

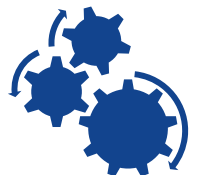


**SOUTHAMPTON**  
CITY COUNCIL

## **Southampton City Council Annual Audit Report 2022/23**

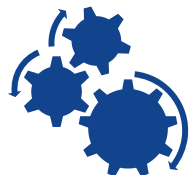
**Elizabeth Goodwin, Chief Internal Auditor**





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## 1. Executive Summary

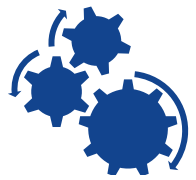
### Annual Opinion

On a yearly basis the Chief Internal Auditor is required to form an annual opinion on the effectiveness of the internal control framework in operation at Southampton City Council. This opinion is informed by work carried out over the course of the previous financial year (2022/23) and includes an assessment of results obtained from auditing activities. The details that support the opinion are contained in the body of this report.

In summary the significant financial pressures which have escalated during 2022-23 along with an increased emerging strain on the internal control framework have resulted in an opinion level of 'limited assurance' being attributed. The previous years assessment of 'reasonable assurance' was provided following two years of sustained improvement and no indications of systemic failings. It was previously noted that there were examples across the council where further work was required to enhance the control environment, this requirement has grown following structural changes, changes in key staff and organisational transformational changes. This position is likely to deteriorate further over the course of 2023-24 and audit work will remain flexible to align to the council's risk exposure.

### Progress Update

In addition to the annual opinion this report also covers the final, previously unreported audit areas completed since the last reporting period. All audit activities have now been closed as completed. The 'No Assurance' Appointeeship audit will be shared in the next reporting period (September 2023) alongside Executive Director comments.



## 2. Background

### Public Sector Internal Audit Standards

**2.1** On 1<sup>st</sup> April 2013 the *Public Sector Internal Audit Standards (PSIAS, the Standards)* were formally adopted in respect of local government across the United Kingdom. The *PSIAS* apply to all internal audit providers, whether in-house, shared services or outsourced. The *PSIAS* were revised from 1<sup>st</sup> April 2016, to incorporate the *Mission of Internal Audit* and *Core Principles for the Professional Practice of internal Auditing*.

**2.2** 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*

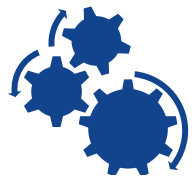
**2.3** The responsibility for maintaining an adequate and effective system of internal audit within Southampton City Council lies with the Executive Director of Corporate Services (Section 151 Officer).

**2.4** 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*.

**2.5** 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*

**2.6** In addition the Chief Internal Auditor will provide an Annual Internal Audit Opinion, based on an objective assessment of the Authority's framework of governance, risk management and control.



**2.7** 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.

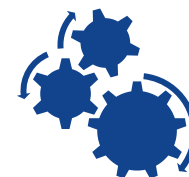
**2.8** An annual self-assessment is carried out, as part of *PSIAS*. The assessment for 2022/23 confirmed that Southampton City Council Internal Audit Service is compliant with requirements. For 2022/23 an External Assessment (required every five years) confirmed this assessment.

### Statement of Organisational Independence

**2.9** The Internal Audit Section has no operational responsibilities for any financial systems, including system development and installation. It does however manage and oversee the arrangements for 'auditing' Direct Payments for Adults and provides advice on control implementation and risk mitigation where relevant and throughout the design and implementation stages of new systems.

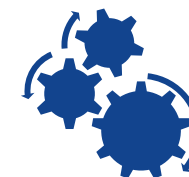
**2.10** The Chief Internal Auditor is free from interference, although has due regard for the Authority's key objectives and risks and consults with Members and Officers charged with governance, when setting the priorities of the annual audit plan, for example; in determining the scope and objectives of work to be carried out and in performing the work and communicating the results of each audit assignment. There must be and is, no compromise on the ability of Internal Audit to provide an independent assurance on the control framework.

**2.11** The Internal Audit Section has free and unfettered access to the Section 151 Officer, Chief Executive, Monitoring Officer the Leader of the Council and the Chair of the Governance Committee.



### 3. Annual Opinion for 2022/23

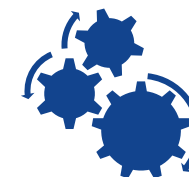
- 3.1** With effect from the 1st of April 2017, and in partnership with Portsmouth City Council, an in-house team to provide the internal audit service for Southampton City Council was established. The service is provided by a combination of in-house provision and colleagues from Portsmouth City Council overseen by a shared Chief Internal Auditor employed by the later.
- 3.2** For the financial year 2022-23 Internal Audit & Counter Fraud completed 31 full audits, 15 grant reviews, 15 follow ups and 1 data analytics project. The results identified one 'No Assurance' audited area, which is shared within this report. In addition, for the year there is, a combined 42% of results rated as 'no assurance' or 'limited assurance' and 58% rated as 'reasonable assurance' or 'assurance' (full audits). Compared with the previous year's results (2021-22) which was 35% and 65% respectively, showing a decline in the level of reasonable or full assurance attributed to work performed. Grant reviews are excluded from the annual evaluation as either assurance is provided immediately or at the conclusion of testing, following required amendments to ensure that the expenditure complies with the terms and conditions of the grant. Whilst last year's (2021-22) results, compared to the previous years (2020-21) were consistent and showed an indication of controls being maintained, there is a decline for this year (2022-23) and an emerging pattern.
- 3.3** An area of concern flagged in various reports during 2022-23, relates to the debt recovery where levels are increasing from previous years. A contributing cause of this will be a direct result of the council and governments directive to taking a 'softer approach' to recovery during the COVID-19 period, as well as more recent cost of living impacts. That said, the longer-term ability to collect debts as they age will be hindered, resulting in a higher percentage of debt written off in future years when savings targets become even tighter, and reserves have been eroded further.
- 3.4** The annual assessment of the effectiveness of the internal control framework is influenced not only by the results of the audits performed during the year and other intelligence gained (investigations and consultancy work), but also the council's emerging risks. The council has had several substantial changes to its senior management team, most recently in the last 12 months, culminating in directorate restructuring and further changes to staffing arrangements. Most positions are filled with permanent incumbents and there is now a new corporate plan and a wide reaching transformational programme.
- 3.5** The embedding of new arrangements (management styles) and delivery of priorities moving forward is against a backdrop of immediate and unprecedented financial pressures the Council is facing with a significant budget deficit. Therefore, the internal control and governance framework, which has already been tested as part of previous reducing Local Authority budgets, will be challenged significantly due to the planned extensive system transformations, the anticipated further loss of experienced staff (via the VS initiative) and a further reduction of resource, all contributing to increasing the risk exposure, be it immediate and longer term.



