

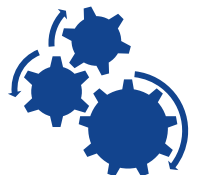


SOUTHAMPTON
CITY COUNCIL

Southampton City Council Annual Audit Report 2023/24

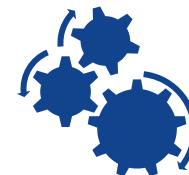
Elizabeth Goodwin, Chief Internal Auditor





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1. Executive Summary

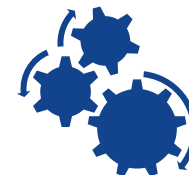
Annual Opinion

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 (2023/24) 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 continuing financial pressures experienced during 2023-24 along with identified failings and weaknesses in the internal control framework have resulted in an opinion level of 'limited assurance' remaining in place. Factors influencing the opinion are detailed in section three of this report.

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.

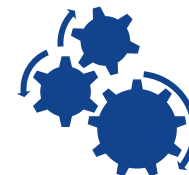


2. Background

Public Sector Internal Audit Standards

- 2.1** On 1st 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 1st 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 Enabling 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.

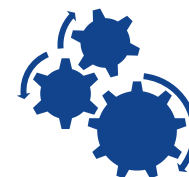
2.8 An annual self-assessment is carried out, as part of *PSIAS*. The assessment for 2023/24 confirmed that Southampton City Council Internal Audit Service is compliant with requirements. For 2022/23 an External Assessment (required every five years) confirmed this assessment.

Statement of Organisational Independence

2.9 The Internal Audit Section has no operational responsibilities for any financial systems, including system development and installation. It did 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.

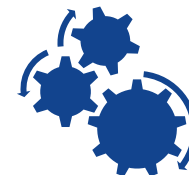
2.10 The Chief Internal Auditor is free from interference, although has due regard for the Authority's key objectives and risks and consults with Members and Officers charged with governance, when setting the priorities of the annual audit plan, for example; in determining the scope and objectives of 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 Audit Committee.



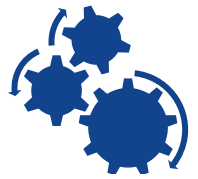
3. Annual Opinion for 2023/24

- 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 latter.
- 3.2** For the financial year 2023-24 Internal Audit & Counter Fraud completed 26 full audits, 6 audits following management request (assurance opinions not rated), 28 follow ups, 2 consultancy reports and 4 grant reviews. The results identified one 'No Assurance' audited area, which is shared within this report. In addition, for the year there is, a combined 46% of results rated as 'no assurance' or 'limited assurance' and 54% rated as 'reasonable assurance' or 'assurance' (full audits). Compared with the previous year's results (2022-23) which was 42% and 58% respectively, showing a decline in the level of reasonable or full assurance attributed across 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.
- 3.3** 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. The overall position of the 120 exceptions followed up through 2023/24 shows that 54 (45%) have been closed by audit, however 66 (55%) are overdue due to the actions being in progress or outstanding. The overall percentage of closed risks this year has increased marginally from 44 to 45%. An audit action tracker will be introduced during 2024-25 to aid management in maintaining visibility of unmitigated risk exposure, highlighted during audit reviews.
- 3.4** Internal control failings evidenced within this year's audit work covers relaxation or ceasing of key controls without escalation or approval from management. This was found in relation to annual checks to ascertain continuing entitlement to childcare payments, delayed verifications of payments due to a main supplier, stock security and monitoring of fuel consumption. There were also areas of non-compliance with internal policies and procedures specifically purchases using purchase cards, vehicle hire/ travel arrangements and robust inventory arrangements. These issues feed into failure to deliver value for money and within the backdrop of known significant financial pressures.
- 3.5** In addition to the points noted above several audit reviews highlighted poor budgetary forecasting when preparing for the 2023-24 financial year. There were failings of services to effectively communicate between directorates culminating in overspends, due to higher eligibility numbers, unit costs and demand on placement spend. Furthermore, audit testing of a sample of undelivered savings in



2022/23 identified several key factors for non-delivery including unrealistic assumptions on size and speed of savings and a lack of documented plans and scrutiny. Improvements to savings delivery have been noted in 2023-24 with a review of achieved savings in February 2024 identifying that 79% (£31.84m) of 2023/24 savings targets were met this financial year which is a significant increase on the 39% reported in 2022/23.

- 3.6** Work has also gone into improving the accuracy of the budget setting process. The reshaping financial management programme for 2024-25 includes reform to financial planning to improve accountability, reporting and ensuring monitoring leads to management actions including deficit recovery plans. A lessons learned exercise focusing on the 2024/25 budget setting has commenced and any findings will be incorporated into future reforms.
- 3.7** However historic decision making to direct resource and capital to fire safety compliance has had a knock-on effect with the condition of housing stock, evidenced with the record number of non-decent homes (including the length of time properties have remained void and the level of responsive repairs). Equally decision making into unintended working practices has resulted in the council carrying a contingent liability to cover potential equal pay claims. Both areas have a sizable impact on the financial pressures felt at the council.
- 3.8** 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 further changes to its senior management team, most recently in the last 8 months, with further directorate restructuring and changes to staffing arrangements.
- 3.9** Delivery of priorities moving forward is against unprecedented financial issues and a structural budget deficit. Therefore, the internal control and governance framework, which has already been tested as part of previous reducing Local Authority budgets, will continue to be challenging coupled with the transformational work required, the impact of the loss of experienced staff and a further reduction of resource, all contributing to increasing the risk exposure, be it immediate and longer term.
- 3.10** The pattern 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 is still evident. Alongside the economic pressures and cost of living implications these risks become more exposed.

