.	1	5
Health & Safety	Full	Scope to include a review of residue issues and general arrangements across the council.	2/8	4/5
Payroll	Full	Scope to include a review of key controls.	1	5
Absence Management	Full	Scope to include a review of key controls.	1	5
Network Management & Security	Full	Scope to include a review of access controls and security arrangements.	3/9	5
Cyber Security	Full	Scope to include a review of essential scheme assurance mapping.	3/9	5
Equality Act Compliance	Full	Review to include a review of new arrangements and processes.	11	5
Business Support	Full	Scope to include a review of general controls and arrangements in place.	1	5
Feeder Systems	1 st Follow Up	Follow up required on agreed actions.	1/3/9	5
Information Governance	1 st Follow Up	Follow up required on agreed actions.	9	All
Agency & Temporary Staff	1 st Follow Up	Follow up required on agreed actions.	1/2/11	5
Data Sharing Agreements	1 st Follow Up	Follow up required on agreed actions.	9	2/5

Community Culture & Homes				
Audits	Type	Provisional Scope	Strategic Risks	
Home bid Lettings	Full	Scope to include a review of key controls.	1/4	1/4/5
Voids	Full	Scope to include a review of new arrangements implemented.	1/5	1/4/5
Residents Parking	Full	Scope to include a review of key controls.	1	1/5
Toll Bridge	Full	Scope to include a review of income collection arrangements, from receipt through to banking.	1	1/3/5
EU Perinatal Mental Health Grant	Grant	Grant Verification	4/6	2/5
Community Culture & Homes, Finance & Commercialisation				
Housing Rents & Arrears Collection	Full	Scope to include a review of key controls.	1/4/6/9	1/5
Community Culture & Homes, Finance & Commercialisation, Wellbeing Health & Adults				
Modern Slavery	1 st Follow Up	Follow up required on agreed actions.	4/6	2/4/5
Community Culture & Homes, Wellbeing Health & Adults				
Domestic Violence	1 st Follow Up	Follow up required on agreed actions.	4/6/8	2/4/5
Finance & Commercialisation				
Accounts Receivable	Full	Scope to include a review of key controls.	1/5/7	5
Accounts Payable	Full	Scope to include a review of key controls.	1/5/7	All
PUSH	Full	Annual sign off required.	1	1/2/4
Purchase Cards	Full	Scope to include a review of compliance with rules.	1	5
Procurement Service	Full	Scope to include a review of key processes.	1/5/7	5

Audit	Type	Provisional Scope	Strategic Risks	Corporate Outcomes
Risk Management	Full	Scope to include a review of key controls within directorates and how they align to corporate risks	All	All
Annual Governance Statement	Full	Scope to include a review of evidence and assertions made.	All	All
Finance & Commercialisation, Place				
Local Authority Bus Subsidy	Grant	Grant Verification	1/10/14	1/3/5
Disabled Facilities Grant	Grant	Grant Verification	1/4/8	2/5
Local Transport Capital Block Funding	Grant	Grant Verification	1/10/14	1/3/5
Solent Future Transport	Grant	Grant Verification	1/10/14	1/3/5
Finance & Commercialisation, Wellbeing Children & Learning				
Schools Financial Values Statement (SFVS)	Full	Annual testing as part of the statutory return.	6/7	2/5
Schools Budget Deficits	1 st follow up	Follow up required on agreed actions.	1/6/7	2/5
Finance & Commercialisation, Wellbeing Health & Adults				
Appointeeship	Full	Scope to include a review of general arrangements post system redesign.	4/5/9	2
Place				
Safety Compliance (Tower Blocks)	Full	Scope to include a review of fire risk assessment, general health and safety, cleaning schedules and new legislation.	4/6/8	2/5
Water Quality	Full	Scope to include a review of key controls.	2/4/6/8	2

Audit	Type	Provisional Scope	Strategic Risks	Corporate Outcomes
Partnership HCC & Balfour Beatty	Full	Scope to include a review of partnership arrangements.	1/2/8	3
Asset Requisition & Disposal	Full	Scope to include a review of key controls.	1	1/5
Air Quality	Full	Scope to include a review of key controls.	10	3
Waste Operations	Full	Scope to include a review of key controls.	2/8	3/5
Asbestos	Full	Scope to include a review of key controls and open or in progress action from the Construction Design Management (CDM) Asbestos review.	2/4/6/8	2
Ground Maintenance (Schools)	Full	Scope to include a review of key controls and arrangements in place.	1/8/11	2/3
Operator's License	1 st follow up	Follow up required on agreed actions.	1/2/11	3/5
Wellbeing Children & Learning				
Elected Home Education	Full	Scope to include a review of compliance with statutory requirements.	6/7	2/4
Multi Agency Safeguarding Hub (MASH)	Full	Scope to include a review of implementation of the agreed action plans following serious cases reviews.	6/7	2/4
Fostering	Full	Scope to include a review of compliance with statutory requirements.	6/7	2/4
Protection & Court Public Law Outline	Full	Scope to include a review of compliance with statutory requirements.	6/7	2/4
Hardmore School	Full	Scope to include a review of key governance and operational controls.	6/7	2/4

Audit	Type	Provisional Scope	Strategic Risks	Corporate Outcomes
Townhill Junior School	Full	Scope to include a review of key governance and operational controls.	6/7	2/4
Vermont School	Full	Scope to include a review of key governance and operational controls.	6/7	2/4
Direct Contact & Levels of Supervision	Full	Scope to include a review of practice against supervision	6/7	2/4
Child Protection Planning	1 st follow up	Follow up required on agreed actions.	6/7	2/4
Mansbridge Primary School	1 st follow up	Follow up required on agreed actions.	6/7	2/4
St Patricks Primary School	1 st follow up	Follow up required on agreed actions.	6/7	2/4
Shirley Warren Primary	1 st follow up	Follow up required on agreed actions.	6/7	2/4
Direct Payments Children's	1 st follow up	Follow up required on agreed actions.	1/6/7	2/4/5
Families Matter Grant	Grant	Grant Verification	1/6/7	2/4/5
Wellbeing Children & Learning & Wellbeing Health & Adults				
Transition Children's to Adults	Full	Review of the arrangements in place for transitioning children to adults.	1/4/5/6/7	2/4/5
Wellbeing Health & Adults				
Residential Unit	Full	Scope to include a review of operational controls.	4/5	2/5
Deferred Payments	Full	Scope to include a review of key controls.	1/4/5	2/5
Joint Funding	Full	Scope to include a review of key controls.	1/4/5	2/5
S75 Agreements	Full	Scope to include a review of key controls.	1/4/5	2/5

Audit	Type	Provisional Scope	Strategic Risks	Corporate Outcomes
Funding Pathways	Full	Scope to include a review of key controls.	1/4/5	2/5
Charging Policy	Full	Scope to include a review of key controls.	1/4/5	2/5
Public Health Outcomes	Full	Scope to include a review of arrangements in place to evidence outcomes achieved across the council, in line with the PH Grant conditions.	1/2/8/9	2/4/5
Data Intelligence	Full	Scope to include a review of arrangements and compliance with GDPR.	1/2/8/9	5
Deprivation of Liberty	1 st follow up	Follow up required on agreed actions.	4/5	2