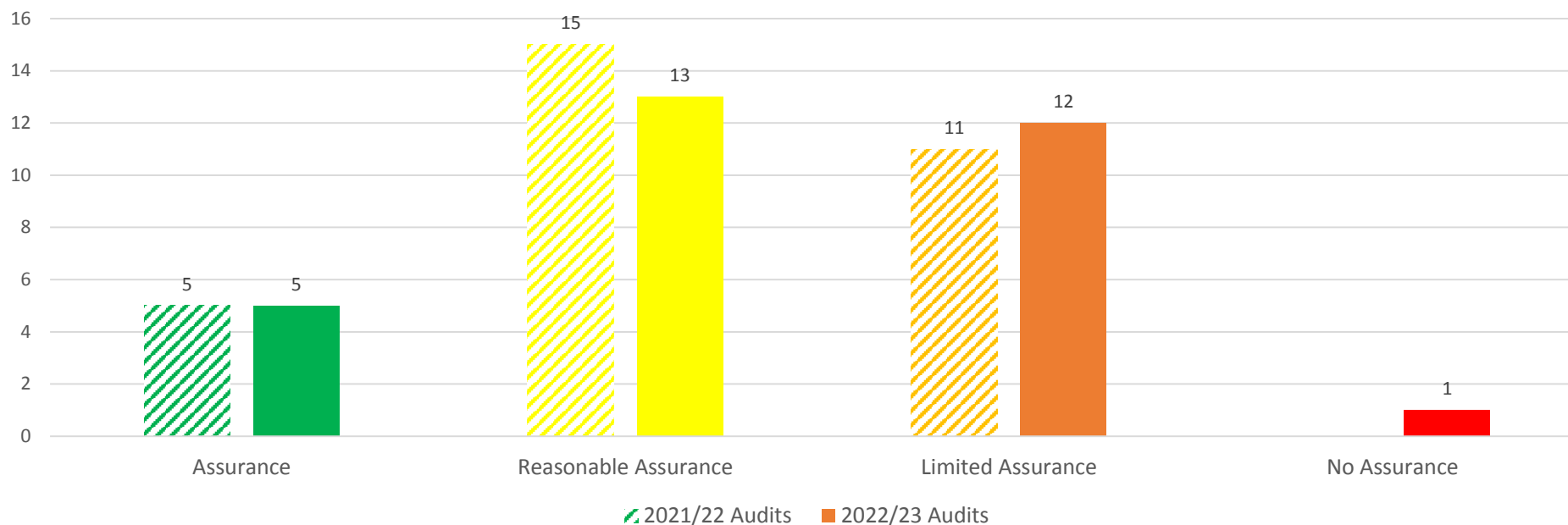
- 3.6 Directorates have reported their own decline in the effectiveness of controls as noted within the annual governance self-assessments with a deteriorated overall assurance level provided for a number of key controls. There are also patterns emerging locally and nationally relating to fraud and theft, which may well be influenced by a number of factors, including flexible working and potentially less visibility, reduction of practised staff, limited resources and therefore reduction of monitoring and oversight. Alongside the economic pressures and cost of living implications these risks become more exposed.
- 3.7 Whilst the overall movement in the audit results for 2022-23 was not, in itself, so significant to impact on the opinion, the opinion is also informed and influenced by all of the above, including the vulnerability of the governance framework and the associated emerging risks, financial instability together with the required pace and implications of the actions to address it, which means that an opinion of ‘limited assurance’ is provided for 2022-23.



- 3.8 For information: Four audit opinion levels are in place, and these are: no assurance, limited assurance, reasonable assurance, and full assurance. Where there are mainly medium or low risk exceptions the annual audit opinion would be reasonable or full assurance.
- 3.6 Any significant corporate weaknesses and agreed actions will be reflected in the Annual Governance Statement. The impact of the Internal Audit work for 2022/23 may affect that year's work for External Audit. It may also inform their work for 2023/24 and where they consider there are weaknesses in control that could materially affect the accounts, they may need to carry out further work to gain the necessary audit assurance required, for a true and fair view of the financial position and compliance with professional codes of practice.



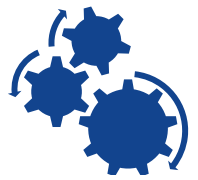
#### 4. 2021/22 & 2022/23 Full Audit Assurance Levels



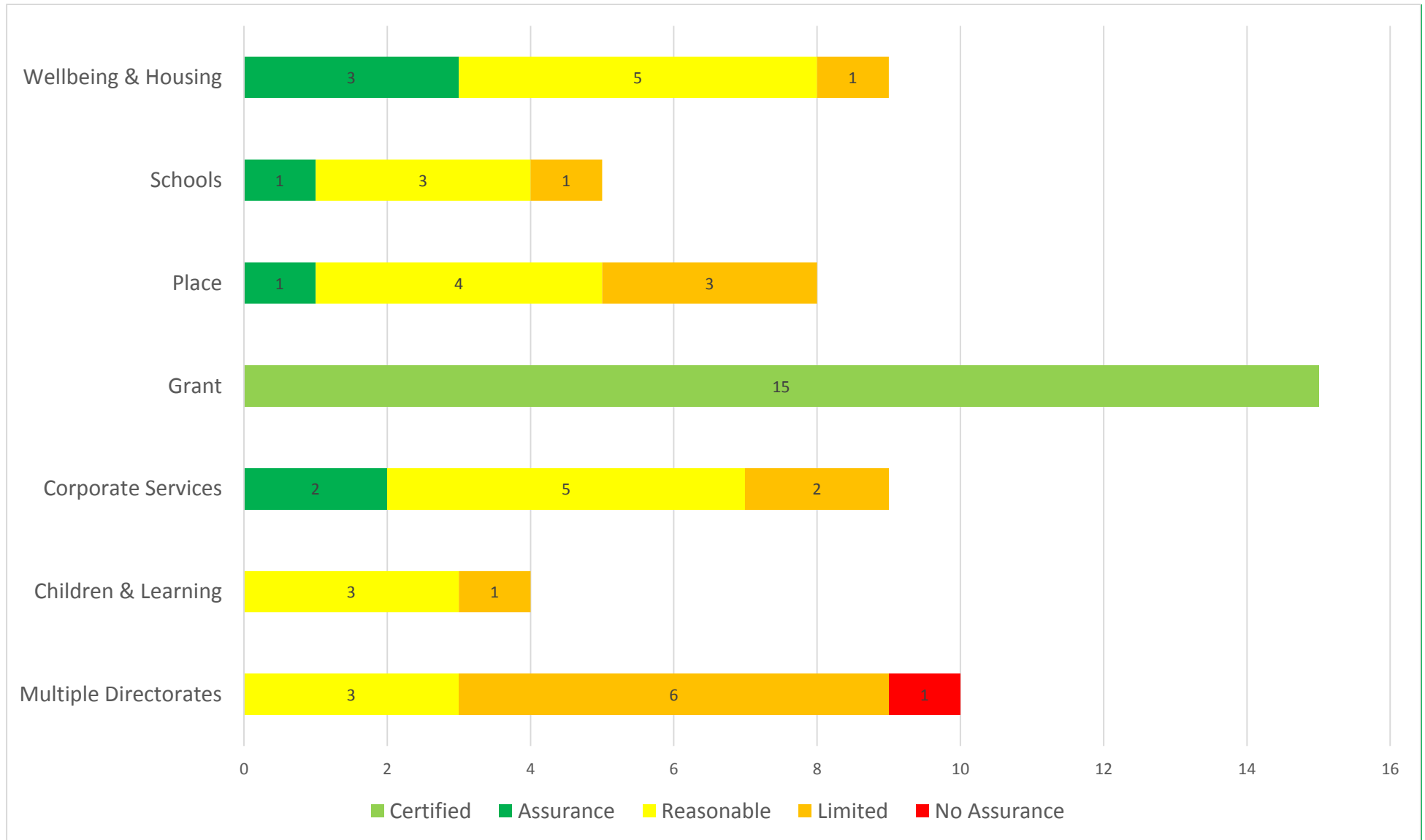
Note: The 15 Follow Ups, 15 Grant Certifications and 1 Data Analytics Project have not been included in this graph and table.