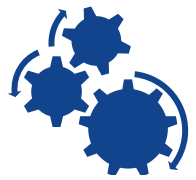


3.11 The opinion is informed and influenced by all of the above, including the vulnerability of the governance framework and the associated emerging risks, financial instability together with the required pace and implications of the actions to address it, which means that an opinion of 'limited assurance' is provided for 2023-24.

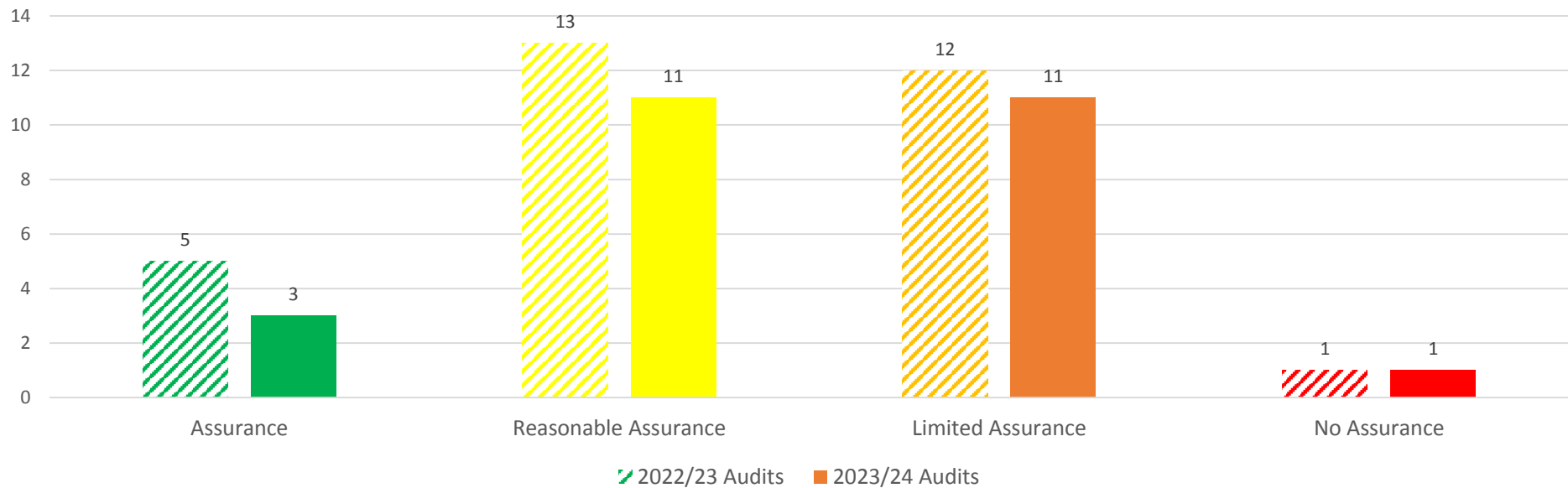


3.12 For information: Four audit opinion levels are in place, and these are: no assurance, limited assurance, reasonable assurance, and full assurance. Where there are mainly medium or low risk exceptions the annual audit opinion would be reasonable or full assurance.

3.13 Any significant corporate weaknesses and agreed actions will be reflected in the Annual Governance Statement. The impact of the Internal Audit work for 2023/24 may affect that year's work for External Audit. It may also inform future years 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.