Risks

Ref	Risk
1	Failure to address the significant and ongoing financial pressures in a sustainable way and to enable service provision to reflect key strategic outcomes and be aligned with the associated budget envelopes.
2	Major incident or service disruption (including serious health protection threats) leading to delivery failure that significantly impairs or prevents the Council's ability to deliver key services and/or statutory functions
3	Major IT incident or IT service disruption leading to delivery failure that significantly impairs or prevents the Council's ability to deliver key services and/or statutory functions.
4	Failure to safeguard vulnerable adults resulting in a preventable incident
5	Failure to ensure an effective and sustainable adult social care system
6	Failure to safeguard children resulting in a preventable incident
7	Failure to ensure an effective and sustainable children's social care system
8	Failure to meet our health and safety responsibilities
9	Failure to ensure the City Council's information is held and protected in line with Information Governance policies and procedures.
10	Failure to ensure delivery of statutory air quality standards
11	Failure to have in place up to date skills audits across all service areas to identify the range of skills and technical / professional expertise required to deliver services
12	Contractor refuses to accept/recognise it's contractual and, or full financial obligations in respect of the required fire protection compliance work in certain high rise residential blocks.
13	The council fails, or is unable to evidence, that it took an informed position on nitrate neutrality when considering planning applications for new residential or hotel developments
14	Failure to deliver the key actions and commitments, at address climate emergency and biodiversity, as set out in the Green City Charter

Outcomes & Priorities

Ref	Outcome
1. Growth	
1a	1,000 new parking spaces across our city's estate and districts.
1b	Bring forward a plan for regeneration of our districts and promote home ownership.
1c	Bring forward a plan for a world class waterfront at Mayflower Park and support in delivery of the Spitfire National Monument Project.
1d	Delivery of transport that provides a range of options to travel across the city whilst pursuing a 'Southampton Mass Transit System' solution such as improved rail, Park and Ride or trams.
1e	Improve the highways
1f	Economy and Growth Strategy Action Plan 2021-2030.
1g	Support Southampton's Maritime economy, employment, skills, and growth as part of the National Freeport Programme UK.
2. Wellbeing	
2a	Address the need for all children to have sufficient food during the school year and in holidays.
2b	Reduce the number of children looked after.
2c	Improve the quality of learning opportunities including a viable post-16 provision in the city that meets the needs of learners.
2d	Improve partnership working across the health and social care system to improve outcomes for our residents.
2e	Improve carers experience.
2f	Reduce childhood obesity.
3. Greener City	
3a	Deliver Electric Vehicle (EV) charging across our estate and introduce new EV buses to the city.
3b	Clean up our city: <ul style="list-style-type: none"> Improve our parks, open spaces, waterfronts and city district centres.

	<ul style="list-style-type: none"> Plant more trees and green walls. Increase enforcement against fly tipping.
3c	Encourage wildflower growth.
3d	Develop a Natural Environment policy and Green Grid Action Plan.
3e	Improve waste management and recycling.
	Economy and growth Strategy Action Plan 2021-2030.
	New Greener City Action Plan 2022-27.
4. Communities, Culture & Heritage	
4a	Restore and promote our city's heritage assets to the world creating pride in our city's past. Be selected as the UK City of Culture 2025.
4b	Work with our partners to tackle anti-social behaviour, violence and begging through: <ul style="list-style-type: none"> Greater joint work with police and our partners, seeking to secure increased police officer numbers in the city. Increased use of CCTV where appropriate. Supporting communities and young people. Promote the annual Anti-Social Behaviour Week.
4c	Achieve our ambition to become a UNICEF Child Friendly City by 2024/25.
4d	Support Southampton's visitor economy and ensure Southampton is a destination of choice.
4e	Support businesses within our city and promote the city centre as a destination of choice for business and leisure by removing evening parking charges in the city centre and reviewing all parking charges across the city.
5. A council that works for and with you	
5a	Improve the customer experience through developing a greater customer service focus, supporting the improvement in digital literacy in the city, and improving and expanding services available online.
5b	Continue the transformation of services and our workplace.
5c	Ensure that we buy products and services efficiently and secure best value for money.
5d	Continue work to be an employer of choice.

5e	Identify and use the right data to make better, more informed decisions, drive improved performance, and to use forecasting and analytics to improve our services and products for our customers.
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Introduction

1. On 1st April 2013 the 'Public Sector Internal Audit Standards' (PSIAS) were formally adopted in respect of Local Government across the UK. The PSIAS replace the CIPFA Code of Practice for Internal Auditors in Local Government in the UK and encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF).
2. The PSIAS apply to all internal service providers, whether in-house, shared services or outsourced. The requirements of the Standards are covered in this Internal Audit & Charter & Code of Ethics. The Standards have been revised from 1 April 2016 to incorporate the mission of Internal Audit and Core Principles for the Professional Practice of Internal Auditing.

Authority

3. The Accounts and Audit Regulations 2015 Section 5, define the requirement for an internal audit function within Local Government stating that:
'A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'

Responsibility

4. The responsibility for maintaining an adequate and effective internal audit function within Southampton City Council lies with the Executive Director of Finance, Commercialisation and S151 Officer.
5. For the Council, the internal audit function is provided in partnership with Portsmouth City Council ('PCC') with the service being delivered under the direction and control of a shared Chief Internal Auditor (the Chief Internal Auditor for PCC).
6. The Chief Internal Auditor is responsible for effectively managing the internal audit activity in accordance with the '*Definition of Internal Auditing*', the '*Code of Ethics*' and '*the Standards*'.

Definitions

7. In accordance with the PSIAS the definition of internal auditing is.

'Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes'.

8. Internal Audit is not an extension or a substitute for good management although it can advise management on risk and control issues. It is the duty of management to operate adequate systems of internal control and risk management.
9. The Internal Audit Team will consider the adequacy and effectiveness of the internal control framework detailed below which aid in supporting the Authority's vision.
 - Achievement of organisation's strategic objectives.
 - Reliability and integrity of financial and operational information.
 - Effectiveness and efficiency of operations and programmes.
 - Safeguarding of assets; and
 - Compliance with laws, regulations and rules, policies, procedures and contracts.
10. In accordance with the PSIAS the definition of 'the board' and 'senior management' are.
11. *The Board* – the governance group charged with independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting. At the Council this shall mean the Governance Committee.
12. *Senior Management* – those responsible for the leadership and direction of the Council. At the Council this means the Executive Management Team, Head of Paid Service and Executive Directors, of the council.

Purpose and scope

13. The Internal Audit Team at Southampton City Council will provide an Annual Internal Audit Opinion based on an objective assessment of the Authority's framework of governance, risk management and control. It will also provide advice and consultancy services at the specific request of the Authority, with the aim of improving governance, risk management and control whilst contributing to the overall Annual Opinion.
14. The Annual Internal Audit Opinion must incorporate.
 - The Opinion.
 - A summary of the work that supports the Opinion; and
 - A statement on conformance with PSIAS and the results of the quality assurance and improvement programme.
15. The Internal Audit Team will not be restricted to the audit of financial systems and controls but will cover all operational and management controls. There are therefore no scope limitations, in that all of the Authority's activities fall within the remit of the Internal Audit Team; however, consideration will always be given to the competency,

qualification and experience of those auditors tasked with carrying out the individual assignments. For example, Internal Audit will not make judgements or evaluations on care or academic assessments; equally it is not in the section's remit to give an opinion on the appropriateness of policy decisions.

