

**SOUTHAMPTON CITY COUNCIL**  
**AUDIT COMMITTEE – ANNUAL REPORT**  
**2009/10**



**CLLR MICHAEL BALL**  
**(CHAIR)**

## **INTRODUCTION**

I have served on the Audit Committee for four years, since its inception at the end of 2006. I have concluded my second year as Chairman, aided by the former Chair Cllr Bogle. The committee continues to have a good balance of councillors with a diverse range of commercial and political experience. We have sought to strengthen training and encourage other members of the Council to attend courses on finance and risk.

Meetings are held quarterly during the municipal year, with the majority of the reports set out as part of the annual calendar. However, I split the December meeting into two sessions, so that we could receive training on the Annual Treasury Management Strategy before debating the new document at the additional January meeting.

The role of Chair is to understand the key issues detailed in the reports and set them in context. The core elements focus on monitoring Audit Committee recommendations, approving revised statements and reviewing the status of audit work. The challenge is to maintain the focus upon matters of finance and risk and steer away from policy. Hence certain reports received such as School Performance for pupils in Key Stage 2 were referred to the Overview and Scrutiny Management Committee to debate.

The Audit Committee receives three key annual reports:

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

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

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

- Section 106 Agreements – weakness in administration including credit control
- Financial Management in Schools – poor accounting in schools
- Contract Procedure Rules – weak and inconsistent application
- Project Management – inconsistency in monitoring

Risk management is successfully embedded in the Council's key business processes, including strategic planning and financial management. The Audit Commission stated that "effective risk management supports the Council in taking and managing significant risks to deliver innovative and challenging projects". This is key, as the Council needs to innovate its practices to deliver cost effective services. There has been positive engagement with the external auditors. They concluded that "the Council performed well within the Use of Resources".

Under the new scrutiny structure, introduced in 2009, all performance monitoring reports were assessed by the Overview and Scrutiny Management Committee. It is apparent that further work is required to improve members' understanding of financial and reporting, if this format is to remain to ensure robust review of reports. The move to greater partnership working adds to the complexity of local government.

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

***Cllr Michael Ball, Chair of Audit Committee 2009/10***

## **Purpose of the Report**

1. The purpose of this report is to inform the Standards and Governance Committee of the work of the Audit Committee during the 2009/10 Municipal year.

## **Background**

2. The Audit Committee, which was created in 2006, provides independent assurance to the Standards and Governance Committee on matters of corporate governance. The Committee's role reflects guidance from CIPFA regarding best practice in the provision of effective corporate governance arrangements.
3. The compilation of an annual report on the work of the Audit Committee was recommended as a result of the committee's self-assessment against the CIPFA good practice guidance, undertaken in February 2008. This is the third annual report.

## **Membership**

4. The Committee comprises seven Members, reflecting the political proportionality of the Council. The Committee is independent of both the Executive and Scrutiny. The Members for 2009/10 were:
  - Cllr Michael Ball (Chair)
  - Cllr Sarah Bogle (Vice-Chair)
  - Cllr David Beckett
  - Cllr Edward Daunt
  - Cllr David Fuller
  - Cllr Andrew Wells
  - Cllr Richard Williams
5. The Committee is supported by the Executive Director of Resources and the Chief Internal Auditor. Appropriate representatives from the Audit Commission also attended all five meetings held during the year.

## **Terms of Reference**

6. The Committee's role and Terms of Reference, approved by Council, are:
  1. To provide independent assurance to the Standards and Governance Committee on the adequacy of the risk management framework and the internal control and reporting environment, including (but not limited to) the reliability of the financial reporting process and the annual governance statement
  2. To be satisfied and provide assurance to the Standards and Governance Committee that appropriate action is being taken on risk

and internal control related issues identified by the internal and external auditors and other review and inspection bodies.

3. The Committee shall specifically have responsibility for oversight of and provision of assurance to the Standards and Governance Committee on the following functions:

- Ensuring that Council assets are safeguarded;
- Maintaining proper accounting records;
- Ensuring the independence, objectivity and effectiveness of internal and external audit;
- The arrangements made for cooperation between internal and external audit and other review bodies;
- Considering the reports of internal and external audit and other review and inspection bodies;
- The scope and effectiveness of the internal control systems established by management to identify, assess, manage and monitor financial and non-financial risks (including measures to protect against, detect and respond to fraud).