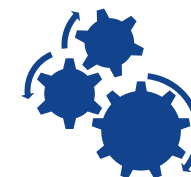
	2021/22 Full Audits	2022/23 Full Audits
<b>Assurance</b>	5 (16%)	5 (16%)
<b>Reasonable Assurance</b>	15 (48%)	13 (42%)
<b>Limited Assurance</b>	11 (35%)	12 (39%)
<b>No Assurance</b>	0	1 (3%)
<b>TOTAL</b>	<b>31</b>	<b>31</b>



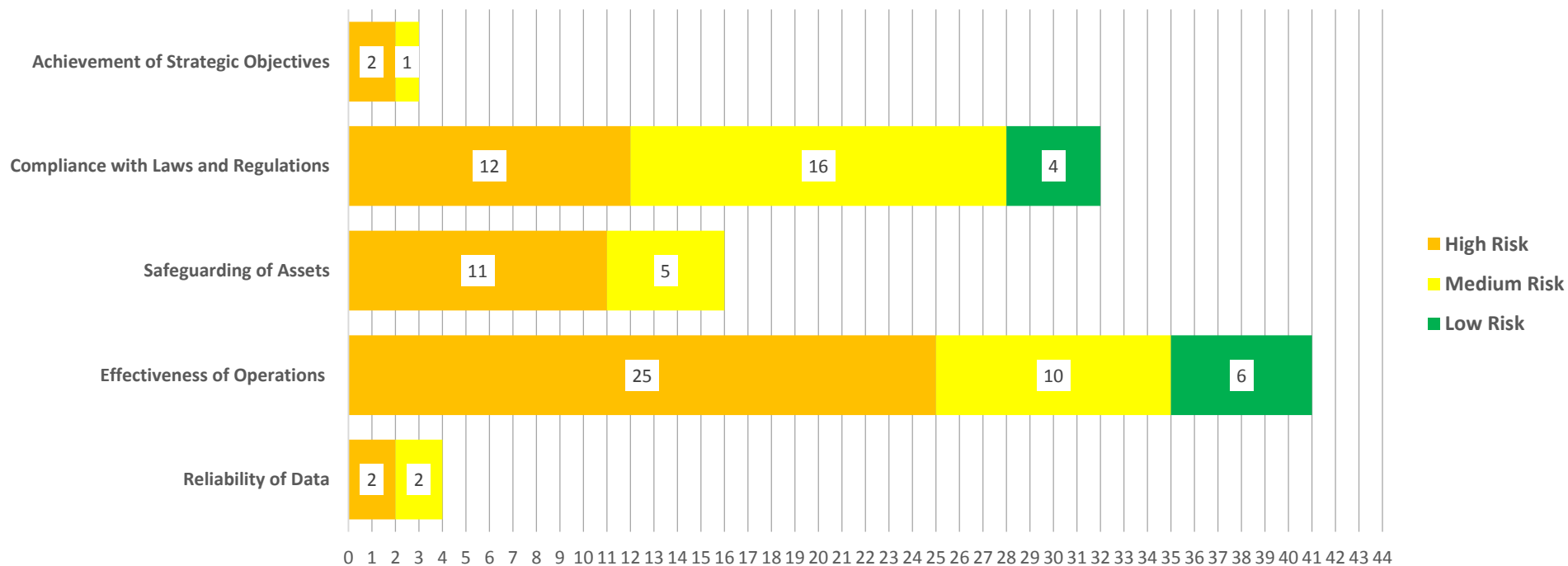


### 5. 2022/23 Audit Assurance by Executive Directorate

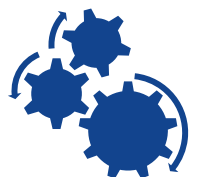




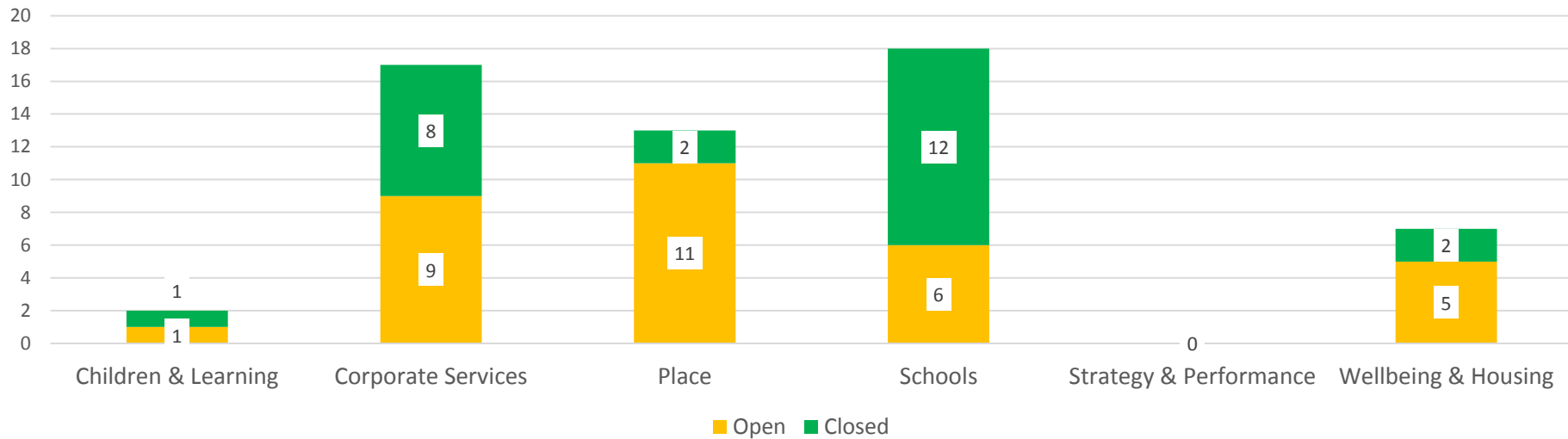
## 6. 2022/23 Exception Analysis by Risk Classification