16. Consultancy activities (i.e., advice, facilitation, counsel and training) the nature and scope of which will be agreed with the client and are intended to add value and improve the Council's governance, risk management and control processes without the Internal Audit Team assuming responsibility.
17. Special reviews may be conducted at the request of Members, the Head of Paid Service, Monitoring Officer and the Executive Director of Finance, Commercialisation and s151 Officer. The Internal Audit Team may also conduct investigations as requested by the Investigation Steering Panel - ISP (consisting of the Monitoring Officer, Executive Director of Finance, Commercialisation and s151 Officer, Service Director for Human Resources & Organisational Development and the Chief Internal Auditor (or deputy), provided such reviews (special or investigation) do not compromise its objectivity or independence.
18. The impact on the Audit Plan must be assessed and, if necessary, the Plan reprioritised by the Chief Internal Auditor. Any significant changes must be reported to the Executive Director of Finance, Commercialisation and s151 Officer as well as the Members of the Governance Committee (the Board) in their next reporting cycle.
19. Fraud prevention and detection is the responsibility of managers. However, if Internal Audit detects any suspected irregularities during the course of their activities they will report them to ISP. The Chief Internal Auditor may review the system for control weaknesses, but any investigation will be under the direction of ISP.

Organisational Independence

20. The Internal Audit Team has operational responsibilities for the auditing of Direct Payments (Adults). It may at times provide advice on control implementation and risk mitigation where relevant and throughout the design and implementation stages of new systems. All other areas of organisational independence is maintained.
21. The Chief Internal Auditor will be free from interference (although have due regard for the Authority's key objectives and risks and consult with Members and Officers charged with governance) when setting the priorities of the annual audit plan, for example, in determining the scope and objectives of work to be carried out and in performing the work and communicating the results of each audit assignment. There must be no compromise on the ability of Internal Audit to provide an independent assurance on the control framework.

22. Internal Audit is supported by the Authority and its independence is seen as key to providing Southampton City Council with an effective service.
23. The Internal Audit Team will have free and unfettered access to the Senior Management, defined as, Executive Director of Finance, Commercialisation and s151 Officer, Head of Paid Service, Monitoring Officer, Executive Directors and Service Directors. In addition, the Internal Audit Team will have free and unfettered access to the Leader of the Council and the Chair of the Governance Committee.

Responsibilities of Individual officers

Chief Internal Auditor

24. The Chief Internal Auditor must ensure that:
- (1) They identify the overall remit of audit activity
 - (2) They carry out an audit needs risk assessment and prioritise the results into an annual plan in consultation with the Executive Director of Finance, Commercialisation and s151 Officer, Head of Paid Service, Monitoring Officer, Executive Directors and Service Directors, and Chair of Governance Committee.
 - (3) The Internal Audit resources are appropriate and sufficient i.e., in skills and knowledge and are effectively deployed to achieve the approved annual audit plan. Any inadequacies will be raised with the Executive Director of Finance, Commercialisation and s151 Officer and the Governance Committee.
 - (4) There are adequate policies and procedures in place to guide the Internal Audit activities and in accordance with PSIAS.
 - (5) The Internal Audit Team complies with the PSIAS and Code of Ethics at all times.
 - (6) They periodically review the Internal Audit Charter and Audit Strategy for adequacy and effectiveness.
 - (7) Constructive working relationships are fostered and encouraged between auditors, auditees, managers, and external auditors.
 - (8) The Internal Audit Team maximises the use of technology for an effective service delivery.
 - (9) Confidentiality is maintained at all times.
 - (10) Individual auditors do not audit activities for which they previously had responsibility within the last 12 months.
 - (11) They take all reasonable measures to ensure that all individual auditors have an objective frame of mind and be in a sufficiently independent position to be able to exercise judgement with impartiality.
 - (12) A follow-up process to monitor and ensure that management actions have been effectively implemented is undertaken promptly.

- (13) Where management has accepted a level of risk that may be unacceptable to the Authority that the matter is discussed with the Executive Director of Finance, Commercialisation and s151 Officer, Head of Paid Service, Monitoring Officer, Executive Directors and Service Directors as relevant, or escalated to the Governance Committee to resolve.
- (14) They continuously review the quality, effectiveness, and provision of the Internal Audit Team.
- (15) Access to audit records is controlled and only released in accordance with Freedom of information and Data Protection Act requirements.
- (16) All records relating to Internal Audit activities are retained for the required period and in line with the Authority's guidelines.
- (17) They assist the Governance Committee with their agenda and attend each meeting.

Individual Auditors

25. All individual auditors must ensure that they:

- (1) Maintain an impartial and unbiased attitude and avoid any conflict of interest.
- (2) Will refrain from assessing any activity to which they were previously responsible within the last twelve months, although they may provide consulting services.
- (3) Possess the knowledge, skills and other competencies needed to perform their individual responsibilities and that they enhance those skills through continuing professional development.
- (4) Exercise due professional care at all times.
- (5) Assist management in establishing or improving risk management processes, without managing those risks.
- (6) Give adequate notice of the start of a planned audit
- (7) Develop and document a plan of each assignment detailing its objectives, scope and any limitations, timing and resource allocations.
- (8) Consider the objectives, risks, effectiveness of the control framework, value for money obtained, of the activity under review, when planning and setting the objectives of each assignment.
- (9) Develop and document a programme of works that achieves the audit objectives.
- (10) Document sufficient information on their identification, analysis and evaluation of risks and controls within the area of audit activities, i.e. that the evidence is reliable, factual and adequate.
- (11) Communicate their findings based on opinion ascertained from these evaluations, providing an overall conclusion/ assurance level, risk rating, recommendations (where relevant) and proposed action plans.
- (12) Communicate all findings in an accurate, objective, clear, concise, constructive, complete and timely manner in accordance with PSIAS.
- (13) Agree a plan of action with the Service to remedy control weaknesses
- (14) Comply with the Audit Manual and PSIAS.
- (15) Maintain professional independence, objectivity, integrity and confidentiality

- (16) Inform the Chief Internal Auditor of any areas where they could have a conflict of interest which could impair or be perceived to impair their objectivity
- (17) Maintain proper documented files supporting conclusions via Audit Management Software
- (18) Hold in safe custody any documents or property or other material obtained for audit use or investigation.
- (19) Act with due care to provide “reasonable” assurance on the adequacy of control
- (20) Foster good working relationships with auditees, external auditors and service leads and managers

Executive Director of Finance, Commercialisation and s151 Officer

26. The Executive Director of Finance, Commercialisation and s151 Officer has the authority to ensure that the provision of the Internal Audit Team is sufficient to meet the s151 requirements.
27. The Executive Director of Finance, Commercialisation and s151 Officer must ensure that:
 - (1) Any suspected irregularities are properly and appropriately investigated and action taken.
 - (2) S/he is satisfied that the Annual Audit Opinion assurance statement either on its own or as part of the Annual Governance Statement, reflects accurately the position of the control framework.
 - (3) The Internal Audit Team is sufficiently resourced and is effective and in the event that it is not that this is raised with the Executive Director of Finance, Commercialisation and s151 Officer and members of the Governance Committee.

Head of Paid Service

28. The Head of Paid Service carries the responsibility for the proper management of the Council and for ensuring that the principles of good governance are reflected in sound management arrangements.

Monitoring Officer

29. The Monitoring Officer is responsible for:
 - (1) Ensuring lawfulness and fairness in decision making
 - (2) Dealing with investigations into matters referred by the Governance Committee and making reports or recommendations in respect of them to the Governance Committee and
 - (3) Providing advice on:
 - the scope of powers to take decisions
 - maladministration

- financial impropriety
- probity.