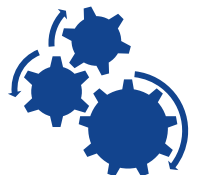


4. 2022/23 & 2023/24 Full Audit Assurance Levels

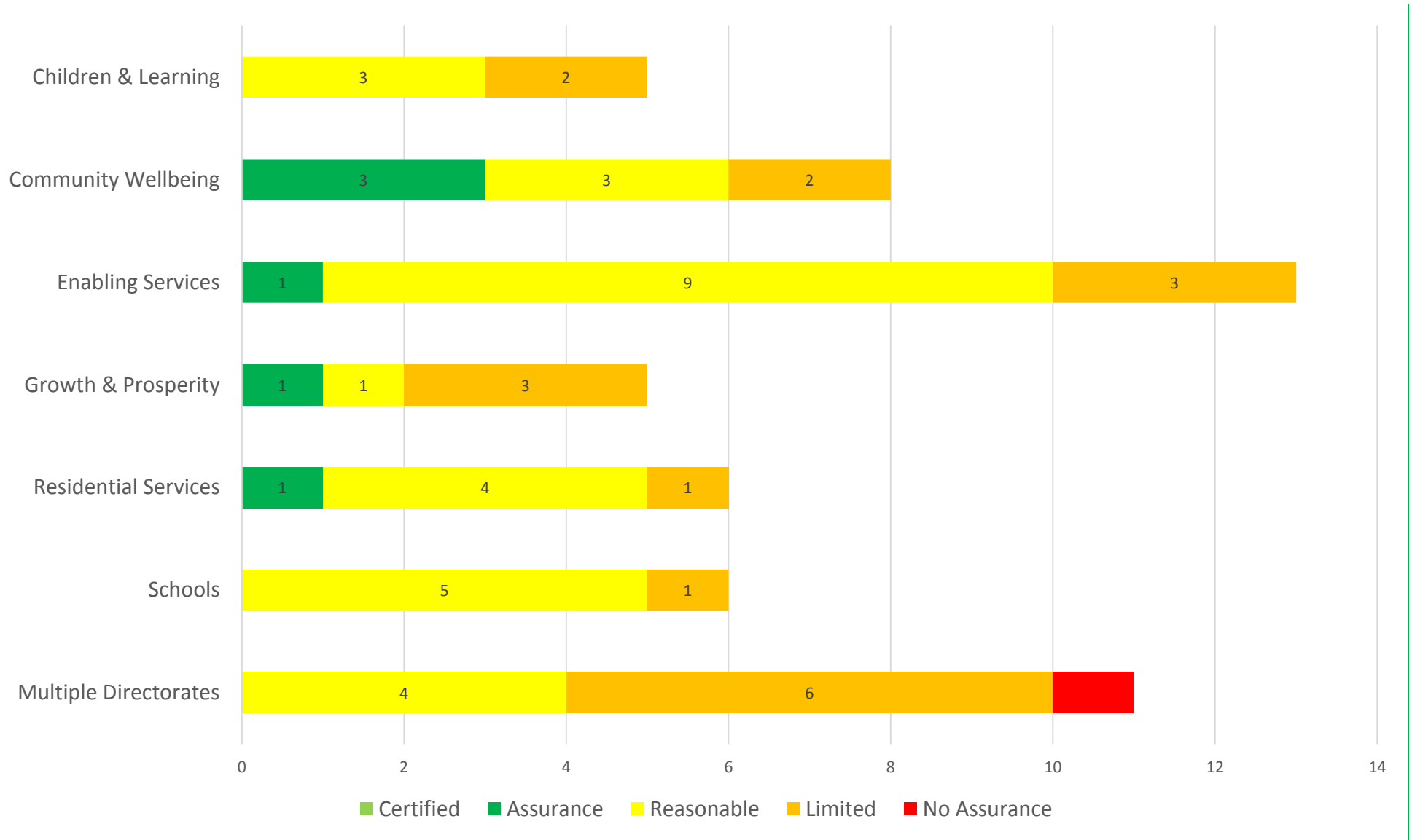


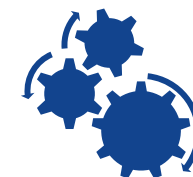
Note: The 28 follow ups, 6 management request, 2 consultancy reports and 4 grant reviews have not been included in this graph and table.

	2022/23 Full Audits	2023/24 Full Audits
Assurance	5 (16%)	3 (12%)
Reasonable Assurance	13 (42%)	11 (42%)
Limited Assurance	12 (39%)	11 (42%)
No Assurance	1 (3%)	1 (4%)
TOTAL	31	26