	High Risks	Medium Risks	Low Risks	TOTAL
Achievement of Strategic Objectives	2	1	0	3
Compliance with Laws and Regulations	12	16	4	32
Safeguarding of Assets	11	5	0	16
Effectiveness of Operations	25	10	6	41
Reliability of Data	2	2	0	4
<b>TOTAL</b>	<b>52</b>	<b>34</b>	<b>10</b>	<b>96</b>

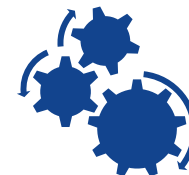


## 7. 2022/23 Open and Closed Risks by Directorate



	Children & Learning		Corporate Services		Place		Schools		Wellbeing & Housing	
	Open	Closed	Open	Closed	Open	Closed	Open	Closed	Open	Closed
<b>High Risk</b>	1	1	6	4	8	1	4	5	2	0
<b>Medium Risk</b>	0	0	3	3	3	1	2	7	3	1
<b>Low Risk</b>	0	0	0	1	0	0	0	0	0	1
<b>TOTAL</b>	1	1	9	8	11	2	6	12	5	2

Internal Audit follows up audits where at least one high risk exception has been raised. Exceptions are followed up in the next financial year, to allow for agreed actions to be sufficiently implemented. Any critical risk exceptions are followed up within three months due to the potential severity of the risks identified. The overall position of the 57 exceptions followed up through 2022/23 shows that 25 (44%) have been closed by audit, however 32 (56%) are overdue due to the actions being in progress or outstanding. The overall percentage closed this year has reduced from 47% to 44%.

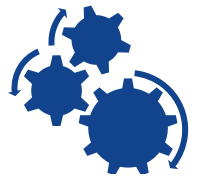


## 8. Quality Assurance

**8.1** As part of the *Public Sector Internal Audit Standards* the Chief Internal Auditor is required to maintain a quality assurance and improvement programme (QA&IP) that covers all aspects of the internal audit activity. This QA&IP must include both internal and external assessments, which are detailed below under section 14.

In addition to this, quality and improvement requirements are assessed by means of:

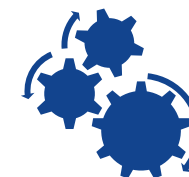
- Sign off by the Chief Internal Auditor or Deputy of all key stages of an audit, for example the scope of work and level of testing to be performed, the conclusion of the work and opinion formed followed by a review of the draft and final reports.
- Weekly or bi-weekly 1:1s with all members of staff, within Internal Audit and colleagues who undertake Counter Fraud activities.
- Annual performance reviews of all staff, including the identification and provision of training. The majority of training needs are provided by a combination of external professional studies, supporting by in-house provisions and mentoring.
- All staff above Auditor level are required to undertake professional training or have achieved an education level of degree or above. For those that have completed professional studies as part of their professional body membership, must complete the required Continuous Professional Development.
- An annual skills gap analysis across the team, (this includes the wider team) to determine specific potential shortages or gaps. Whilst no major gaps are noted at present, historical gaps in areas such as project auditing, contract auditing and IT auditing have been identified following the departure of employees (including retirement). These shortfalls have been addressed by specified recruitment, bespoke training or if required short term, by means of additional sign off/ mentoring of staff. Areas requiring improvement for this year's assessments are noted below, Skills Gap Analysis Results (8.2).
- All staff complete an annual declaration of interests including a nil return, to avoid any impingement on independence or conflict of interest.
- Feedback has been received during 2022/23 from key stakeholders, all feedback supported the quality assurance assessment reflecting that the service provided complies with *PSIAS* criteria.



## Skills Gap Analysis for 2022/23

### 8.2 Essential Areas: where greater coverage of skills is needed moving forward:

- *Experience:* experience at a senior level across multiple subject areas has decreased with the retirement of three senior officers (two due to ill health). Two within the partnership, one directly employed at SCC. This has led to a vulnerability as knowledge within certain areas has decreased. Professional training and mentoring has been provided over the last year and this will continue moving forward.
- *Auditing, Specialist IT Auditing skills:* these are limited within the overall service (Partnership) with only two officers currently qualified. To address this shortfall, professional training will continue for a third officer and use will also be made of resources employed elsewhere under the various partnerships and shared service arrangements.
- *Counter Fraud skills:* whilst there are three officers qualified in Counter Fraud (CF) and investigative practice these resources are limited. There has been a significant increase in investigating across the partnership for counter fraud work, including grant related fraud prevention and assessment work, which has placed this area of the service under pressure.
- *Qualified Accountants:* the final area to note is in relation to the level of qualified auditors, specifically 'accountancy qualified'. Following the retirement of three officers within the partnership a gap emerged representing a shortfall in this area. One implication is the ability to verify certain grant work, where the accounting qualification is restricted. This position has improved as the Principal Auditor at SCC is now fully qualified under Chartered Institute of Management Accountants.



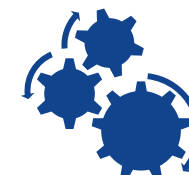
## 9. 2022/23 Audits Completed - not previously reported

Accounts Payable				Overall Assurance Level	Assurance Level by Scope Area																		
<b>Exceptions Raised</b> <table border="1"> <tr> <td><b>Critical</b></td> <td><b>High</b></td> <td><b>Medium</b></td> <td><b>Low</b></td> </tr> <tr> <td>0</td> <td>1</td> <td>4</td> <td>0</td> </tr> </table>				<b>Critical</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>	0	1	4	0	<b>Limited</b> Latest implementation date scheduled is July 2023	<table border="1"> <tr> <td>Achievement of Strategic Objectives</td> <td>No Areas Tested</td> </tr> <tr> <td>Compliance with Policies, Laws &amp; Regulations</td> <td>Reasonable</td> </tr> <tr> <td>Safeguarding of Assets</td> <td>No Assurance</td> </tr> <tr> <td>Effectiveness and Efficiency of Operations</td> <td>No Areas Tested</td> </tr> <tr> <td>Reliability and Integrity of Data</td> <td>Reasonable</td> </tr> </table>	Achievement of Strategic Objectives	No Areas Tested	Compliance with Policies, Laws & Regulations	Reasonable	Safeguarding of Assets	No Assurance	Effectiveness and Efficiency of Operations	No Areas Tested	Reliability and Integrity of Data	Reasonable
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Reliability and Integrity of Data	Reasonable																						

The high risk exception was raised in relation to supplier due diligence and verifications against bank mandate fraud. Additional checks are required to safeguard against losses, this is a national issue with increased risk exposure. The first medium risk exception covered the timeliness of payments with 11% of payments being paid after standard payment terms. The second medium risk relates to a large number of invoices not having a corresponding purchase order raised. The third medium risk relates to 6/20 (30%) invoices tested where there was no evidence of goods received notes having been received. The final medium risk was raised where testing identifying duplicate active supplier records in Business World.