Members

30. The Members as the corporate body 'the board', have the responsibility to ensure that there is a current and effective Internal Audit function. These responsibilities are delegated to the Governance Committee and include ensuring that:
31. They are satisfied 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.
32. They are satisfied 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.
33. They receive, and make recommendations on, such reports as are required in relation to all audit matters including the Annual Audit Plan.
34. The Committee shall specifically have responsibility for oversight on the following functions:
 - (1) ensuring that Council assets are safeguarded.
 - (2) maintaining proper accounting records.
 - (3) ensuring the independence, objectivity and effectiveness of internal and external audit.
 - (4) the arrangements made for cooperation between internal and external audit and other review bodies.
 - (5) considering the reports of internal and external audit and other review and inspection bodies.
 - (6) the scope and effectiveness of the internal control systems established by management to identify, assess, manage and monitor financial and nonfinancial risks (including measures to protect against, detect and respond to fraud).

Auditees

35. In accordance with the Council's constitution (0.9 Part 4 – Financial Procedure Rules). All persons under the controls of SCC; staff, members, contractors, temporary and agency staff must ensure that:
 - (1) They maintain a constructive approach to Internal Audit.
 - (2) Must present any cash, stores or any other authority asset under his or her control if requested to do so by an Auditor.
 - (3) Must ensure that internal auditors are given access at all reasonable times to premises, personnel, documents and assets that the auditors consider necessary for the purposes of their work.

- (4) Must ensure that auditors are provided with any information and explanations that they seek in the course of their work.
- (5) They respond promptly and formally to audit reports within the agreed timescale
- (6) They implement agreed actions and within an agreed timed action plan.

External Auditors

36. The Internal Audit Team is expected to co-operate and regularly liaise with the external auditors to ensure an efficient and effective use of resources is achieved and unnecessary over-lapping of work is avoided.
37. The external auditors have a responsibility to assess whether Internal Audit arrangements are adequate and will, where they are able, place reliance on Internal Audit work when forming their opinion on the Authority's accounts.

Reporting Structure

38. On a regular basis the Chief Internal Auditor will present for review and approval any changes to the Internal Audit Charter and Code of Ethics, the Internal Audit Strategy and the annual audit plan of activities, including resource requirements and any perceived deficiencies to the Governance Committee, following consultation with the, Executive Director of Finance, Commercialisation and s151 Officer, Head of Paid Service, Monitoring Officer, Executive Directors and Service Directors, and Chair of Governance Committee.
39. An update on progress and performance to the audit plan will be presented at each Governance Committee. This will include any significant risk exposure and control issues, including fraud and governance risks.
40. Where critical risks, or a significant number of high risks are identified as part of an audit review, (i.e. those control weaknesses that could have a significant impact on the achievement of the Authority's objectives) which result in a no assurance opinion, will be reported in summary as part of the 'progress to plan' reporting. All other findings will be summarised in a covering report.
41. It is for management to determine whether or not to accept the audit exceptions and to recognise and accept the risks of not taking action. They must formally respond giving reasons for their decisions. In the event that risks are accepted they may be raised with the Senior Leadership Team to ascertain whether such acceptance is in line with the strategic direction and risk appetite of the Council. As a result they may also be reported to Members of the Governance Committee 'the Board' in their next reporting cycle. Where agreed action is proposed on critical/high risks but has not been taken within a reasonable timeframe the matter will be raised with the Executive Director concerned.

42. All reviews of the Annual Audit Plan will be presented for approval [to the Governance Committee] along with any significant consulting services not already included in the Audit Plan, prior to accepting the engagement.
43. All reports issued in relation to any audit or counter fraud activity will be issued in the name of the Chief Internal Auditor.

Access to records and personnel

44. All Internal Auditors have right of access to all premises, personnel, documents and information they consider necessary for the purpose of their reviews as specified in the Council's constitution (0.9 Part 4 – Financial Procedure Rules) and to obtain such information and explanations from any employee as necessary concerning any matter under review/investigation.
45. All Internal Auditors also have the power to require any council employee, agent or Member to produce cash, equipment, computers or other Council property under their control. Internal Audit can retain or seize these items in order to protect the Council's interest, or to preserve evidence, if a suspected irregularity has occurred before considering whether to refer the issue to the Police. Consultation with the Investigation Steering Panel will be carried out in advance of contacting the Police where possible.

Due Professional Care

46. Both the Chief Internal Auditor and Deputy Chief Internal Auditor must hold a professional qualification and current membership, CMIIA, CCAB or equivalent and be suitably experienced.
47. The Chief Internal Auditor will assess on an annual basis the knowledge, skills and other competencies required within the Internal Audit Team in order for it to fulfil its purpose and effectively carry out professional duties in accordance with statutory requirements. This will include technology- based audit techniques to perform assignment work. Should there be insufficiencies identified these will be reported immediately to the Executive Director of Finance, Commercial and s151 Officer and reported to the Governance Committee if there is likely to be an impact on achieving either the Annual Audit Plan or a sufficient level of reviews to enable an effective annual audit opinion to be made.
48. All Internal Auditors will have sufficient knowledge through training and continued professional development to carry out their duties including evaluating the risk of fraud; however it remains the responsibility of management to detect and manage fraud.
49. Any impairment either in fact or appearance on any individual auditor's independence or objectivity will be escalated to the Executive Director of Finance,

Commercial and s151 Officer, if the Chief Internal Auditor has been unable to resolve. Impairment may include, but is not limited to, personal conflict of interest, scope limitation, restrictions on access to records, personnel and properties and resource limitation, such as funding. A record will be made of any action taken.

Quality Assurance & Improvement Programme

50. The Chief Internal Auditor will develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit & counter fraud activities. In order to achieve this, internal on-going supervision will be carried out after each audit assignment with the results recorded electronically. Along with the recording of one-to-one meetings and an Annual Performance Review on each individual auditor.
51. In addition to this the Chief Internal Auditor will carry out an annual self-assessment of the Internal Audit Teams performance against PSIAS, measuring the compliance with the definition of Internal Audit and Code of Ethics.
52. External peer reviews will be conducted every five years against PSIAS. The scope of the external assessment will be agreed with the Executive Director of Finance, Commercial and s151 Officer and the Chair of Governance Committee. All results i.e., compliance or non-compliance with the standards, will be communicated to the Governance Committee along with an improvement plan if required and regular progress reports.
53. Any significant deviations from the Standards will be included in the Annual Governance Statement.
54. The effectiveness of the Internal Audit Team will be measured by.
 - (1) Risks to the Authority are identified and mitigated by agreed actions being implemented re critical and high-risk exceptions highlighted in Audit reviews.
 - (2) Compliance with the PSIAS and Code of Ethics (reviewed by Peer Review)
 - (3) Satisfactory External Audit reviews (when carried out)
 - (4) External Auditors are able to rely on the work of Internal Audit when forming their opinion on the Authority's accounts.
 - (5) Audits completed to plan (90% of high-risk audits completed)
 - (6) Satisfactory responses received from clients by means of end of year questionnaires.

Management of Internal Audit Activities

55. The Chief Internal Auditor will ensure that the work of the Internal Audit Team is of value to the Authority. This will be achieved by ensuring that the work carried out

achieves its purpose as included in this charter and that all individual auditors have demonstrated conformance with the Code of Ethics and Standards.