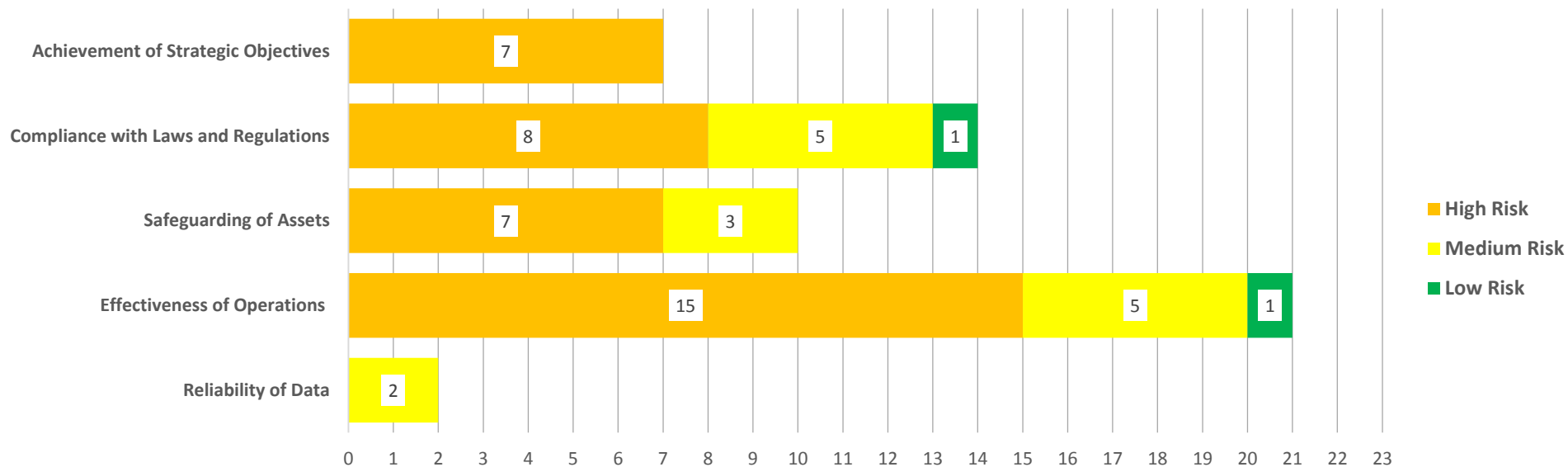


5. 2023/24 Audit Assurance by Executive Directorate

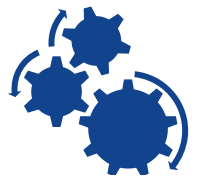




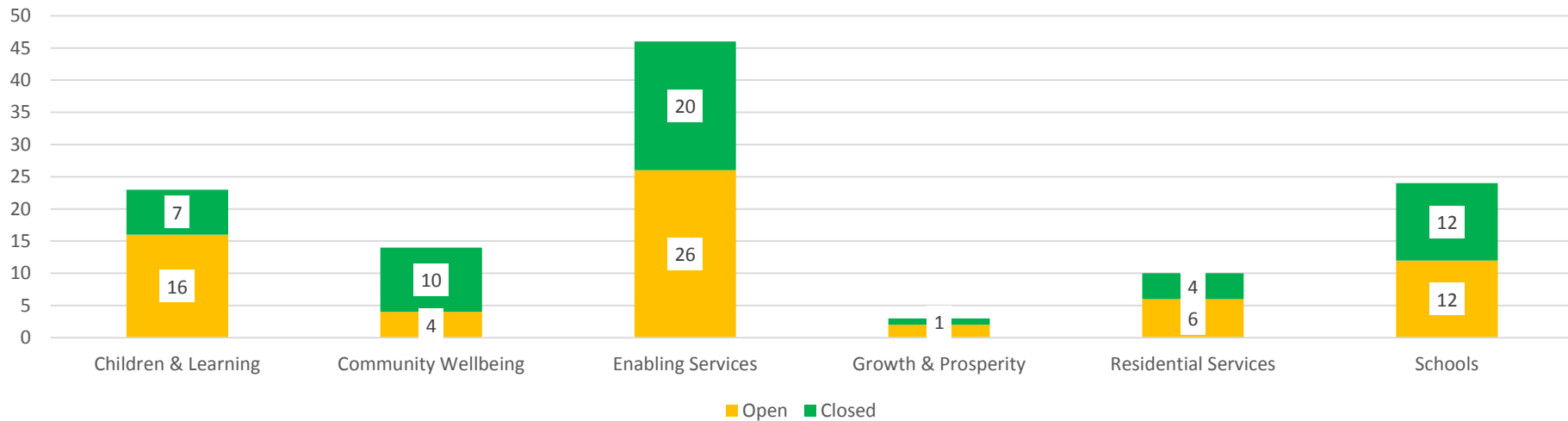
6. 2023/24 Exception Analysis by Risk Classification



	High Risks	Medium Risks	Low Risks	TOTAL
Achievement of Strategic Objectives	7	0	0	7
Compliance with Laws and Regulations	8	5	1	14
Safeguarding of Assets	7	3	0	10
Effectiveness of Operations	15	5	1	21
Reliability of Data	0	2	0	2
TOTAL	37	15	2	54

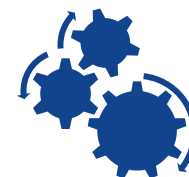


7. 2023/24 Open and Closed Risks by Directorate



	Children & Learning		Community Wellbeing		Enabling Services		Growth & Prosperity		Residential Services	
	Open	Closed	Open	Closed	Open	Closed	Open	Closed	Open	Closed
High Risk	15	5	3	7	15	13	2	0	4	1
Medium Risk	1	2	1	3	10	6	0	1	2	2
Low Risk	0	0	0	0	1	1	0	0	0	1
TOTAL	16	7	4	10	26	20	2	1	6	4

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 120 exceptions followed up through 2023/24 shows that 54 (45%) have been closed by audit, however 66 (55%) are overdue due to the actions being in progress or outstanding. The overall percentage of closed risks this year has increased from 44 to 45%.

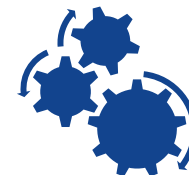


8. Quality Assurance

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:

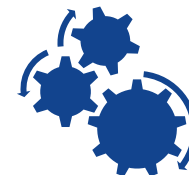
- Sign off by the Chief Internal Auditor or Deputy of all key stages of an audit, for example the scope of work and level of testing to be performed, the conclusion of the work and opinion formed followed by a review of the draft and final reports.
- Weekly or bi-weekly 1:1s with all members of staff, 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 2023/24 from key stakeholders, all feedback supported the quality assurance assessment reflecting that the service provided complies with *PSIAS* criteria.



Skills Gap Analysis for 2023/24

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 following retirements of senior officers in 2022. This has led to a vulnerability as knowledge within certain areas is limited. Training and mentoring of more junior or less experienced officers 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 the level of investigations across the partnership, including grant related fraud prevention and assessment work, which has placed this area of the service under pressure. Two officers are currently undergoing specific investigative training, with the expectation that they will also be fully qualified by the end of March 2026.
- *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). One implication is the ability to verify certain grant work, where the accounting qualification is required. This position has improved as the Principal Auditor is now fully qualified under Chartered Institute of Management Accountants.