Accounts Receivable				Overall Assurance Level	Assurance Level by Scope Area																		
<b>Exceptions Raised</b> <table border="1"> <tr> <td><b>Critical</b></td> <td><b>High</b></td> <td><b>Medium</b></td> <td><b>Low</b></td> </tr> <tr> <td>0</td> <td>0</td> <td>2</td> <td>0</td> </tr> </table>				<b>Critical</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>	0	0	2	0	<b>Reasonable</b> Latest implementation date scheduled is June 2023	<table border="1"> <tr> <td>Achievement of Strategic Objectives</td> <td>No Areas Tested</td> </tr> <tr> <td>Compliance with Policies, Laws &amp; Regulations</td> <td>Assurance</td> </tr> <tr> <td>Safeguarding of Assets</td> <td>Assurance</td> </tr> <tr> <td>Effectiveness and Efficiency of Operations</td> <td>Reasonable</td> </tr> <tr> <td>Reliability and Integrity of Data</td> <td>No Areas Tested</td> </tr> </table>	Achievement of Strategic Objectives	No Areas Tested	Compliance with Policies, Laws & Regulations	Assurance	Safeguarding of Assets	Assurance	Effectiveness and Efficiency of Operations	Reasonable	Reliability and Integrity of Data	No Areas Tested
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Safeguarding of Assets	Assurance																						
Effectiveness and Efficiency of Operations	Reasonable																						
Reliability and Integrity of Data	No Areas Tested																						

The first medium risk exception relates to where 1/25 sampled outstanding invoices did not have timely recovery action. Furthermore, a review of invoices which were over one month since the invoice date and had not been collected was at £10.9 million. The second medium risk covers the absence of a report identifying clients lacking mental capacity awaiting either deputyship or the completion of a financial assessment to monitor and ascertain whether they should be charged at full or at part cost.



**Annual Governance Statement**

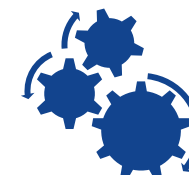
Exceptions Raised				Overall Assurance Level	Assurance Level by Scope Area	
Critical	High	Medium	Low	Reasonable		
0	0	0	0			Achievement of Strategic Objectives
					Compliance with Policies, Laws & Regulations	No Areas Tested
					Safeguarding of Assets	No Areas Tested
					Effectiveness and Efficiency of Operations	No Areas Tested
					Reliability and Integrity of Data	Reasonable

The self-assessment itself continues to be a good annual exercise that provides an opportunity for managers to reflect on the governance arrangements in place and whether there are potential gaps. The returns by directorates and services as a whole, show a decline in assurances that can be provided on the effectiveness of the governance framework. This position is supported by Internal Audits own assessment. There are emerging and actual significant risks impacting on the governance framework at the council, increased focus on governance effectiveness is essential in order to maintain stability while the council navigates its way through a difficult time financially.

**Appointeeships**

Exceptions Raised				Overall Assurance Level	Assurance Level by Scope Area	
Critical	High	Medium	Low	No Assurance		
0	9	0	0			Achievement of Strategic Objectives
					Compliance with Policies, Laws & Regulations	Reasonable
					Safeguarding of Assets	No Areas Tested
					Effectiveness and Efficiency of Operations	No Assurance
					Reliability and Integrity of Data	No Areas Tested

A summary of this appointeeship report will be provided in the September 2023 'Internal Audit Progress Report' alongside Executive Director comments.



**Expenses, Travel And Subsistence**

<b>Exceptions Raised</b>				<b>Overall Assurance Level</b>	<b>Assurance Level by Scope Area</b>	
<b>Critical</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>	<b>Limited</b>	Achievement of Strategic Objectives	<b>No Areas Tested</b>
0	4	3	1	<b>Latest implementation date scheduled is July 2023</b>	Compliance with Policies, Laws & Regulations	<b>Limited</b>
					Safeguarding of Assets	<b>No Areas Tested</b>
					Effectiveness and Efficiency of Operations	<b>No Areas Tested</b>
					Reliability and Integrity of Data	<b>Limited</b>

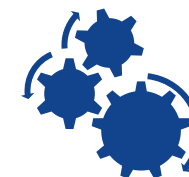
The first high risk exception relates to commuter mileage with testing identifying 21/25 potential commuter mileage claims which found a total of 178 miles was overclaimed which has a 59% failure rate. The second high risk covers where 15/20 officers with allowances did not have the requirement cited in their job description. The third high risk relates to a sample of 25 high value expenses found 14 did not have attachments to be able to reclaim VAT and 6 did not meet the criteria for a valid VAT receipt. The fourth high risk is raised as testing of 115 claims found 60 (52%) did not have an attachment in Business World to support the claim. The medium risks relate to overclaimed subsistence claims, 25 hotel claims were over the price limit and the absence of valid motor documentation.

**Fostering**

<b>Exceptions Raised</b>				<b>Overall Assurance Level</b>	<b>Assurance Level by Scope Area</b>	
<b>Critical</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>	<b>Limited</b>	Achievement of Strategic Objectives	<b>No Areas Tested</b>
0	3	1	0	<b>Latest implementation date scheduled is June 2023</b>	Compliance with Policies, Laws & Regulations	<b>Limited</b>
					Safeguarding of Assets	<b>Limited</b>
					Effectiveness and Efficiency of Operations	<b>Limited</b>
					Reliability and Integrity of Data	<b>No Areas Tested</b>

The first high risk exception relates to only 1/10 foster cares having an in-date and signed Foster Carer Agreement. The second high risk covers where 3/5 foster carer payments sample tested had discrepancies between Business World and the payment. The third high risk relates to where only 1/9 carers training records sampled had completed all the required training. The medium risk is raised as testing identified gaps in evidence to support recruitment and assessment checks for 3/5 foster carers.





**Hardmore School**

Exceptions Raised				Overall Assurance Level	Assurance Level by Scope Area	
<b>Critical</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>	<b>Limited</b>	Achievement of Strategic Objectives	<b>Limited</b>
0	6	4	0	Latest implementation date scheduled is <b>October 2023</b>	Compliance with Policies, Laws & Regulations	<b>Limited</b>
					Safeguarding of Assets	<b>Limited</b>
					Effectiveness and Efficiency of Operations	<b>Limited</b>
					Reliability and Integrity of Data	<b>No Areas Tested</b>

6 high risk exceptions have been raised relating to insufficient documentation of budgetary discussions at the Governing Body meetings, a review of the Schools Financial Value Standard (SFVS) finding 4/15 answers could not be substantiated with evidence, audit being unable to confirm the existence or suitability of the IT asset register, a lack of a finalised business continuity plan, 1/5 recruitment files still had DBS certificate on file, childcare payments were not banked intact in line with Financial Procedure Rules, purchase cards are not being raised before goods are invoiced and 4/10 purchase card transactions were not available in Business World. The medium risks related to a lack of formally recordings of lettings, insufficient separation of duties for banking cash, the website was non-compliant with Department of Education published guidance and there was inadequate benchmarking activities.