7. In order to fulfil this remit, there are four significant sources of assurance available for the Committee to draw on:

- External Audit, provided by the Audit Commission;
- Internal Audit , provided by the Council's in-house team and led by the Chief Internal Auditor;
- Annual Governance Statements provided by the Council's Executive Directors; and
- The Council's strategic and operational Risk Registers

## **Work Programme 2009/10**

8. The Committee met on five occasions during the municipal year:

24<sup>th</sup> June 2009  
23<sup>rd</sup> September 2009  
10<sup>th</sup> December 2009  
25<sup>th</sup> January 2010  
18<sup>th</sup> March 2010

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

### **Risk Management**

- One of the Committee's key functions is to ensure the adequacy of the Council's risk management framework. At its first meeting of the Municipal year, the Committee undertook its annual review of the Risk Management Strategy and approved a revised version of the document. The Committee

also approved the Risk Management Action Plan for 2009/10 and reviewed the status of actions arising from the 2008/09 Plan.

- The Strategic Risk Register comprises a list of the key corporate and business risks, linked to the Council's strategic objectives. The Committee reviewed and approved the 2009/10 Register, and agreed that it reflected the key risks that the Council would be exposed to. The Committee also recommended that new members of the Council receive, as part of their induction, training on the methodology and process of identifying and managing risks.

### **Internal Control**

- In accordance with proper internal audit practices, the Chief Internal Auditor is required to provide a written opinion on the adequacy and effectiveness of the Council's framework of risk management, internal control and governance. The Committee received the report for 2008/09 at its first meeting of the Municipal year. The Auditor's opinion was that the Council's framework was basically sound; however, some weaknesses were identified and there were areas where the framework was not consistently applied. The Audit team has worked with management in these areas to agree appropriate corrective actions and timescales for improvement. Specific concerns included:
  - > inconsistency in monitoring and reporting arrangements for programmes and projects
  - > failure to consistently and robustly apply the Council's Contract Procedure Rules
  - > weaknesses in the administration of Section 106 Agreements
  - > issues around the invoicing process for services provided to Health and Social Care clients and the interface between the PARIS Health and Social Care System and the Agresso main accounting system

The Chief Internal Auditor also confirmed that the internal audit service was able to demonstrate full compliance with the CIPFA code during 2008/09.

- As part of its remit to provide independent assurance on the effectiveness of internal control procedures, the Committee reviewed and approved the draft Annual Governance Statement for 2008/09 and recommended its formal acceptance by the Standards and Governance Committee. Progress against the Action Plan, put in place to address areas where there were gaps or where improvements were required, was reviewed by the Committee at a subsequent meeting. The Committee also approved an 'assurance gathering process', developed in line with CIPFA guidance, which will be used to improve the process for 2009/10.
- The National Fraud Initiative (NFI), a data matching exercise designed to prevent and detect fraud, is run every two years by the Audit Commission. The latest results from the 2008/09 exercise were presented to the Committee and showed that £132,235 of fraud had been identified and was in the process of being recovered.

## **Internal Audit**

- At its first meeting of the year, the Committee conducted its annual review of the effectiveness of the Internal Audit function. The Committee found that the internal audit system was compliant in every respect with the CIPFA Code of Practice and that, based on the key lines of enquiry for 2008, the overall theme score for Internal Control in the Audit Commission's 'Use of Resources' assessment had progressed from a 2 to a 3. The Committee thanked the Chief Internal Auditor and his team for the work involved in achieving this outcome.
- The Committee approved a revised version of the Internal Audit Strategy 2007 to 2011, which had been updated to reflect new practices and to ensure the service was able to be appropriately planned and delivered in accordance with the revised CIPFA Code of Practice. The Committee also approved the Strategic Internal Audit Plan for 2010/11 to 2012/13. This is a key document which provides the mechanism through which the Chief Internal Auditor can ensure the most appropriate use of internal audit resources to provide a clear statement of assurance on risk management, internal control and governance arrangements.
- At each meeting, the Committee also received a detailed update summarising the activities of internal audit for the period since the previous meeting and the actions taken by management to address any control issues identified.

## **External Audit**

- The Audit Commission's Annual Audit Letter for 2008/09 was presented to the Committee in December, setting out the results of the statutory audit of the Council's financial statements and the assessment of the Council's arrangements to secure value for money in the use of resources. The key messages in the Annual Audit Letter were:
  - > The Auditor gave an unqualified opinion on the Council's accounts and considered that the financial statements were "of a good standard". However, as there were outstanding elector queries to be resolved, the Auditor was unable to conclude the audit and issue a certificate.
  - > The Auditor gave an unqualified value for money conclusion, stating that: "in all significant respects, Southampton City Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009".
  - > The Council scored 3 out of a maximum of 4 in its Use of Resources assessment and the Auditor concluded that this was "a creditable achievement" when set against the new assessment framework and in the context of the prevailing economic and financial climate
  - > The Auditor recognised that the Council had made progress in addressing areas identified for improvement, in particular the new charging policy and income billing system for social care. However, the Auditor considered that sustained impetus was needed to:

- remain focussed on service prioritisation and efficiencies and savings
  - implement key strategic developments: i.e. the Building Schools for the Future programme, the Highways maintenance Partnership, the South Coast Street Lighting PFI and the Estates Regeneration programme
  - continue to address education performance
  - implement installation of individual electricity supply meters to tenanted and leasehold properties
- At each meeting, the Committee received a progress report against the 2008/09 and 2009/10 Audit and Inspection Plans, including the Annual Governance report.