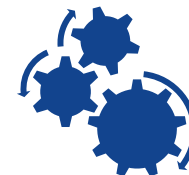


9. 2023/24 Audits Completed - not previously reported

Allocations Policy

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

No exceptions have been raised as a result of the above testing. The review found that the Authority had sufficient processes in place to satisfy legislative requirements of the allocation of housing and that they were complying with those processes on a case level. The relevant policies and strategy are in place in line with the Housing Act 1996 and best practice guidance from central government.



Budgets & Savings Proposals

Overall Assurance Level

Management Request

Exceptions Raised

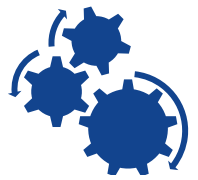
Critical	High	Medium	Low
0	2	0	0

**Latest implementation date scheduled is
March 2024**

Assurance Level by Scope Area

Achievement of Strategic Objectives	No Areas Tested
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	No Areas Tested

Internal Audit undertook a review of budget savings & proposals on managements request to establish the lessons learned from previously undelivered savings proposals. Along with review of the progress made on the areas of development identified in The Chartered Institute of Public Finance and Accountancy (CIPFA) review. The report concluded there had been clear improvements to address the areas of development and the strict cost control measures helped ensure that costs did not accelerate in year while implementing a significant number of savings proposals. The report noted concerns with the budget shortfall for 2025/26 and the heavy weighting to efficiency savings over future years to close the structural deficit. The report made two recommendations in relation to the rollout of a compulsory financial management training programme and a benefit realisation plan for the Transformation Programme.



Damp & Mould

Overall Assurance Level

Reasonable

Exceptions Raised

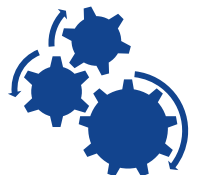
Critical	High	Medium	Low
0	1	1	0

**Latest implementation date scheduled is
March 2024**

Assurance Level by Scope Area

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

The high risk exception was raised in relation to sample testing of 25 damp and mould cases establishing 8/25 did not include photographs alongside the surveyor’s findings, 6/25 did not have a surveyor report on file and for 10/25, testing was unable to evidence the authority contacting tenants to follow up on damp and mould issues. The medium risk exception was raised in relation to a lack of sufficient information on the website for private tenants who are looking to deal with damp and mould issues.



Equal Pay Claims

Overall Assurance Level

Management Request

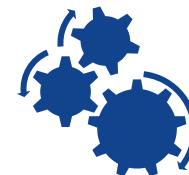
Exceptions Raised

Critical	High	Medium	Low
0	0	0	0

Assurance Level by Scope Area

Achievement of Strategic Objectives	No Areas Tested
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	No Areas Tested

Internal Audit undertook a review of equal pay claims on managements request to establish the casual factors for the claims and parties involved, along with any lessons learnt. The findings from work carried out established that there was historic awareness of unintended working practices but that corrective action had not been completed/ followed through to conclusion. Key parties involved no longer work for the council.



Fleet and Travel Costs

Overall Assurance Level

Management Request

Exceptions Raised

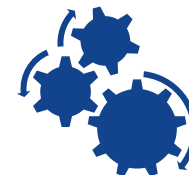
Critical	High	Medium	Low
0	3	0	0

**Latest implementation date scheduled is
March 2025**

Assurance Level by Scope Area

Achievement of Strategic Objectives	No Areas Tested
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

An audit review of fleet and travel costs was undertaken to establish the long-term strategy, identify spending trends and cost control measures. This review highlighted three concerns, the first being, in relation to the Contractual Car User allowance which is more generous than neighbouring authorities and harder to justify given current financial constraints. The second concern was raised around the lack of long-term assessment/plan for the current fleet to establish when the next tranche of vehicles will need replacing and to review the growing fleet size against future outputs. The third concern was raised in relation to a lack of a driver code of conduct (as at date of testing) and a lack of monitoring of fuel consumption and general policy compliance.



Governance Review

Overall Assurance Level

Reasonable

Exceptions Raised

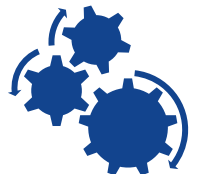
Critical	High	Medium	Low
0	0	1	0

Latest implementation date scheduled is August 2024

Assurance Level by Scope Area

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

The medium risk exception was raised in relation to the fact that outside the constitution there is no clearly defined corporate practice on the use and creation of internal boards/forums. Overall, Southampton's governance arrangements around the creation and management of boards/forums are not governed at a corporate level and this has resulted in there being too many forums/boards at the lower level where the organisation is not clear on their purpose and/or what benefit they bring to the Authority.



Irregular Payments

Overall Assurance Level

Management Request

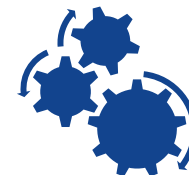
Exceptions Raised

Critical	High	Medium	Low
0	0	0	0

Assurance Level by Scope Area

Achievement of Strategic Objectives	No Areas Tested
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	No Areas Tested

Internal Audit undertook a review of irregular payments that had built up in a feeder system. No wrongdoings were identified however the review did identify a significant backlog relating to a key supplier and concerns with the purchase to pay processes and lack of cost control authorisations. An audit review of the feeder system has been included in the 2024/25 Audit Plan to review efficiency and effectiveness of operations in this area.



