



CHIEF INTERNAL AUDITOR'S **ANNUAL REPORT AND OPINION** **2009 - 2010**

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1. INTERNAL CONTROL AND THE ROLE OF INTERNAL AUDIT

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

2. INTERNAL AUDIT OPINION

- 2.1. The main purpose of this report is to give my opinion as Chief Internal Auditor for Southampton City Council on the adequacy and effectiveness of the Council's framework of risk management, internal control and governance for the year ending 31st March 2010.
- 2.2. In giving this opinion, it should be noted that assurance can never be absolute and therefore, only reasonable assurance can be provided that there are no major weaknesses in the processes reviewed. In assessing the level of assurance to be given, I have based my opinion on:
 - written reports on all internal audit work completed during the course of the year;
 - results of any follow up exercises undertaken in respect of previous years' internal audit work;
 - the results of work of other review bodies where appropriate;
 - the extent of resources available to deliver the internal audit work;
 - the quality and performance of the internal audit service and the extent of compliance with the CIPFA Code;
 - any limitations which may have been placed on the scope or operation of internal audit; and
 - the proportion of Southampton City Council's audit need that has been covered within the period.

Opinion

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

In my opinion, Southampton City Council's framework of governance, risk management and management control is basically sound, however, some weaknesses have been identified through our work or we have found evidence that the framework may not be consistently applied. Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement.

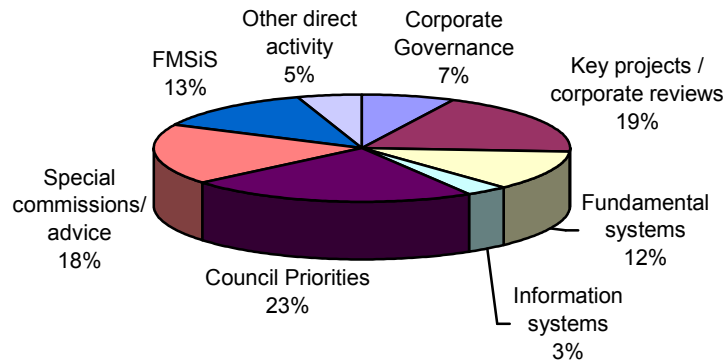
The system of internal control will be strengthened by the work that is being carried out to improve and embed programme and project management; health and social care billing; and financial management within educational establishments.

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

3. INTERNAL AUDIT COVERAGE AND OUTPUT

- 3.1. The *Strategic internal audit plan* details a rolling, three-year programme of audits, designed to support preparation of the *Annual governance statement* and encompasses the following core principles:
- focus on the Council's defined purpose and outcomes;
 - effective performance in clearly defined functions and roles;
 - promoting values that underpin good governance through upholding high standards of conduct and behaviour;
 - taking informed and transparent decisions within a framework of controls and managing risk;
 - developing the capacity and capability of members and officers to be effective; and
 - engaging stakeholders to ensure robust public accountability.
- 3.2. The final year of the three-year programme (the 2009-10 Internal audit plan, approved by the Audit Committee 19 March 2009 and revised 8 February 2010) was informed by the corporate risk register and performance framework, supplemented with internal audit's own assessment of risk and materiality.
- 3.3. Internal audit delivered 1350 audit days across 110 review areas over the course of the year ending 31st March 2010. This includes 221 direct days on special commissions or investigation work. An additional 141 direct days were delivered in our role as the Council's appointed external assessors for the Financial Management Standard in Schools [FMSiS].

Analysis of audit days by review type



3.4. The revised 2009-10 internal audit plan has been delivered with the following exceptions:

- At the time of this report, the following reviews are work in progress:
 - Risk Financing
- Work is substantially complete and an opinion has been formed for the following reviews, however, formal draft reports have not yet been issued to and agreed with management:
 - Commissioning plan for health and wellbeing
 - Children's Trust arrangement for delivery of Children and Young Peoples Plan
 - Across Schools thematic reviews

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

3.5. We have published an opinion in final or draft reports (where we are concluding discussions with management in the agreement of action plans) in respect of 82 reviews (including 28 FMSiS external assessments) completed during the year.

3.6. Where our work identified risks that we considered fell outside the parameters acceptable to the Council, we agreed appropriate corrective actions and a timescale for improvement with the responsible managers. We actively monitor progress against the agreed action plans until we receive confirmation from management that all agreed actions have been completed or the audit points have been superseded.

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

Opinion	Framework of governance, risk management and management control	Number of published opinions in this category (2009-10)	Number of open audits with opinions in category at year end
Substantial assurance	A sound framework in place that is operating effectively. Some immaterial evidence of inconsistent application.	33	20
Adequate assurance	Basically a sound framework in place but with repeated evidence of inconsistent application.	11	3
Limited assurance	Critical weakness (es) identified within the framework or significant evidence of inconsistent application.	7	-
No assurance	Fundamental weaknesses have been identified or the framework is ineffective or absent.	3	-

4. SIGNIFICANT ISSUES ARISING

4.1. Programme and project management

Historically a lack of prioritisation of resources dedicated to the programme / project monitoring process resulted in time being spent at directorate boards discussing matters of detail that could have been more appropriately covered outside of the meeting preventing Boards from covering programme governance matters robustly. There were weaknesses within the corporate coordination function for the Council in providing oversight, scrutiny and challenge across the Council's capital programme / major projects and therefore risks in ensuring directorate boards were operating effectively.