## **Finance**

- The Committee recommended to the Standards and Governance Committee that the Statement of Accounts for 2008/09 be approved. The Committee also noted and approved changes in accounting policies and procedures adopted by the Council and noted the effects of the current economic recession on the Council's finances.
- In accordance with CIPFA recommendations, the Committee is now responsible for the implementation, monitoring and scrutiny of treasury management policies and practices, and members of the Committee have been provided with training to assist them in undertaking this role. The Treasury Management Strategy for 2010/11 was therefore presented for endorsement by the Committee, prior to submission to Full Council for approval.
- A report was presented detailing the changes in practice needed to comply with the International Financial Reporting Standards (IFRS) for the 2010/11 financial year. The Committee noted that Southampton had been assessed as on track to successfully meet the transition timescales.

## **Single focus reports**

- **Section 106 Agreements**  
One of the weaknesses identified in the Chief Internal Auditor's Annual Report and Opinion for 2008/09 related to Section 106 Agreements. An audit, carried out in January 2009, evaluated five areas of risk and recommended four Action Plans, three of which were classified as 'High Priority'. A range of remedial actions and interventions were put in place and a report was presented to the Committee six months after the audit, detailing the progress that had been made.
- **Highways Services Partnership Procurement**  
In August 2009, whilst the Council was in the process of procuring a Service Provider to deliver its highways services, the Audit Commission was appointed to advise on risks associated with the project. The Audit

Commission provided a progress report to the Council, raising a number of issues including:

- > affordability and value for money
- > risk to service provision should the proposed Partnership not come to fruition
- > financial planning arrangements

The Commission's report, and the Council's response to these issues, was presented to the Audit Committee.

- Improvement in School Performance  
Southampton City Council was one of twelve Local Authorities identified by the former Department of Children Schools and Family as having a high proportion of schools with pupils falling below the expected achievement levels in English and Maths for pupils at Key Stage 2. The Audit Commission's Annual Letter had also highlighted concerns about educational attainment. The Committee therefore requested Overview and Scrutiny Management Committee to commission a report from the Cabinet Member and Executive Director for Children's Services on the Council's performance on educational achievement, and specifically in respect of Key Stage 2.

## **Conclusion**

10. The Audit Committee, during its third year of operation, has continued to provide effective and independent assurance to the Standards and Governance Committee on a range of risk and internal control issues. In partnership with the Audit Commission, and with the professional support of Officers, the Committee continues to make a valuable contribution to the Council's corporate governance arrangements.



## **Appendix A**

A full list of the reports received at meetings of the Audit Committee for the Municipal year 2009/10

### **24<sup>th</sup> June 2009**

- Implementation of Management Actions – Section 106 Agreements
- Chair’s Annual Report on Audit Committee 2008/09
- Statement of Accounts
- Audit Commission: Audit and Inspection Fee 2009/10
- Audit Commission: Audit and Inspection Plan Progress Report
- Review of the Effectiveness of the System of Internal Audit
- Chief Internal Auditor’s Annual Report and Opinion 2008/09
- Annual Governance Statement 2008-09
- Risk Management Strategy and Action Plans
- Internal Audit: Status of Work – May 2009
- Internal Audit: Review of Internal Audit Strategy 2007-2011
- Monitoring Audit Committee Recommendations

### **23<sup>rd</sup> September 2009**

- Audit Commission: Audit and Inspection Plan Progress
- Strategic Risk Register
- Internal Audit: Status of Work – August 2009
- Monitoring Audit Committee Recommendations

### **10<sup>th</sup> December 2009**

- Audit Commission: Annual Audit Letter 2008/09

### **25<sup>th</sup> January 2010**

- Audit Commission: Audit and Inspection Plan Progress Report
- Highway Services Partnership Procurement
- Annual Treasury Management Strategy and Prudential Limits 2009/10 - 2012/13
- Risk Management Action Plan 2009-10: Status Report
- Annual Governance Statement 2008/09 Action Plan Status Report
- National Fraud Initiative 2008-09
- Assurance Mapping
- Monitoring Audit Committee Recommendations
- Improvement in School Performance
- Internal Audit: Status of Work - December 2009

### **18<sup>th</sup> March 2010**

- Implementation of International Financial Reporting Standards
- Audit Commission: Audit and Inspection Plan Progress Report
- Annual Governance Statement 2009-10
- Internal Audit: Status of Work – February 2010
- Internal Audit: Strategic Plan 2010/11 to 2012/13
- Monitoring Audit Committee Recommendations