56. The priorities of the Internal Audit Team will be determined annually using a risk-based methodology and in consideration with the Authority's overall objectives. The risk-based approach will take into account the risk management framework and risk appetite levels along with each directorate's performance as reported to Governance Committee. Details of how the plan will be delivered are contained in the Internal Audit Strategy along with any reliance placed on other sources of assurance work.
57. The Annual Audit Plan will be reviewed in response to changes in the Authority's risks, operations, systems and controls at least once during the year.

This Charter and Code of Ethics are agreed by

.....

Elizabeth Goodwin

Chief Internal Auditor

Date

.....

John Harrison

Executive Director of Finance, Commercial and s151 Officer

Date

.....

Cllr David Fuller

Chair of Governance Committee

Date

Related Papers:

Audit Strategy and Audit Annual Plans

Public Sector Internal Audit Standards and Code of Ethics

Accounts and Audit Regulations (updated)

Annex 1

Code of Ethics

Extract from the Public Sector Internal Audit Standards 2016

Public sector requirement

Internal auditors in UK public sector organisations (as set out in the Applicability section) must conform to the Code of Ethics as set out below. If individual internal auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation.

The purpose of The Institute's Code of Ethics is to promote an ethical culture in the profession of internal auditing. A code of ethics is necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance about risk management, control and governance.

The Institute's Code of Ethics extends beyond the definition of internal auditing to include two essential components:

Components

- 1 Principles that are relevant to the profession and practice of internal auditing;
- 2 Rules of Conduct that describe behaviour norms expected of internal auditors. These rules are an aid to interpreting the Principles into practical applications and are intended to guide the ethical conduct of internal auditors.

The Code of Ethics provides guidance to internal auditors serving others. 'Internal auditors' refers to Institute members and those who provide internal auditing services within the definition of internal auditing.

Applicability and Enforcement

This Code of Ethics applies to both individuals and entities that provide internal auditing services. For Institute members, breaches of the Code of Ethics will be evaluated and administered according to The Institute's Disciplinary Procedures. The fact that a particular conduct is not mentioned in the Rules of Conduct does not prevent it from being unacceptable or discreditable and therefore, the member liable to disciplinary action.

Public sector interpretation

The 'Institute' here refers to the IIA. Disciplinary procedures of other professional bodies and employing organisations may apply to breaches of this Code of Ethics.

Public Sector Internal Audit Standards

1 Integrity

Principle

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.

Rules of Conduct

Internal auditors:

- 1.1 Shall perform their work with honesty, diligence and responsibility.
- 1.2 Shall observe the law and make disclosures expected by the law and the profession.
- 1.3 Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation.
- 1.4 Shall respect and contribute to the legitimate and ethical objectives of the organisation.

2 Objectivity

Principle

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined.

Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.

Rules of Conduct

Internal auditors:

- 2.1 Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation.
- 2.2 Shall not accept anything that may impair or be presumed to impair their professional judgement.
- 2.3 Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3 Confidentiality

Principle

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

Rules of Conduct

Internal auditors:

- 3.1 Shall be prudent in the use and protection of information acquired in the course of their duties.
- 3.2 Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.

4 Competency

Principle

Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

Rules of Conduct

Internal auditors:

- 4.1 Shall engage only in those services for which they have the necessary knowledge, skills and experience.
- 4.2 Shall perform internal auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing.
- 4.3 Shall continually improve their proficiency and effectiveness and quality of their services.

Public sector requirement

Internal Auditors who work in the public sector must also have regard to the Committee on Standards of Public Life's Seven Principles of Public Life, information on which can be found at www.public-standards.gov.uk

Annex 2

Assurance Services

Risk based audit: in which risks and controls associated with the achievement of defined business objectives are identified and both the design and operation of the controls in place to mitigate key risks are assessed and tested, to ascertain the residual risk to the achievement of managements' objectives. Any audit work intended to provide an audit opinion will be undertaken using this approach.

Developing systems audit: in which:

- the plans and designs of systems under development are assessed to identify the potential weaknesses in internal control and risk management; and
- programme / project management controls are assessed to ascertain whether the system is likely to be delivered efficiently, effectively and economically.

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

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

Fraud and irregularity investigations: Internal audit will also provide specialist skills and knowledge to lead on fraud/ irregularity investigations, and ascertain the effectiveness of fraud prevention controls and detection processes.

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

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DECISION-MAKER:	GOVERNANCE COMMITTEE
SUBJECT:	2021/22 EXTERNAL AUDIT PLAN
DATE OF DECISION:	25 April 2022
REPORT OF:	EXTERNAL AUDIT

<u>CONTACT DETAILS</u>			
Executive Director	Title	ASSOCIATE PARTNER	
	Name:	KEVIN SUTER	Tel:
	E-mail:	ksuter@uk.ey.com	
Author:	Title	AUDIT MANAGER	
	Name:	JACK DUNKLEY	Tel:
	E-mail:	jdunkley@uk.ey.com	

STATEMENT OF CONFIDENTIALITY

None

BRIEF SUMMARY

The audit plan sets out how we will carry out our responsibilities as external auditor. Its purpose is to provide the Governance Committee with a basis to review our proposed scope and audit approach for 2021/22.

The plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

RECOMMENDATIONS:

- | | | |
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| | (i) | The Governance Committee is invited to comment on and note the 2021/22 External Audit Plan as attached. |
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REASONS FOR REPORT RECOMMENDATIONS

- | | |
|----|--|
| 1. | Issued in accordance with the Local Audit and Accountability Act 2014, the National Audit Office's Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements |
|----|--|

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED
--

None

DETAIL (Including consultation carried out)
--

The 2021/22 External Audit Plan has been provided to relevant senior managers for comment prior to being submitted into committee papers.

RESOURCE IMPLICATIONS

<u>Capital/Revenue</u>

	N/A
Property/Other	
	N/A
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
	Local Audit and Accountability Act 2014, the National Audit Office's Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements
<u>Other Legal Implications:</u>	
	N/A
RISK MANAGEMENT IMPLICATIONS	
	N/A
POLICY FRAMEWORK IMPLICATIONS	
	N/A

KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	N/A
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	Southampton City Council 2021-22 External Audit Plan

Documents In Members' Rooms

1.	None
Equality Impact Assessment	
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	No
Data Protection Impact Assessment	
Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.	No
Other Background Documents	
Other Background documents available for inspection at: N/A	
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.	N/A

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**Southampton City
Council**
Audit planning report
Year ended 31 March 2022

April 2022



Members of the Governance Committee
Southampton City Council
Civic Centre
Southampton, Hampshire,
SO14 7LY

07 April 2022

Dear Governance Committee Members

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Governance Committee with a basis to review our proposed audit approach and scope for the 2021/22 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks. Our planning procedures remain ongoing, specifically in relation to the new requirements for the value for money conclusion. We will provide an update to the Governance Committee should any further risks be identified.