**Housing Rents & Arrears**

Exceptions Raised				Overall Assurance Level	Assurance Level by Scope Area	
<b>Critical</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>	<b>Limited</b>	Achievement of Strategic Objectives	<b>No Areas Tested</b>
0	2	3	0	Latest implementation date scheduled is <b>February 2024</b>	Compliance with Policies, Laws & Regulations	<b>Reasonable</b>
					Safeguarding of Assets	<b>No Areas Tested</b>
					Effectiveness and Efficiency of Operations	<b>Limited</b>
					Reliability and Integrity of Data	<b>No Areas Tested</b>

The first high risk exception is raised as testing identified that 5/10 former tenant arrears accounts sampled did not have appropriate and timely recovery with the total value of former tenant arrears at £3.24 million at time of testing. The second high risk relates to current tenant arrears which found they had increased from £6.1 million in April 2020 to £8.41m in November 2022. The first medium risk cover where discrepancies between the Northgate and Keystone systems were identified. The second medium risk relates to surplus credits on accounts being £1.38 million at the time of testing. The final medium risk relates to debt collection caseworker key performance indicators (KPIs) being insufficient.



**Key Financial Controls**

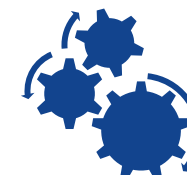
<b>Exceptions Raised</b>				<b>Overall Assurance Level</b>	<b>Assurance Level by Scope Area</b>	
<b>Critical</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>	<b>Limited</b>	Achievement of Strategic Objectives	No Areas Tested
0	1	1	0	Latest implementation date scheduled is July 2023	Compliance with Policies, Laws & Regulations	No Areas Tested
					Safeguarding of Assets	Limited
					Effectiveness and Efficiency of Operations	No Areas Tested
					Reliability and Integrity of Data	No Areas Tested

Key financial controls have been tested in various systems throughout the year. Where failings have been identified exceptions have been raised within the relevant audit, for example, Purchase cards, Expenses and Subsistence and Accounts Receivable etc. In addition to this, areas such as 'gifts & hospitality' and 'safe security and contents' have also been tested. The cumulative results provide only limited assurance that key financial controls are working effectively. Exceptions raised, that are not reported elsewhere have been included in Key Financial Controls. The first high risk exception relates to a lack of awareness of the gifts & hospitality arrangements, where 23% of staff surveyed had not read and acknowledged the gifts and hospitality policy. The medium risk exception relates to a safe having unclaimed jewellery items, which had been stored in the safe for over 10 years.

**Corporate Compliance (Payroll)**

<b>Exceptions Raised</b>				<b>Overall Assurance Level</b>	<b>Assurance Level by Scope Area</b>	
<b>Critical</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>	<b>Limited</b>	Achievement of Strategic Objectives	No Areas Tested
0	3	1	0	Latest implementation date scheduled is May 2023	Compliance with Policies, Laws & Regulations	No Areas Tested
					Safeguarding of Assets	Reasonable
					Effectiveness and Efficiency of Operations	Limited
					Reliability and Integrity of Data	Limited

The first high risk exception covers a review of payroll overpayments finding that between April 2020 and January 2023 there had been 150 overpayments worth £179k and only 35% had been recovered to date. The second high risk relates to maintained schools providing pension returns which were at an unacceptable standard in terms of data quality, it should be noted that SCC are reliant on a third party for this data. The third high risk relates to the veracity of new starter records with several documents cited as missing across the sample of 20 new starter records tested. The medium risk covers 3/127 registered apprentices being on an incorrect National Insurance deduction code.



**Public Health Outcomes**

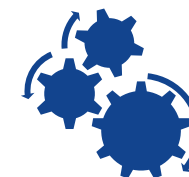
Exceptions Raised				Overall Assurance Level	Assurance Level by Scope Area	
<b>Critical</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>	<b>Reasonable</b>	Achievement of Strategic Objectives	No Areas Tested
0	1	0	0	<b>Latest implementation date scheduled is December 2023</b>	Compliance with Policies, Laws & Regulations	No Areas Tested
					Safeguarding of Assets	No Areas Tested
					Effectiveness and Efficiency of Operations	<b>Limited</b>
					Reliability and Integrity of Data	<b>Reasonable</b>

The first high risk exception relates to testing identifying inaccurate billing and overpayments covering the Supervised Consumption and Needle Syringe Programmes with local pharmacies. Furthermore, the authority does not have access to Health check Data making it harder to measure the outcomes of high risk individuals.

**Operational Risk Management**

Exceptions Raised				Overall Assurance Level	Assurance Level by Scope Area	
<b>Critical</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>	<b>Limited</b>	Achievement of Strategic Objectives	<b>Assurance</b>
0	2	0	0	<b>Latest implementation date scheduled is December 2023</b>	Compliance with Policies, Laws & Regulations	<b>Assurance</b>
					Safeguarding of Assets	No Areas Tested
					Effectiveness and Efficiency of Operations	<b>Limited</b>
					Reliability and Integrity of Data	No Areas Tested

The first high risk exception is raised as testing identifying that while risk management gets discussed at management meetings it is not necessarily documented, minuted or presented as a specific agenda item. From the 10 service areas audit held conversations with, only 1 (10%) was in the process of implementing a service risk register. The second high risk relates to risk management analysis skills with a review of 5 business cases highlighting concerns with the quality and consideration of risk along with the quality of mitigating controls, potentially highlighting training needs.



**Safety Compliance**

**Exceptions Raised**

Critical	High	Medium	Low
0	2	1	0

**Overall Assurance Level**

<b>Reasonable</b>
Latest implementation date scheduled is September 2023

**Assurance Level by Scope Area**

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

The first high risk exception identified concerns with a lack of data sharing, lagged uploads of certification and ensuring tower block servicing records are up to date in InfoExchange and its replacement system Keystone. The second high risk covers testing where 10 high, 19 medium and 15 low risk fire risk actions were overdue their action date. 68.2% of these related to one address which is currently undergoing a programme of works. The medium risk relates to the Electrical Installation Condition Report at Wyndham Court being overdue.

**Transition Children to Adults Services**

**Exceptions Raised**

Critical	High	Medium	Low
0	1	0	0

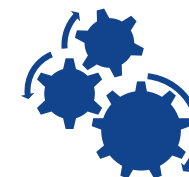
**Overall Assurance Level**

<b>Reasonable</b>
Latest implementation date scheduled is October 2023

**Assurance Level by Scope Area**

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

The high risk exception identified 1/8 case files that had not ensured consent to share information had been obtained and only 2/22 information sharing agreements had been reviewed in line with the document’s review schedule.