The Executive Director of Resources commissioned a fundamental review of project management to address concerns identified with regard control, risk and governance. PM Connect (project management software) was piloted within the Neighbourhoods Directorate during 2009-10 who acted as the 'early developers'. The system was rolled out corporately from April 2010. A training programme has been developed to ensure that staff and managers are appropriately trained, including specific training for Project Board members as well as Project Managers.

Future audit review during 2010-11 will ensure PM Connect is fully embedded.

4.2. Health and Social Care Billing

In March 2005 the Council approved revised arrangements in respect of its Charging Policy for Non Residential Care Services, which was implemented in mid 2006. During the latter part of 2006, the Council identified significant issues around the invoicing for Health and Social Care clients for services provided. A new interface between the PARIS Health and Social Care System and the Agresso main accounting system was not working and billing had to be suspended. PARIS could not be reconciled to Agresso and poor manual records meant that there was uncertainty about data held within PARIS.

Remedial actions were undertaken which allowed billing to resume from May 2007. However, further difficulties were experienced and charging was again suspended in September 2007 due to the large number of errors. Subsequent testing of the system resulted in the need to manually input chargeable information in order to issue bills. However, invoices were still presenting with unexplained adjustments.

A 36 point action plan has been implemented to address system weaknesses and a new charging policy was introduced in April 2009. Work is continuing on implementing an upgrade of PARIS so that the system side of billing can be improved.

4.3. Financial management in educational establishments

The Financial Management Standards in Schools (FMSiS) is a mandatory requirement to provide assurance to the Department of Education (formerly Department for Children, Schools and Families), HM Treasury, National Audit Office and Local Authorities that schools have adequate arrangements in place to manage their resources effectively.

The Standard requires renewal every three years. All eligible schools within Southampton have now been assessed against the Standard following its three year phased implementation.

	Secondary	Primary	Special
Total number of schools	10	61	5
Schools assessed as meeting the Standard	10	59	5
Schools not meeting the Standard	0	2	0

Whilst the FMSiS brings a consistency to the control environment and provides a baseline for the school to assess itself against, it does not take into account all the risk areas confronting individual schools in the detail a probity audit would provide.

Two recent internal audit reviews have identified significant internal control and governance issues with regard financial management in educational establishments

As such, to compliment the FMSiS and School Thematic Review processes and to ensure review remains proportionate, in liaison with Children's Services and Learning, a programme of full school audits have been scheduled as part of the 2010/11 – 2012/13 strategic audit plan.

5. ADVICE TO MANAGEMENT

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

6. ANTI FRAUD AND CORRUPTION

- 6.1. Within the year we have concluded work on the National Fraud Initiative 2008-09 from which fraud of £218k was identified
- 6.2. In addition, we have assessed and where appropriate, advised, investigated or supported the investigation of a number of allegations of fraud, corruption or improper practice. A number of these cases were allegations made under the Duty to Act ("Whistleblowing") Policy. Evidence, advice and guidance have been passed to management to pursue internal disciplinary processes or to the Police to pursue criminal investigation where appropriate.

7. INTERNAL AUDIT PERFORMANCE

<i>Annual performance indicators 2009-10</i>		
Aspect of service	Target output or performance measure	Actual output or performance
Cost and quality of input	Service costs are within budget	Outturn report showed under spend resulting from efficiency proposals
	Direct audit days account for 65% of total time available	Direct audit days accounted for 78% of total time available
Productivity and process efficiency	A minimum of 90% of the annual plan is delivered	98% of the revised annual plan has been delivered
	100% of high risk audits are delivered	*98% of high risk audits have been delivered.
	Draft reports are issued within 10 days of completion of fieldwork	83 % of draft reports are issued within 10 days of completion of fieldwork

Annual performance indicators 2009-10		
Aspect of service	Aspect of service	Aspect of service
Productivity and process efficiency	Client response received to draft audit reports within 10 days of issue	**Estimated 70% of client responses are received to draft audit reports within 10 days of issue
	Final reports are issued within 10 days after agreement with client	75% of final reports are issued within 10 days after agreement with client
Quality of output	80% of clients are satisfied with the service delivered	A quality survey conducted in January 2010 reported that 83.3% of respondents rated the internal audit service as good, very good or excellent.
	External audit place reliance on work of internal audit	External audit placed reliance on the work of internal audit during 2009/10
Compliance with professional standards	CIPFA Code of practice for internal audit in local government (2006) is complied with	Compliant
Outcomes and degree of influence	90% of agreed high priority actions are implemented within agreed timescale	**Estimated 75% of agreed high priority actions are implemented within agreed timescale

* The remaining 2% (1 review) relates to a review of Waste & Recycling which has been deferred due to ongoing restructure and move to dock gate 20.

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

7.2 Internal Audit Resources

The resource profile has changed significantly during 2009 -10 following a restructure of the section. The service operated at a 12.5% shortfall in planned FTE staff over the period. Supplementary resources were bought in from Deloitte's for the delivery of IT reviews within the 2009-10 internal audit plan. This arrangement has proven very successful and we will continue to use this type of co-sourcing arrangement for future service delivery.

7.3 Quality control

Our aim is to provide a service that remains responsive to the needs of the Council and maintains consistently high standards. This was achieved in 2009-10 through the following internal processes:

- Compliance with CIPFA Code of practice for internal audit in local government (2006);

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

8. ACKNOWLEDGEMENT

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

Neil Pitman
Chief Internal Auditor
2nd June 2010