



**CHIEF INTERNAL AUDITOR'S**  
**ANNUAL REPORT AND OPINION**  
**2006 - 2007**

**SOUTHAMPTON CITY COUNCIL  
CHIEF INTERNAL AUDITOR'S ANNUAL REPORT 2006/07**

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**1. INTERNAL CONTROL AND THE ROLE OF INTERNAL AUDIT**

- 1.1. Under the Accounts and Audit Regulations 2003, the Council is responsible for:
- ensuring that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of functions and includes arrangements for the management of risk; and
  - maintaining an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.
- 1.2. The 'proper practices' for internal audit are contained within CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 [the CIPFA Code].
- 1.3. Internal audit is an assurance function that provides an independent and objective opinion to the Council on the control environment, comprising risk management, internal control and governance, by evaluating its effectiveness in achieving the Council's objectives.
- 1.4. It is a management responsibility to establish and maintain internal control systems and to ensure that resources are properly applied, risk appropriately managed and outcome achieved.

**2. INTERNAL AUDIT OPINION**

- 2.1. The main purpose of this report is to give my opinion as Chief Internal Auditor for Southampton City Council on the adequacy and effectiveness of the Council's internal control environment for the year ending 31<sup>st</sup> March 2007.
- 2.2. In giving this opinion, it should be noted that assurance can never be absolute and therefore, only reasonable assurance can be provided that there are no major weaknesses in the processes reviewed. In assessing the level of assurance to be given, I have based my opinion on:
- written reports on all internal audit work completed during the course of the year;
  - any follow up reports delivered in respect of previous internal audit work;
  - the extent of resources available to deliver the internal audit work;
  - the quality of the internal audit service's performance and the extent of compliance with the CIPFA Code;
  - any limitations which may have been placed on the scope or operation of the internal audit; and
  - the proportion of Southampton City Council's audit need that has been covered within the period.

**Opinion**

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

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

The system of internal control will be strengthened by the work that is being carried out to improve internal audit provision; plan for IT disaster recovery; embed partnership governance, contract and project management; and develop a consistent approach to the collection of social services client income.

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

**3. INTERNAL AUDIT COVERAGE AND OUTPUT**

3.1. The internal audit plan for 2006/07 (approved by Standards and Governance Committee 18 April 2007 and revised 17 October 2007) focused on the review of fundamental systems and high risk areas identified during discussions with Executive Directors.

3.2. The revised internal audit plan for 2006/07 has been delivered with the following exceptions:

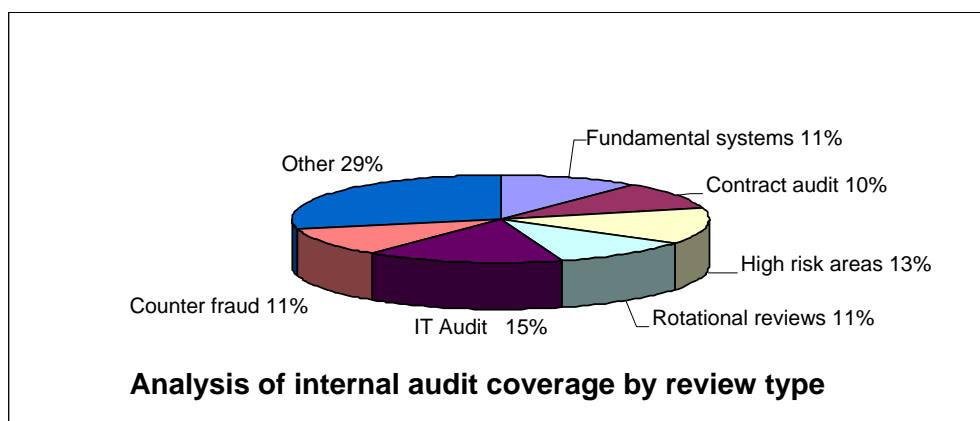
- The planned IT audit review of 'Fundamental systems' was not delivered as a specific review within the period although a number of key controls were covered under the general fundamental systems reviews;
- A review of 'Reconciliations' was introduced following concerns arising from other work, however, at the time of this report, is work in progress;
- The review of 'Project management on funded projects' is work in progress.