This report is intended solely for the information and use of the Governance Committee, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 25 April 2022 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Kevin Suter

For and on behalf of Ernst & Young LLP

Enc

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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Governance Committee and management of Southampton City Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Governance Committee, and management of Southampton City Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Governance Committee and management of Southampton City Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



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01

Overview of our 2021/22 audit strategy



Overview of our 2021/22 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters. It seeks to provide the Governance Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatement due to fraud or error	Fraud risk	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Risk of fraud in revenue and expenditure recognition, through inappropriate capitalisation of revenue expenditure	Fraud risk	No change in risk or focus	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure.
Valuation of Investment Property and Land & Buildings	Inherent risk	IP - Change from significant risk to inherent risk L&B - No change in risk or focus	The fair value of Investment Property (IP) and Land and Buildings valued with reference to market represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and market fluctuations. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.
Pension Liability Valuation	Inherent risk	No change in risk or focus	The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Overview of our 2021/22 audit strategy

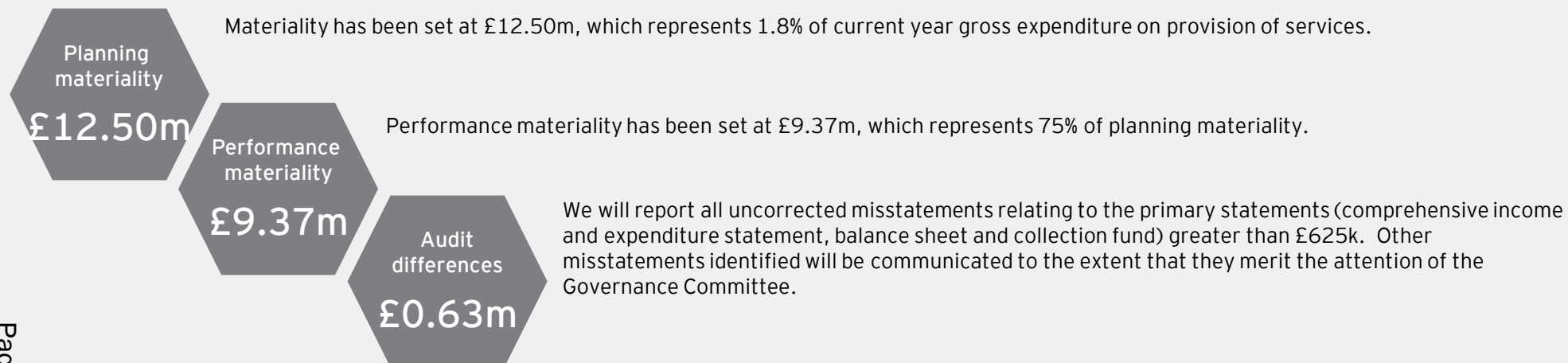
The following 'dashboard' summarises the significant accounting and auditing matters. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Restatement of the Comprehensive Income and Expenditure Statement (CIES), Expenditure and Funding Analysis (EFA) and related disclosure notes	Inherent risk	No change in risk or focus	Under CIPFA's "Telling the Story" agenda, the Council is required to disclose its income and expenditure in accordance with the structure used for internal reporting, rather than the previous presentation as prescribed by SERCOP. The Council has changed its internal reporting structure in 2021/22, which will mean the CIES, the supporting EFA, and related disclosure notes, will need to be restated in line with the new structure.
Infrastructure asset valuation	Area of focus	New risk	<p>CIPFA has established a task and finish group to address an issue regarding the derecognition of parts of infrastructure assets following 'replacement' expenditure. The group will consider the issues arising, and how it might assist in their resolution. Such assistance might take the form of producing additional guidance on this issue, or including clarifications in the accounting code.</p> <p>We will engagement with management over the impact of the issue on Southampton City Council's accounts.</p>

Overview of our 2021/22 audit strategy

Materiality



Overview of our 2021/22 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Southampton City Council give a true and fair view of the financial position as at 31 March 2022 and of the income and expenditure for the year then ended; and
- Our commentary on your arrangements to secure value for money in your use of resources for the relevant period. We include further details on value for money in Section 03.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years as well as the expansion of factors impacting the value for money conclusion. Therefore to the extent any of these are relevant in the context of Southampton City Council's audit, we will discuss these with management as to the impact on the scale fee.

Overview of our 2021/22 audit strategy

Value for money conclusion

We include details in Section 03 but in summary:

- We are required to consider whether the Council has made 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.
- Planning on value for money and the associated risk assessment is focused on gathering sufficient evidence to enable us to document our evaluation of the Council's arrangements, to enable us to draft a commentary under three reporting criteria (see below). This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.
- We will provide a commentary on the Council's arrangements against three reporting criteria:
 - Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services;
 - Governance - How the Council ensures that it makes informed decisions and properly manages its risks; and
 - Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Page 75 The commentary on VFM arrangements will be included in the Auditor's Annual Report.

Timeline

The Ministry of Housing, Communities and Local Government established regulations to extend the target date for publishing audited local authority accounts from 31 July to 30 September, for a period of two years (i.e. covering the audit of the 2020/21 and 2021/22 accounting years).

In December 2021, the Department for Levelling Up, Housing and Communities (DLUHC) announced proposals to extend the deadline for the publication of audited accounts to 30 November for 2021/22.

We are working with the Council to deliver the audit ahead of 30 November.



02

Audit risks



Significant risk

We have set out below the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Misstatements due to fraud or error*

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

We have considered the areas in which management could seek to override controls at Southampton City Council, and this had fed into our consideration of the risk of fraud in revenue and expenditure recognition as set out on page 11.

What will we do?

We will:

- ▶ Enquire of management about risks of fraud and the controls put in place to address those risks.
- ▶ Understand the oversight given by those charged with governance of management's processes over fraud.
- ▶ Consider the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Perform mandatory procedures regardless of specifically identified fraud risks, including:
 - ▶ Testing of journal entries and other adjustments in the preparation of the financial statements;
 - ▶ Reviewing accounting estimates for evidence of management bias; and
 - ▶ Evaluating the business rationale for significant unusual transactions.

Significant risk

Risk of fraud in revenue and expenditure recognition, through inappropriate capitalisation of revenue expenditure*

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We have assessed that the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure, as there is an incentive to reduce expenditure which is funded from Council Tax. This would result in funding expenditure that should properly be defined as revenue, through inappropriate sources such as capital receipts, capital grants, or borrowing. We believe the significant risk manifests itself within PPE additions.

The manipulation of capitalising expenditure could occur through management override of controls.

What will we do?

We will:

- ▶ Test PPE additions using lowered testing thresholds, to ensure they are appropriately supported by documentary evidence, and that the expenditure incurred and capitalised is clearly capital in nature;
- ▶ Perform an analytical review of the spend during the year against the approved capital programme

Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts.

We focus our testing on capital additions (£73m in the PY 2020/21 accounts)

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

What is the risk/area of focus?

Valuation of Investment Property and Land and Buildings

The value of Investment Property (IP) and Land and Buildings valued using DRC/EUV/FV methods, represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews, and market fluctuations. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

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What will we do?

We will:

- ▶ Commission EY Real Estates, our internal specialists on asset valuations, to consider the valuation approach in more detail for a sample of assets.
- ▶ Consider the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- ▶ Sample test key asset information used by the valuer in performing their valuations and challenge the key assumptions used by the valuer.
- ▶ Test whether valuations have been correctly processed in the financial statements.
- ▶ Consider the annual cycle of valuations to ensure that assets have been valued within a suitable rolling programme as required by the Code for PPE, and annually for IP. We will also consider if there are any specific changes to assets that have occurred and whether these have been communicated to the valuer.
- ▶ Review assets not subject to valuation in 2021/22 to confirm that the remaining asset base is not materially misstated.

Audit risks

Other areas of audit focus (continued)

What is the risk/area of focus?

Pension Liability Valuation

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council.