IT Skills Review

Overall Assurance Level

Management Request

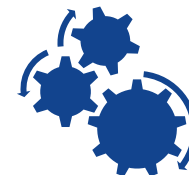
Exceptions Raised

Critical	High	Medium	Low
0	0	0	0

Assurance Level by Scope Area

Achievement of Strategic Objectives	No Areas Tested
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	No Areas Tested

Internal Audit were requested to undertake an IT skills and capability assessment. In January 2024, the IT team at the council engaged with SOCTIM Advisory (Society of Innovation, Technology and Modernisation) with regards to the company conducting a Discovery piece of work and a Capability Assessment on the IT Team. The results of the work undertaken by SOCITIM to date have highlighted areas for improvement within the IT team with regards to People, Design, Plan & Implement and Process. The 'People' element includes a focus on Capability management which would include how CareDirector skills and capabilities are managed moving forward. Internal Audit will continue to liaise with the Director of Digital and review any further findings presented to ensure that any future auditing requirements can be scheduled and address. However, at this stage no further work will be carried out by Internal Audit, specifically in relation to the assessment of IT Skills and CareDirector due to duplication.

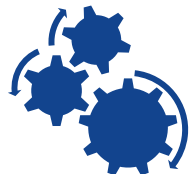


List of Completed Consultancy Work

Outcomes:	Consultancy
1. Financial Rules Non-Compliance - Internal Audit held regular meetings with individuals to provide input in relation to the financial control framework.	
2. Transformation Programme - Internal Audit held regular meetings with individuals to maintain visibility and provide input in relation to the transformation programme.	

List of Completed Grants

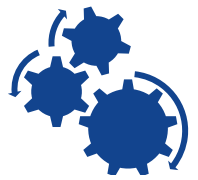
Grant Outcomes:	Assurance/Certified
1. Family Matters Grant	



10. 2023/24 Follow-Up Audits Completed - not previously reported

Accounts Payable				Latest implementation date scheduled for follow up action is July 2024	Original Assurance Level	Follow up Assurance
Critical	High	Medium	Low		Limited	Reasonable
0	1	4	0			
Open	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
0	3 (Medium)	0	1 (High) 1 (Medium)	0	0	0

Follow up testing was able to close one high and one medium risk exception. The medium risks were raised in relation to timeliness of payments and ensuring purchase orders were raised and goods received notes confirmed promptly. The follow up review established that the number of invoices paid within payment terms fluctuated between 82-88% and the authority could be liable for a quarterly charge of £80k if companies charged interest in line with Late Payment legislation.

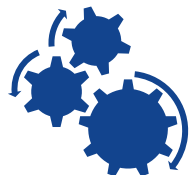


Accounts Receivable

Original Exceptions Raised				Latest implementation date scheduled for follow up action is Oct 2024	Original Assurance Level	Follow up Assurance
Critical	High	Medium	Low		Limited	Reasonable
0	0	2	0			

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

Follow up testing was able to close one high and one medium risk exception. The medium risks were raised in relation to timeliness of payments and ensuring purchase orders were raised and goods received notes confirmed promptly. The follow up review established that the number of invoices paid within payment terms fluctuated between 82-88% and the authority could be liable for a quarterly charge of £80k if companies charged interest in line with Late Payment legislation.



Appointeeship

Original Exceptions Raised

Critical	High	Medium	Low
0	9	2	0

Latest implementation date scheduled for follow up action is October 2024

Original Assurance Level

No Assurance

Follow up Assurance

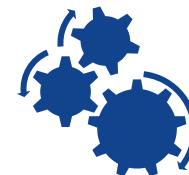
Limited

Follow Up Action

Open	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
0	4 (High) 2 (Medium)	0	1 (High)	4 (High)	0	0

Follow up work was able to close five high risk exceptions. The first high risk relating to annual assessments remains in progress whilst the process for reviewing Personal Independence Payments (PIPs) is determined. The second high risk relating to accuracy of payments remains in progress as the current IT provider for Care Director is withdrawing from the market which means the organisation will need to consider which system will house essential client information. The third high risk relating to the balance for transferring clients to Hampshire council remains in progress while the deputyship contract and threshold account balance is reviewed. The final high risk involving record keeping remains in progress as there remains a review underway to assess all client folders to retrieve historical Mental Capacity Act assessments to upload onto Care Director.

The first medium risk relating to covering whether to introduce cost recovery charges from clients remains in progress while it goes to consultation. The second medium risk relating to whether clients need to be managed as part of an agency arrangement remains in progress as the Section 75 agreement has come to an end and new processes need to be established.