**Ukraine Accommodation Support**

**Exceptions Raised**

Critical	High	Medium	Low
0	0	0	0

**Overall Assurance Level**

<b>Assurance</b>
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**Assurance Level by Scope Area**

Achievement of Strategic Objectives	<b>Assurance</b>
Compliance with Policies, Laws & Regulations	<b>Assurance</b>
Safeguarding of Assets	<b>Assurance</b>
Effectiveness and Efficiency of Operations	<b>Assurance</b>
Reliability and Integrity of Data	<b>No Areas Tested</b>

This review identified that the council has reacted to the scheme promptly, complied with government's conditions, and ensured the scheme was delivered in such a way, that it provided aid to Ukrainians fleeing the war. Payments were efficient, with good communication between internal and external stakeholders. The grant monies received can be evidenced as being used for its purpose, and in line with legislation. Data has been suitably recorded and provides an insight to how the scheme has been managed since the beginning.

**Voids**

**Exceptions Raised**

Critical	High	Medium	Low
0	1	1	0

**Overall Assurance Level**

<b>Limited</b>
<b>Latest implementation date scheduled is May 2023</b>

**Assurance Level by Scope Area**

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

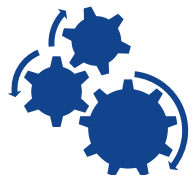
The high risk exception relates to testing identifying that the length of time a property is void is considerably over target and there had been a 45.7% increase in the number of days all voids have taken to be completed over the past 12 months. When properties remain void it results in the authority losing rental income, during 2022-23 it was established through extrapolating that £1.16 million had been lost in rental income due to the authority not meeting its void targets. The medium risk exception relates to gaps in the voids repair and maintenance records.



**Waste Operations**

Exceptions Raised				Overall Assurance Level	Assurance Level by Scope Area	
<b>Critical</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>	<b>Limited</b>	Achievement of Strategic Objectives	<b>Assurance</b>
0	2	1	1	<b>Latest implementation date scheduled is March 2024</b>	Compliance with Policies, Laws & Regulations	<b>Limited</b>
					Safeguarding of Assets	<b>Limited</b>
					Effectiveness and Efficiency of Operations	<b>Assurance</b>
					Reliability and Integrity of Data	<b>Reasonable</b>

The first high risk exception relates to testing identifying that 9/10 waste risk assessments reviewed were overdue a review. The second high risk covers the recycling contamination rate being 20.15% which is significantly higher than the national average of 17%. In financial comparisons this can produce savings around £93,229 in disposal costs each year, when compared with neighbours. A medium risk relates to waste operations using paper timesheets which are inefficient and increase the likelihood of data being transposed into the payroll system.



## 10. 2022/23 Follow-Up Audits Completed - not previously reported

### Project Governance Review

**Original Exceptions Raised**

Critical	High	Medium	Low
0	1	0	0

**Original Assurance Level**

Reasonable
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**Follow up Assurance**

Assurance
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**Follow Up Action**

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

Follow up testing found was able to close the high risk exception due to audit being able to evidence the service continued to enforce governance controls in line with the previous audits' recommendations leading up to the go live date for CareDirector. Note: the original review covered governance arrangements only, not the effectiveness or delivery of the system itself.

### Fleet Management

**Original Exceptions Raised**

Critical	High	Medium	Low
0	2	0	0

Latest implementation date scheduled for follow up action is July 2022

**Original Assurance Level**

Reasonable
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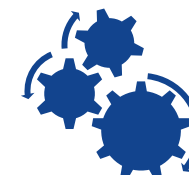
**Follow up Assurance**

Reasonable
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**Follow Up Action**

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

Follow up testing found that the high risk relating to the vehicle replacement strategy, remains in progress, as while there has been vehicle and plant purchases as part of the Capital Strategy there is no replacement strategy in place to ensure forward planning when it comes to vehicle purchases and disposal. The second high risk remains in progress as the driver policy and liquid fuels procurement exercise remains ongoing.



**Grounds Maintenance**

**Original Exceptions Raised**

<b>Critical</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>
0	2	2	0

Latest implementation date scheduled for follow up action is **May 2023**

**Original Assurance Level**

**Limited**

**Follow up Assurance**

**Reasonable**

**Follow Up Action**

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

Follow up testing was able to close one high risk exception relating to staff training. The second high risk remains in progress while framework options are explored for machinery purchases. The medium risk relating to green space monitoring remains in progress as not all actions are being recorded. The final medium risk also remains in progress as the plotting of maintenance plots on land records is put on hold until resources allow for it to be continued.

**HMO Licensing**

**Original Exceptions Raised**

<b>Critical</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>
0	2	1	0

Latest implementation date scheduled for follow up action is **April 2023**

**Original Assurance Level**

**Limited**

**Follow up Assurance**

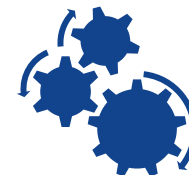
**Reasonable**

**Follow Up Action**

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

Follow up testing found that the high risk relating to condition monitoring, remains in progress, as testing found that 429 (64%) of 675 licences with specific conditions associated with them had been followed up to ensure compliance with the higher risk conditions prioritised early on. The second high risk relating to applications remains in progress as the number of licenses awaiting processing reduced from 638 to 250. The medium risk covering enforcement action has been closed due to proactive enforcement action resuming since COVID-19 restrictions lifted.





**Operator Licence**

**Original Exceptions Raised**

Critical	High	Medium	Low
0	3	1	0

Latest implementation date scheduled for follow up action is October 2023

**Original Assurance Level**

Limited

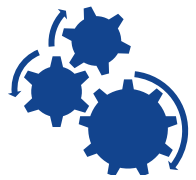
**Follow up Assurance**

Limited

**Follow Up Action**

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

Follow up testing found that the high risk relating to the driver policy remains in progress while it is being drafted. The second high risk, covering enforcement action, remains in progress as there has been a lack of ongoing monitoring of driver infringements. The third high risk, relating to executive management oversight, also remains in progress, due to a lack of monitoring and oversight from senior management. The medium risk is pending due to the Tranman system requiring a system upgrade before the action can be implemented.



## 11. Counter Fraud & Audit Unplanned Reactive Work

A summary has been provided of Counter Fraud and Audit reactive work conducted during the 2022/23 year.

### 11.1 Investigations

There were three cases recorded as whistleblowing during the year. Two raised concerns, relating to potential fraud/ bribery. Preliminary investigations were performed for both, no evidence was found to support the allegations raised. For the third case, insufficient information was provided to enable a full investigation, however in the absence of this, control checks were evaluated, and the service director was informed who also carried out their own assessments. The concerns raised related to compliance with H&S processes.

In addition to this there have been two recorded frauds where the Internal Audit section have either performed the investigation, carried out control evaluations or provided the operational service with guidance and advice.

The first was committed by external parties by means of supplier bank mandate fraud, the value of this was £27k. SCC were unable to fully demonstrate that it had performed all reasonable checks to verify the authenticity of the requester. This case has been reported to the police.

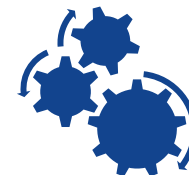
The second fraud was facilitated unknowingly by a SCC School against a school outside of the city to the value of £13,750. The actual loss incurred is £4,500. This case has been reported to the police.