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. As per the 2020/21 statement of accounts this totalled £587 million.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Restatement of CIES, EFA and related disclosure notes (inherent risk)

Under CIPFA's "Telling the Story" agenda, the Council is required to disclose its income and expenditure in accordance with the structure used for internal reporting, rather than the previous presentation as prescribed by SERCOP. The Council has changed its internal reporting structure in 2021/22, which will mean the Comprehensive Income and Expenditure Statement, the supporting Expenditure and Funding Analysis, and related disclosure notes, will need to be restated in line with the new structure.

What will we do?

We will:

- ▶ Liaise with the auditors of Hampshire County Council Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Southampton City Council;
- ▶ Assess the work of the Pension Fund actuary (Aon Hewitt) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- ▶ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

We will:

- ▶ Agree the restated comparative figures back to the Council's prior year financial statements and supporting working papers;
- ▶ Review the analysis of how these figures are derived from the Council's ledger system and how overheads are apportioned across the service areas reported.

Audit risks

Other areas of audit focus (continued)

What is the risk/area of focus?

Infrastructure asset valuation

Where management incur subsequent expenditure to replace part of an asset, the CIPFA Code requires management to write out the value of the old part being replaced.

Nationally, audit firms have identified an issue with applying this accounting treatment to infrastructure assets. Across the country Authorities are not keeping sufficient detailed records of infrastructure spend to allow the value of the part being replaced to be written out.

What will we do?

We will:

- ▶ Continue to engage with management on any changing guidance to understand the impact on Southampton City Council and 2021/22 financial statements.



03

Value for Money Risks





Value for Money

Council responsibilities for value for money

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

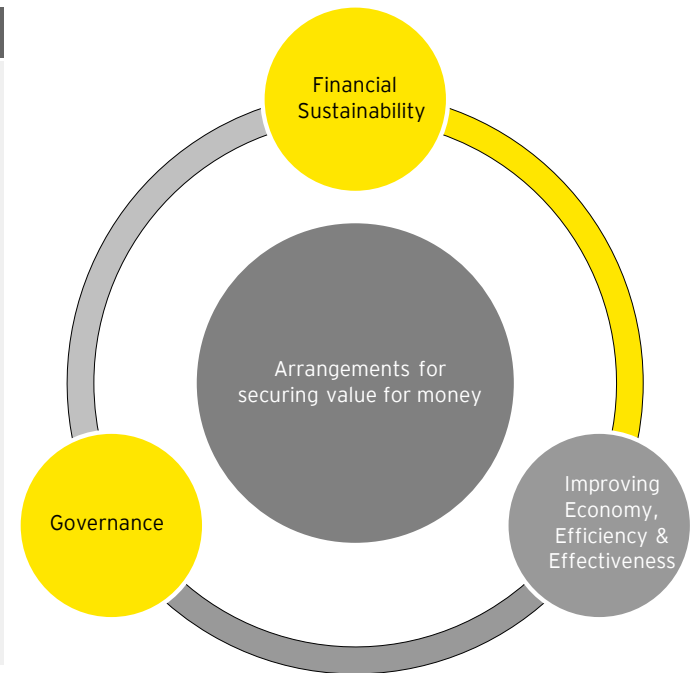
As part of the material published with the financial statements, the Council is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on arrangements for securing value for money from the use of resources.

Auditor responsibilities

Under the NAO Code of Audit Practice we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services.
- Governance - How the Council ensures that it makes informed decisions and properly manages its risks.
- Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.





Planning and identifying risks of significant weakness in VFM arrangements

The NAO's guidance notes requires us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Council's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

In considering the Council's arrangements, we are required to consider:

- The Council's governance statement;
- Evidence that the Council's arrangements were in place during the reporting period;
- Evidence obtained from our work on the accounts;
- The work of inspectorates and other bodies; and
- Any other evidence source that we regards as necessary to facilitate the performance of our statutory duties.

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement. However, the NAO states that a weakness may be said to be significant if it:

- Exposes - or could reasonably be expected to expose - the Council to significant financial loss or risk;
- Leads to - or could reasonably be expected to lead to - significant impact on the quality or effectiveness of service or on the Council's reputation;
- Leads to - or could reasonably be expected to lead to - unlawful actions; or
- Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

We should also be informed by a consideration of:

- The magnitude of the issue in relation to the size of the Council;
- Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves (where applicable), or impact on budgets or cashflow forecasts;
- The impact of the weakness on the Council's reported performance;
- Whether the issue has been identified by the Council's own internal arrangements and what corrective action has been taken or planned;
- Whether any legal judgements have been made including judicial review;
- Whether there has been any intervention by a regulator or Secretary of State;
- Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- The impact on delivery of services to local taxpayers; and
- The length of time the Council has had to respond to the issue.



Value for Money

Responding to identified risks of significant weakness

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the governance committee.

Reporting on VFM

Where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the Code requires that we should refer to this by exception in the audit report on the financial statements.

In addition, the Code requires us to include the commentary on arrangements in the Auditor's Annual Report. The Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Council's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

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Status of our 2021/22 VFM planning

We have completed our initial VFM (value for money) risk planning work, where we have considered:

- Our entity level controls and understanding the business assessment
- The Council's Risk Register and The Annual Governance Statement
- Council meeting minutes
- Our planning meetings with management
- Key financial and budget information, and key performance reports.
- Internal audit reports
- Information from local, national and specialist media; and
- Findings of other inspectorates, review agencies and other relevant bodies including the CQC.

We have not identified indications of significant weakness in the Council's arrangements that the Council did not have proper arrangements to secure economy, efficiency and effectiveness on its use of resources at that time. However, we will continue to update our assessment throughout the audit.



04

Audit materiality



Materiality

Materiality

For planning purposes, materiality for 2021/22 has been set at £12.50m. This represents 1.8% of the Council's gross expenditure on provision of services from the 2021/22 draft financial statements. We believe this to be the appropriate measurement basis as the Council is expenditure driven in delivering services to its residents as opposed to the income or other available measurement bases. We consider a range of 0.5% - 1.8% which is an industry benchmark. We have used the higher end of the range as the Council has historically maintained a reasonable level of revenue reserves, and achieved financial performance targets. This will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix C.



*Figure adjusted for entries relating to revaluations and disposals of non-current assets.

We request that the Governance Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality - the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality - the amount we use to determine the extent of our audit procedures. We have set performance materiality at £9.37m which represents 75% of planning materiality. The rationale for using 75% is based on the anticipation of identifying few or no errors during the audit. This expectation has been built on our experience of the Council in the prior year.

Audit difference threshold - we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, and collection fund that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Governance Committee, or are important from a qualitative perspective.

Specific materiality - We can set a lower materiality for specific accounts disclosure e.g. remuneration disclosures, related party transactions and exit packages which reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to this. Where we do this we will notify you.



05

Scope of our audit



Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

As outlined in Section 03, we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources and report a commentary on those arrangements.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- ▶ Identifying and understanding the key processes and internal controls; and
- ▶ Substantive tests of detail of transactions and amounts.

For 2021/22 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Governance Committee.

Internal audit

We will review internal audit plans and the results of their work. We will use this to inform our ongoing assessment of risks likely to impact our responsibilities.



06

Audit team



Audit team

Audit team structure:

Kevin Suter*
Associate Partner

Jack Dunkley
Manager

Albina Nayga
Senior

EY Real Estates

Specialist PWC
(consulting
actuary) and EY
Actuaries

* Key Audit Partner

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	Council's RICS registered internal PPE valuer EY Real Estates Team
Pensions disclosure	Aon Hewitt - Actuary to Hampshire Pension Fund PwC as consulting actuary appointed by the NAO, and EY internal pensions specialists

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In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- ▶ Assess the reasonableness of the assumptions and methods used;
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ Assess whether the substance of the specialist's findings are properly reflected in the financial statements.