Work is substantially complete for the following reviews, however, formal reports have not yet been finalised with management:

- IT data management
- IT project management
- Payroll
- IT solutions identification
- ICT strategy and planning

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

**SOUTHAMPTON CITY COUNCIL  
CHIEF INTERNAL AUDITOR'S ANNUAL REPORT 2006/07**



- 3.3. Internal audit delivered 823 audit days across 34 review areas over the course of the year ending 31<sup>st</sup> March 2007. We have delivered a further 417 direct days on advisory, investigation and consultancy work, which included 61 direct days undertaking the role of the Council's external assessors for the Financial Management Standard in Schools.
- 3.4. We have published an opinion in final or draft reports (where we are concluding discussions with management in the agreement of action plans) in respect of 29 internal audit reviews undertaken during the year. Work in respect of 6 additional reviews is substantially complete for the year. The opinion assigned to each review on issue of the report is defined as follows:

Opinion	Framework of governance, risk management and management control	Risk to achievement of management's objectives	Proportion of published opinions in this category
Substantial assurance	Basically sound, however, some non-critical weaknesses identified or evidence that the framework may not be consistently applied.	Some risk beyond accepted parameters that all objectives may not be fully achieved.	48% (14 reviews)
Limited assurance	Critical weakness(es) identified within the framework or evidence of inconsistent application.	Risks may not be clearly defined and/or may fall outside accepted parameters. One or more important objectives are unlikely to be achieved.	24% (7 reviews)
No assurance	Fundamental weaknesses have been identified or the framework is ineffective or absent.	Failure to recognise and manage risks effectively. A real and substantial risk of failure to achieve management's objectives.	28% (8 reviews)

- 3.5. Where our work identified areas where management controls could be improved or where systems and laid down procedures were not fully followed,

**SOUTHAMPTON CITY COUNCIL  
CHIEF INTERNAL AUDITOR'S ANNUAL REPORT 2006/07**

appropriate corrective actions and a timescale for improvement were agreed with the responsible managers. We actively monitor progress against the agreed action plans until we receive confirmation from management that all agreed actions have been completed or the audit points have been superseded.

- 3.6. We issued the following reports, incorporating comments and commitments to action by management:

<b>Internal audit reviews 2006/07</b>			
<b>Review</b>	<b>Report date</b>	<b>Reported opinion</b>	<b>Opinion at year end</b>
<u>Fundamental systems:</u>			
Creditors	26/03/07	Substantial	Substantial
Debtors	29/05/07	Substantial	Substantial
Council tax and NNDR	11/04/07	Substantial	Closed
Housing and Council Tax Benefits	05/06/07	Limited	Limited
Cash collection and cash office	16/10/06	Substantial	Closed
Main Accounting System: Agresso	13/03/07	Substantial	Substantial
Treasury Management Audit	06/11/06	Substantial	Closed
<u>Contract Audit:</u>			
Corporate Overview	31/07/06	No	Limited
Waterloo Road	31/07/06	No	Limited
Unclassified Roads	31/07/06	No	Limited
Bargate	31/07/06	No	Limited
DDA Compliance Project	30/04/07 (draft)	Limited	n/a
<u>High risk areas:</u>			
Financial Management	22/01/07	Substantial	Substantial
Partnership Working Arrangements:			
• New Deal for Communities	02/10/06	No	No
• Governance Arrangements	14/05/07 (draft)	Substantial	n/a
Dedicated School Grant	18/01/07	Substantial	Substantial
Grants to Voluntary Sector	29/05/07	Limited	Limited
Schools Forum Governance	11/01/07	Substantial	Substantial
Rent Arrears	23/02/07	Substantial	Closed
<u>Rotational reviews:</u>			

**SOUTHAMPTON CITY COUNCIL  
CHIEF INTERNAL AUDITOR'S ANNUAL REPORT 2006/07**

<b>Internal audit reviews 2006/07</b>			
<b>Review</b>	<b>Report date</b>	<b>Reported opinion</b>	<b>Opinion at year end</b>
Schools: Cantell Maths and Computing College	19/02/07	Limited	Limited
Communities, Health and Care:			
• Part Three Maintenance/NRC	23/11/06	No	Limited
• Client Money Service	04/05/07	Limited	Limited
• Kentish Road	01/02/07	Limited	Limited
Leisure Venues:			
• SWAC and Woodmill Activity Centre	21/03/07	No	Substantial
• Chamberlayne Leisure Centre	21/12/07	Substantial	Closed
Blue Badge Scheme	29/08/06	Substantial	Closed
Homelessness deposits	21/09/06	Substantial	Closed
<u>IT Audit:</u>			
ITS Disaster Recovery and Backup	22/06/06	No	Limited
IT Systems Security	27/02/07 (draft)	Limited	n/a

(Opinion "closed" where management has confirmed that all non-critical framework weaknesses have been addressed and risks to achievement of stated objectives to fall within accepted parameters.)