### 11.2 Ongoing NFI

The Internal Audit Team are responsible for the management and admin of the Authority's participation in the National Fraud Initiative (NFI) which is a mandatory scheme in which multiple data sets are uploaded and analysed. The results are then presented back to the council for investigation. Responsibility for investigating the referrals is split across multiple teams including the Counter Fraud Team.

### 11.3 Advice

Internal Audit gave 11 items of advice across varying council services on risk and control throughout the financial year 2021/22. Advice is recorded if the time spent to conduct the required work exceeds 2 hour of officer time.



## 12. Public Sector Internal Audit Standards

**12.1** Under the *Public Sector Internal Audit Standards (PSIAS, the Standards) Standard 1310* requires that, as part of the quality assurance and improvement programme internal and external assessments (of conformance with the *PSIAS*) must be undertaken. *Standard 1311* allows for periodic self-assessments, which has been performed on an annual basis for Southampton City Council but also wider on Portsmouth City Council. The results of the self-assessment have been communicated annually alongside the annual audit opinion to this committee.

**12.2** *Standard 1312* requires that an external assessment must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The Standards state that a qualified assessor demonstrates competence in two areas; the professional practice of internal auditing and the external assessment process. Competence can be demonstrated through a mixture of experience and theoretical learning. An independent assessor means not having an actual or perceived conflict of interest and not being part of, or under the control of, the organisation to which the internal audit activity belongs.

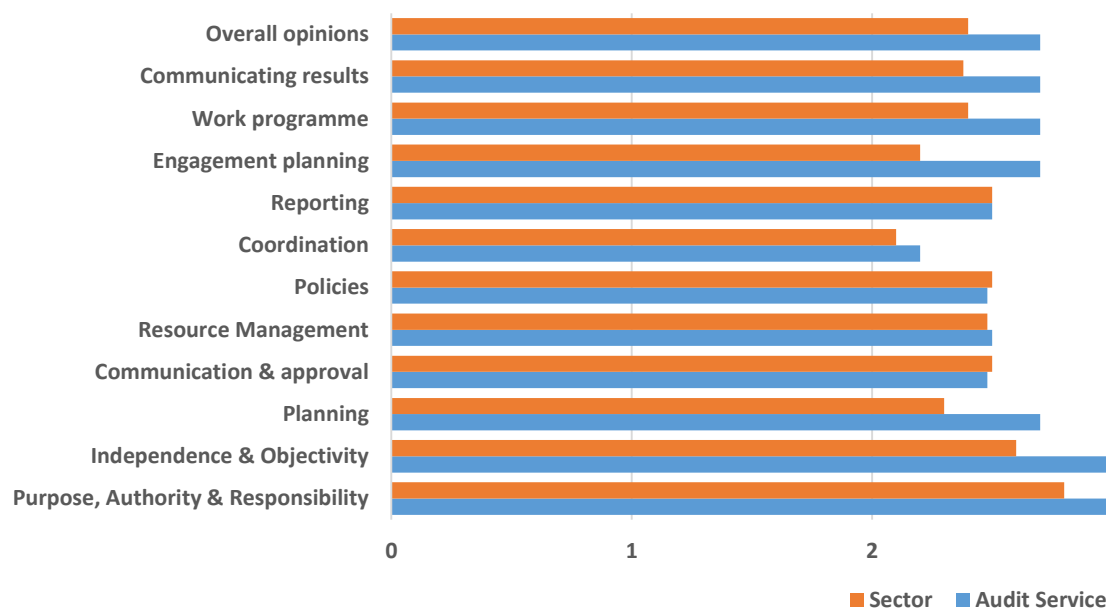
**12.3** During 2022/234 an External Quality Assessment (EQA) was carried out of the Internal Audit Service (including arrangements in place in the Island), to comply with the Public Sector Internal Audit Standards (PSIAS) identified above. The EQA assessed the Service against key PSIAS standards, confirming:

- Appropriate strategic documentation and policies are in place.
- The Service is correctly managed and resourced (skill set).
- Audits are carried out, from scoping to finalisation, in line with good practice.

**12.4** Overall Internal Audit achieved the highest rating possible, with no substantive issues identified with either the constitution or operation of the Service.



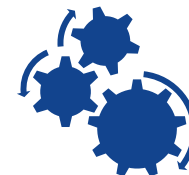
**12.5** The assessment was grouped under 12 high level headings. An indicative assessment, against the wider local government sector, is provided below (Developing: 1, Established: 2, Excelling: 3):



As above Internal Audit is rated as ‘established/ excelling’, for all 12 areas of the assessment.

**12.6** While no substantive gaps were identified against the PSIAS, a number of recommendations were made to enable the Service ‘to better reflect the application of the PSIAS’ and its proposed direction, which is currently out for consultation. These are summarised below:

- *Audit Universe*: increase alignment of auditable units with the Council's risk management process.
  - This is currently performed at a strategic level with each auditable area aligned to the corporate risks. Operational risks are discussed with Directors and individual service managers; however, amendments have been made to the Audit Planning Memorandum (APM) to explicitly reflect this.



- *Governance*: formalise mapping of Internal Audit activity, to the Council’s Code of Governance/Annual Governance Statement.
  - Amendments have been made to the Internal Audit Charter to capture this.
- *Assurance Mapping*: enhance capture of wider sources of assurance in the planning of individual audit reviews.
  - Where applicable this is already reflected in the APM, i.e., that the scope excludes areas already covered either by IA or other relevant parties. Also see comment below under Annual Report.
- *Engagement Planning*: increase alignment of audit scopes, with the Council's operational risks.
  - See action taken under Audit Universe.
- *Grading of Recommendations*: align finding ratings with the Council’s risk assessment framework.
  - These are discussed with relevant officers at the close of the audit and are presented as a narrative or risk and consequence, consideration to adopting scoring system will be explored in discussion with the s151 officer.
- *Annual Report*: more fully capture wider sources of assurance.
  - The annual audit opinion has been expanded to adequately reflect the sources of assurance consider when forming the overall opinion.
  - Internal Audit is progressing all of the enhancements summarised above. Implementation will commence during 2023/24, scheduled to be fully implemented by the of the 2023/24 financial year.

**12.7** Internal Audit Standards, covering four areas, Integrity, Objectivity, Confidentiality and Competency. The steps taken by Internal Audit to ensure compliance with the CoE are set out in the Internal Audit Charter, as part of the Quality Assurance and Improvement Programme (QAIP).

For 2022/23 the Chief Internal Auditor assesses Internal Audit as fully complaint with the CoE, as detailed below:

- Integrity is ensured through the recruitment process, with any issues addressed through disciplinary processes; no issues have materialised during 2022/23.
- Individual auditors update their register of interests annually. This is used to inform resourcing for individual audits, to confirm that these are carried out objectively.
- The Internal Audit Manual and supporting processes/systems ensure that client information is treated in line with Council data protection requirements, maintaining confidentiality.
- A workforce plan is maintained by the Chief Internal Auditor at the team level, with a combination of recruitment and training used to address any gaps. For individual audits only auditors with the requisite competency are used, for the area under review.