07

Audit timeline





Audit timeline

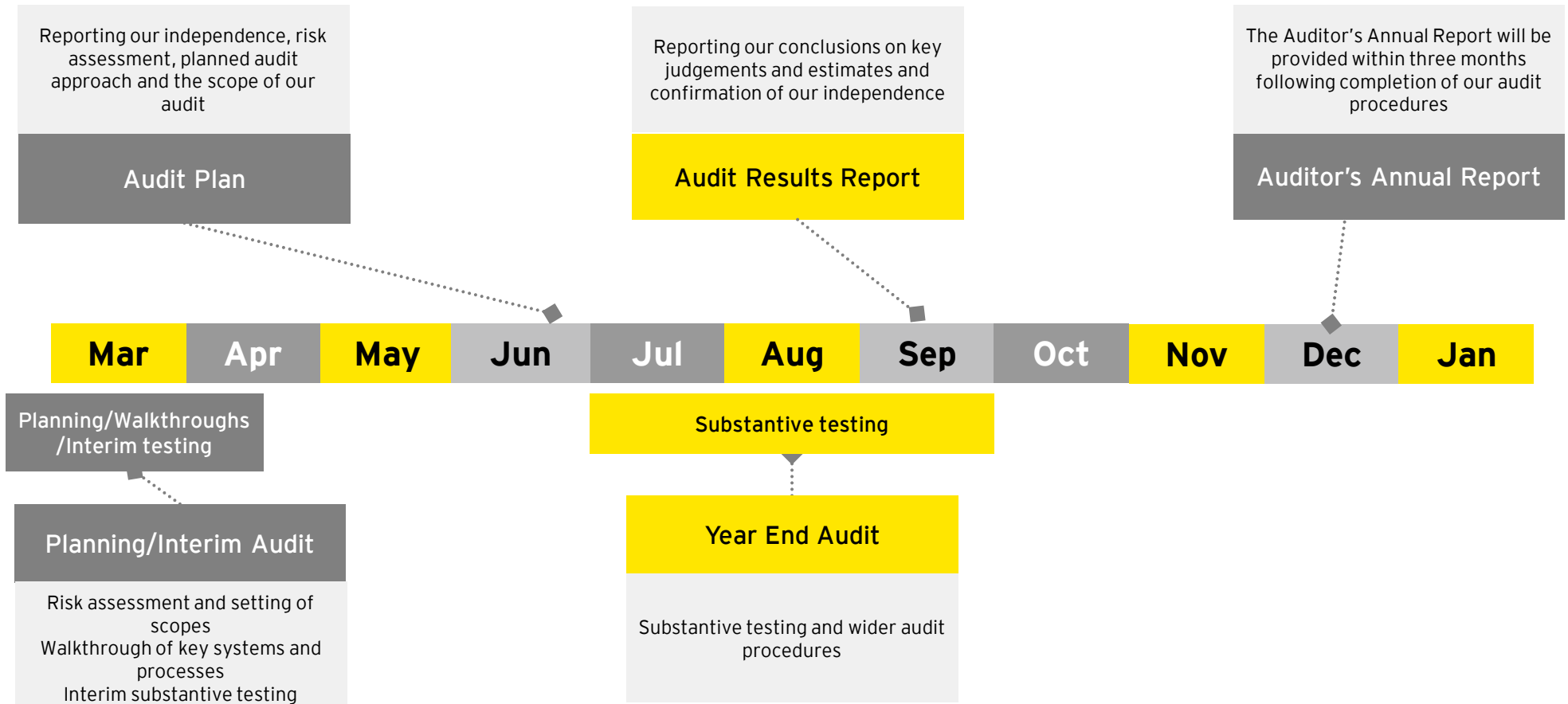
Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2021/22.

From time to time matters may arise that require immediate communication with the Governance Committee and we will discuss them with the Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

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08

Independence



Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage	Final stage
<p>▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;</p> <p>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</p> <p>▶ The overall assessment of threats and safeguards;</p> <p>▶ Information about the general policies and process within EY to maintain objectivity and independence.</p>	<p>▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;</p> <p>▶ Details of non-audit services provided and the fees charged in relation thereto;</p> <p>▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;</p> <p>▶ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner</p> <p>▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;</p> <p>▶ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and</p> <p>▶ An opportunity to discuss auditor independence issues.</p>

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Kevin Suter, your audit engagement partner, and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with our policy on pre-approval.

The ratio of non-audit fees to audit fees is not permitted to exceed 70% and this has not been exceeded, therefore no additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Relationships, services and related threats and safeguards

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.
There are no other threats at the date of this report.

Other communications

EY Transparency Report 2020

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2021 and can be found here:

[EY UK 2021 Transparency Report | EY UK](#)



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Appendices



Appendix A

Fees

Public Sector Audit Appointments Ltd (PSAA) has published the fee scale for the audit of the 2021/22 accounts of opted-in principal local government and police bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Planned fee 2021/22	Scale fee 2021/22	Final Fee 2020/21
	£	£	£
PSAA Scale Fee	109,891	109,891	109,891
Scale fee rebasing (1)	85,260	n/a	85,260
Revised proposed scale fee	195,151	n/a	195,151
Scale fee variations (2,3)	TBC	n/a	35,853
Total fees	195,151	109,891	231,004

All fees exclude VAT

Notes:

(1) As detailed in our 2020/21 Annual Audit Letter we have submitted a proposed rebasing of the scale fee to reflect changes in work required to address professional and regulatory requirements and scope associated with risk. PSAA are yet to conclude on the rebasing.

(2) The 2019/20 Code work includes a proposed additional fee of £27,752, for additional work undertaken in relation to going concern, property valuations, VFM, new ledger system, CIES/EFA restatement and pensions. This additional fee is subject to approval from PSAA.

(3) As noted in the previous sections of this report, we have identified new and continuing risks for 2021/22 that are not within the scale fee. Additional work will be required, but we are unable to quantify the impact at this time.

The agreed fee presented is also based on the following assumptions:

- Officers meet the agreed timetable of deliverables;
- Our accounts opinion and value for money conclusion are unqualified;
- Appropriate quality of documentation is provided by the Council; and
- The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.




Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee where applicable.

Appendix B

Required communications with the Governance Committee




We have detailed the communications that we must provide to the Governance Committee.

Our Reporting to you

Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Governance Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit results report




Appendix B

Required communications with the Governance Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	Audit results report
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Corrected misstatements that are significant ▶ Material misstatements corrected by management 	Audit results report
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	Audit results report
Related parties	<ul style="list-style-type: none"> ▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	Audit results report

Appendix B

Required communications with the Governance Committee (continued)

		Our Reporting to you	
Required communications	 What is reported?	  When and where	
Page 104	Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	<p>Audit planning report</p> <p>Audit results report</p>
	External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Audit results report
	Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Committee may be aware of 	Audit results report
	Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	Audit results report
	Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report
	Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report
	Auditors report	<ul style="list-style-type: none"> ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit results report
	Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit plan is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	<p>Audit planning report</p> <p>Audit results report</p>

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting.
- ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Reading other information published with the financial statements, and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- ▶ Maintaining auditor independence.

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- ▶ The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

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About EY

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