Child Care Payments

Original Exceptions Raised

Critical	High	Medium	Low
0	10	0	0

Latest implementation date scheduled for follow up action is April 2024

Original Assurance Level

No Assurance

Follow up Assurance

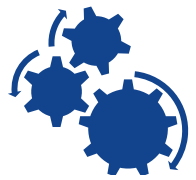
Limited

Follow Up Action

Open	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
0	10 (High)	0	0	0	0	0

A review of Childcare payments process was undertaken following concerns highlighted that payments to carers have not been accurate resulting in over/underpayments. Concerns with financial controls were raised across the four main areas of review:

- **Special guardianship orders (SGOs) financial assessments** – assessments had not been undertaken for several years and therefore the mitigating control to ensure accuracy of payments was not in place, which resulted in payments being made to carers who may not have been entitled.
- **Child arrangement orders (CAOs), SGOs and Connected Carers** - testing of the newest processes raised concerns with the lack of consistency or challenge on the notification of payments, lack of segregation of duties with the Accountancy Assistant who processes the payments also reviewing them for accuracy and there being no individual reconciliation to ascertain whether the carer is still entitled to payment (i.e. when the young person reaches the age of 18 and is no longer in further education).
- **Adoption** - adoption carers may receive payments which are badged under 'Adoptive Allowance.' There is no standard allowance for adoption carers the payments may vary from special one-off payments, payments to support children with health needs, or payments to ease a former foster carer into adoption. Between April 2020 and August 2023, a total of 16,578 payments were made at a total value of £2.29m. A sample of 5 carers was selected to review payments made which identified that 60% (3/5) were either incorrect or misclassified. A review of the new process identified concerns with the mechanisms to monitor carer payments are accurate, a lack of financial reviews and an incomplete management trail.
- **Fostering** – a review of 5 foster carers care payments against the Foster Carer Allowance and Payments Policy identified that 3/5 did not correlate to the Foster PA report indicating an overpayment and 1/5 had an underpayment relating to a 'Birthday Allowance'. A review of the new process will be included in an upcoming fostering follow up audit.

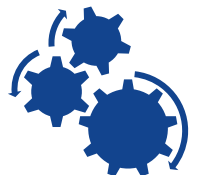


A 'no assurance' opinion was originally assigned due to the unknown values associated. Further Internal Audit work was carried out resulting in the assurance level moving to 'limited assurance' due to the immediate work undertaken. Processes across all systems have been developing to reduce risks following the concerns raised; however, many residual gaps remain, and 10 recommendations were raised in relation to the risk exposure. A £350k reduction in costs has been assessed by finance colleagues as the end result of reassessment work performed.

Deprivation of Liberty Safeguards (DoLS)

Original Exceptions Raised				Latest implementation date scheduled for follow up action is December 2024	Original Assurance Level	Follow up Assurance
Critical	High	Medium	Low		Limited	Limited
0	5	0	0			
Open	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
0	2 (High)	0	3 (High)	0	0	0

Follow up testing has been able to close three high risk exceptions. The first high risk that remains in progress is in relation to timely assessments with testing being unable to establish any significant improvement in timeliness of administration and authorisation of referrals. The second high risk raised in relation to timely advocate allocations remains in progress as testing 77 (58%) of advocate referrals had breached the service level agreement. Whilst three high risks have been closed, these were more secondary in nature to the open exceptions, resulting in the overall assurance remaining at limited.



Funding Pathways

Original Exceptions Raised

Critical	High	Medium	Low
0	1	0	0

Original Assurance Level

Reasonable

Follow up Assurance

Assurance

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 has been able to close the high risk exception due to the panels, which determine and assess funding pathways, now have a formal term of reference.

Housing Rents and Arrears

Original Exceptions Raised

Critical	High	Medium	Low
0	2	3	0

Latest implementation date scheduled for follow up action is March 2025

Original Assurance Level

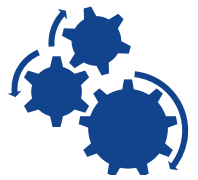
Limited

Follow up Assurance

Limited

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

Follow up testing has been able to close one medium risk exception. The high risks relating to the level of current and former tenant arrears remain in progress as while the level of arrears has stabilised it remains at an elevated level, a key impact on current arrears was the significant increase in landlord controlled heating charges/arrears. The first medium risk relating to rent accounts in surplus remains in progress due to a number of historic surplus balances where avenues to return funds had been exhausted and a financial decision on next steps needed to be made. The second open medium risk relating to bedroom discrepancies in rent charging and property lists remained in progress with 23 property discrepancies needing to be investigated.



Key Financial Controls – (Follow up element of wider review)

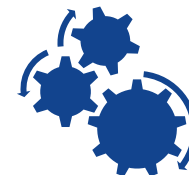
Original Exceptions Raised				Latest implementation date scheduled for follow up action is December 2024	Original Assurance Level	Follow up Assurance	
Critical 0	High 1	Medium 1	Low 0		Limited	Limited	
Open 0	In Progress 1 (High) 1 (Medium)	Implemented but Not Effective 0	Closed: Verified 0	Closed: Not Verified 0	Closed: Management Accepts Risks 0	Closed: No Longer Applicable 0	

Follow up testing established that the high risk relating to gifts and hospitality remained in progress with follow up testing establishing 25% of employees surveyed had not read the policy. The medium risk relating to safes remained in progress due to a lack of access controls regarding the Legal safe key.