**4. KEY ISSUES**

**4.1. IT Disaster Recovery**

IT business continuity plans are relatively underdeveloped. The corporate risk register identifies unavailability of ICT systems as a fundamental organisational risk, however, ownership of these risks is uncertain and mitigating strategies, including a corporate Disaster Recovery Plan, have not been defined.

The Council (Cabinet 19 March 2007) has accepted the risk with the current level and provision for IT Disaster Recovery and agreed that the future provision of an enhanced service will be considered for supply through the Strategic Service Partnership, a commercial service or through Shared Service arrangements with the Hampshire and Isle of Wight Partnership.

**4.2. Partnerships**

A sound framework is being put in place to monitor the key partnerships across the Council. Good practice needs to be rolled out to smaller and less significant partnership arrangements and steps need to be taken to ensure good governance arrangements are consistently applied. The Council needs

## **SOUTHAMPTON CITY COUNCIL CHIEF INTERNAL AUDITOR'S ANNUAL REPORT 2006/07**

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to clearly understand the partnership models it has in place and ensure this understanding is shared with partner bodies and appropriately supported with relevant policies and procedures.

### **4.3. Contract and project management**

A number of common themes have emerged from our review of capital contracts, including poor project management and lack of proper planning, capital programming and estimating. Significant progress has been made to develop skills in these areas and relevant guidance has been issued to support managers and officers responsible for projects. Further work is however required to ensure that a consistent approach to contract and project management is adopted across all business areas. The Council's Contract Procedure Rules need to be revised to eliminate areas of ambiguity and be clearly communicated to all staff.

### **4.4. Social services client income**

Our work identified unsatisfactory levels of error within social services income and debt management. Income records have not been adequately maintained and there has been a failure to implement debt recovery procedures. Steps have been taken to ensure client records have been corrected on a case by case basis; however, satisfactory resolution is largely dependent on the successful implementation of a Paris/Agrosso interface.

## **5. ADVICE TO MANAGEMENT**

5.1. During the year internal audit has worked with management on a consultancy/advisory basis on a number of projects, including:

- Partnership governance
- Capital programme management
- Data protection
- IT infrastructure design and build
- Email control

## **6. ANTI FRAUD AND CORRUPTION**

6.1. With the year we have revised the Council's Anti Fraud Strategy and policy and developed a Fraud Response Plan. We have commenced work on the National Fraud Initiative 2006. In addition, we have assessed and where appropriate, investigated a number of potential instances of fraud and corruption. A number of these cases were allegations made under the Duty to Act ("Whistleblowing") Policy. Advice and guidance has been passed to management to pursue internal disciplinary processes where appropriate.

## **7. INTERNAL AUDIT PERFORMANCE**

7.1. Internal audit was not fully compliant with the CIPFA Code in 2006/07. The key objective for internal audit in the year was to implement an Action Plan,

## **SOUTHAMPTON CITY COUNCIL CHIEF INTERNAL AUDITOR'S ANNUAL REPORT 2006/07**

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produced following a comprehensive review of internal audit against CIPFA's Code of Internal Audit Practice 2003 by the Audit Commission in November 2005, and designed to address non-compliance with the Code. All actions, with the exception of the following, were successfully delivered:

- Action: Ensure that Internal Audit has the appropriate resources, in both numbers and skills, to meet the CIPFA standards and provide the Council with the assurance it needs.
- Position: The internal audit service was restructured in October 2006. To date, it has not been possible to directly fill all vacant posts within the agreed structure with the service operating with a resource short-fall of 6.2 FTE (42%) at the 31<sup>st</sup> March 2007.

7.2. The CIPFA Code was updated in December 2006. Internal audit conducted a self-assessment against the revised Code and has put in place a new Action Plan that will ensure full compliance with the revised Code by December 2007.

### **8. ACKNOWLEDGEMENT**

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

Sarah Dennis  
Chief Internal Auditor  
7<sup>th</sup> June 2007