Operator Licence

Original Exceptions Raised				Latest implementation date scheduled for follow up action is December 2024	Original Assurance Level	Follow up Assurance	
Critical 0	High 3	Medium 1	Low 0		Limited	Reasonable	
Open 0	In Progress 2 (High)	Implemented but Not Effective 0	Closed: Verified 1 (High)	Closed: Not Verified 1 (Medium)	Closed: Management Accepts Risks 0	Closed: No Longer Applicable 0	

Follow up testing has been able to close one high and one medium risk exception. A high risk exception raised in relation to a lack of a defined driver policy remained in progress as while a driver code of conduct had been drafted, it had not yet been implemented at the time of testing. The second high risk relating to management oversight remained in progress due to a lack of key performance indicators and reporting on operator licence compliance.



Payroll

Original Exceptions Raised

Critical	High	Medium	Low
0	2	2	0

Latest implementation date scheduled for follow up action is May 2024

Original Assurance Level

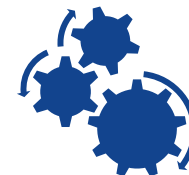
Limited

Follow up Assurance

Reasonable

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

Follow up testing has been able to close one high and one medium risk exception. A high risk exception raised in relation to new starter documentation remains in progress with follow up testing still identifying gaps in new starter records. A medium risk exception raised in relation to schools’ pension returns remains in progress due to the Hampshire Pension Fund highlighting a number of data quality concerns which could lead to a financial penalty.



Engaging Third Parties (End to End Procurement)

Original Exceptions Raised

Critical	High	Medium	Low
0	3	0	0

Latest implementation date scheduled for follow up action is September 2024

Original Assurance Level

Limited

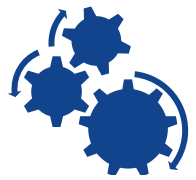


Follow up Assurance

Limited

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 (High)	0	0	0

Follow up testing has been able to close one high risk exception. A high risk exception raised in relation to specifying and finalising procurement documentation remains in progress as while the time taken for procurement documents to be prepared has come down 10%, for 37 projects the average time waiting for a specification was 464 days. The second high risk remained in progress as while there had been work undertaken in relation to workplans and reducing unplanned work, there was still concerns with the level of workloads required on Procurement Business Partners.



Public Health Outcomes

Original Exceptions Raised

Critical	High	Medium	Low
0	1	0	0

Original Assurance Level

Reasonable

Follow up Assurance

Assurance

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 has been able to close the high risk exception. The residual part of the exception relating to the access to Health Checks data to aid decision making has seen improvement due to there being additional avenues for information gathering with further actions being taken noted in the report.

Public Health Outcomes

Original Exceptions Raised

Critical	High	Medium	Low
0	1	2	0

Original Assurance Level

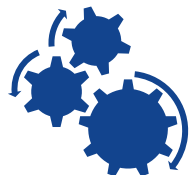
Reasonable

Follow up Assurance

Assurance

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) 2 (Medium)	0	0	0

Follow up testing has been able to close the high and two medium risk exceptions following action taken by the service to improve its inventory record keeping, settling the petty cash issues and improvements on staff training.



Risk Management (Operational)

Original Exceptions Raised

Critical	High	Medium	Low
0	2	0	0

Latest implementation date scheduled for follow up action is December 2024

Original Assurance Level

Limited



Follow up Assurance

Reasonable

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

Follow up testing has been able to close one high risk exception. The remaining high risk relating to undertaking a risk management skills analysis remains in progress awaiting the results of the Annual Governance Statement to assess need.

Tower Blocks (Safety Compliance)

Original Exceptions Raised

Critical	High	Medium	Low
0	2	1	0

Latest implementation date scheduled for follow up action is December 2024

Original Assurance Level

Limited

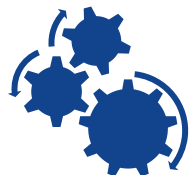


Follow up Assurance

Reasonable

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 has been able to close the medium risk exception. The first high risk raised in relation to tower block servicing remains in progress as while work is underway to replace InfoExchange, a replacement system has not yet been procured to improve on the data lags for communal compliance checks. The second high risk raised in relation to fire risk actions remains in progress as 17 high risk fire actions are overdue, although testing was able to establish that work is underway to close these actions.



Transition Childrens to Adults

Original Exceptions Raised

Critical	High	Medium	Low
0	1	0	0

Latest implementation date scheduled for follow up action is June 2024

Original Assurance Level

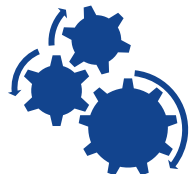
Reasonable

Follow up Assurance

Reasonable

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

Follow up testing established that the high risk exception relating to ensuring information sharing agreements were up to date remained in progress however the rollout of individual client consent forms are sufficient to support the sharing of information on a case by case basis.



11. Counter Fraud & Audit Unplanned Reactive Work

A summary has been provided of Counter Fraud and Audit reactive work conducted during 2023/24.

11.1 Investigations

Of the investigations performed:

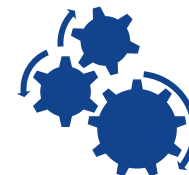
- There has been an instance of Tax Evasion where a supplier company had been dissolved post supplier due diligence checks. This company has been reported to HMRC and subsequently invoiced for £33,530.
- In addition, there has been a small, alleged theft estimated as below £500 worth of stock, due to wider performance issues the member of staff was dismissed.

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 2023/24.



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 2022/23 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.