

SOUTHAMPTON CITY COUNCIL
AUDIT COMMITTEE – ANNUAL REPORT
2007/08

CLLR SARAH BOGLE
(CHAIR)

INTRODUCTION

I took on the role of Chair of the Audit Committee in late 2006 after some initial awareness training. It took some time for the body's role to be understood by Members, and for it to become effective in its operation. The first issue was understanding how it differs from Scrutiny, in that its scope is the whole Council, but is focused on gaining assurance on effective corporate governance and not policy development and holding the executive to account.

Like Scrutiny, it takes reports, makes recommendations and generates actions. The content and format of the reports were generally clear, though often needed some sort of introduction as to what the key issues or purpose was. Often, the subject matter does come across as fairly dry, and needs to be made relevant to the challenges that are faced on a daily basis.

I found the pre-meeting briefings for the Chair very helpful, which then made it easier to get the best out of the meeting and help increase Members' awareness of the importance of this Committee.

There have been some benefits, most notably

- A better understanding of the role of the Audit Commission
- A closer scrutiny of areas of failure in the systems and processes of the Local Authority
- A greater appreciation by Members of the need for effective risk management (not the need to avoid risk, just to understand it and manage it when making decisions)
- Some useful recommendations arising from audit reports and a re-prioritising of some activity due to the level of risk

In the future, the need to re-explain its purpose will continue due to the infrequency of meetings and inevitable changes in membership. The change in the Scrutiny arrangements away from permanent panels like Resources means that the membership will need to be nominated separately based on competency for the role.

Ideally, the Chair should be able to set and frame some of the agenda, while accepting some items are non-negotiable, so that the meetings focus on the most critical challenges the Local Authority faces at the time. The biggest areas of risk are a useful starting point, which has so far tended to be around issues like partnership working and the need for robust project and programme management.

I feel that the Audit Committee has over time made a positive impact on the governance of Southampton City Council.

Cllr Sarah Bogle, Chair of Audit Committee

Purpose of the Report

1. The purpose of this report is to inform the Standards and Governance Committee of the work of the Audit Committee during the 2007/08 Municipal year.

Background

2. The creation of an Audit Committee was approved by the City Council in November 2006, to provide independent assurance to the Standards and Governance committee on matters of corporate governance. The Committee's role reflects guidance from CIPFA regarding best practice in the provision of effective corporate governance arrangements.
3. The Committee first met on 19th December 2006 although 2007/08 was the first full municipal year of operation.

Membership

4. The Committee comprises eight Members, reflecting the political proportionality of the Council. The Members for 2007/08 were:

- Cllr Sarah Bogle (Chair)
- Cllr Steve Sollitt (Vice Chair)
- Cllr Michael Ball
- Cllr David Beckett
- Cllr Peter Marsh-Jenks
- Cllr John Noon
- Cllr Jane Odgers
- Cllr Andrew Wells

Due to the change in the Council's administration at Council in March 2008, Cllrs Beckett and Marsh-Jenks resigned from the Committee. They were replaced by:

- Cllr Sue Blatchford
- Cllr John Slade

5. The Committee is independent from both the Executive and Scrutiny functions, although its membership is the same as the Finance and Corporate Services Scrutiny Panel.
6. The Committee is supported by the Executive Director of Resources and Chief Internal Auditor. Appropriate representatives from the Audit Commission also attended three of the four meetings.

Terms of Reference

7. The Committee's role and Terms of Reference, approved by Council, are:
 1. To provide independent assurance to the Standards and Governance Committee on the adequacy of the risk management framework and the internal control and reporting environment, including (but not limited to) the reliability of the financial reporting process and the statement of internal control.
 2. To be satisfied and provide assurance to the Standards and Governance Committee that appropriate action is being taken on risk and internal control related issues identified by the internal and external auditors and other review and inspection bodies.
 3. The Committee shall specifically have responsibility for oversight of and provision of assurance to the Standards and Governance Committee on the following functions:
 - ensuring that Council assets are safeguarded;
 - maintaining proper accounting records;
 - ensuring the independence, objectivity and effectiveness of internal and external audit;
 - the arrangements made for cooperation between internal and external audit and other review bodies;
 - considering the reports of internal and external audit and other review and inspection bodies;
 - the scope and effectiveness of the internal control systems established by management to identify, assess, manage and monitor financial and non-financial risks (including measures to protect against, detect and respond to fraud).
8. In order to fulfil this remit, there are four significant sources of assurance available for the Committee to draw on:
 - External Audit, provided by the Audit Commission;
 - Internal Audit , provided by the Council's in-house team and led by the Chief Internal Auditor;
 - Annual controls assurance statements provided by the Council's Executive Directors; and
 - The Council's strategic and operational risk registers

Work programme 2007/08

9. The Committee met on four occasions during the municipal year:

28th June 2007
27th September 2007

24th January 2008
27th March 2008

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

Risk Management

- Ensuring the adequacy of the Council's risk management framework is one of the Committee's key responsibilities. To fulfil this function, the Committee approved an Action Plan to monitor progress with the Risk Management Strategy 2007-08 at its first meeting in the year and then reviewed the progress made with the Plan in January 2008. The Council's Strategic Risk Register was also reviewed in order for the Committee to be assured that the document adequately reflected the key strategic risks facing the Council and to highlight any other significant key risks that needed to be considered
- The Committee approved the Risk Financing Strategy at its September 2007 meeting. Risk Financing refers specifically to the arrangements that are in place to fund those risks that are insurable and having in place a programme that provides appropriate and adequate protection for the Council in addition to being able to demonstrate value for money. The Risk Financing Strategy will be reviewed annually by the Committee.
- In common with most large organisations the council self insures a proportion of risk and the effective management of the Self Insurance Fund is a key component of the council's overall risk financing strategy. This fund is subject to an actuarial review every three years, in line with good practice. At its meeting in January 2008, the Committee was presented with the latest actuarial report and noted that the council is, as far as can be ascertained from a 'snapshot' view, in a good position to meet its estimated current and future liabilities.

Internal Control

- In accordance with proper internal audit practices, the Chief Internal Auditor is required to provide a written report reviewing the effectiveness of the system of internal control. The Committee received the report for 2006/07 at its first meeting of the Municipal year. The Auditor's opinion was that Southampton City Council's framework of governance, risk management and management control was basically sound; however, some weaknesses were identified and the Committee was advised of the actions in place to address these.
- The Chief Internal Auditor's report was also used to inform the preparation of the Statement of Internal Control (SIC) 2006/7 which the Committee also received at its first meeting and recommended

to standards and Governance Committee for approval. The Accounts and Audit (Amendment) (England) Regulations 2006 require the Council to conduct a review, at least once a year, of the effectiveness of its systems of internal control and internal audit. The Committee endorsed the document and noted the Action Plan in place to monitor and rectify the significant identified control issues. From 2007/8, the SIC has become the Annual Governance Statement and, at its meeting on 24th January 2008, the Committee was updated on any differences to procedures that this change will bring.

- The Committee approved an Anti Fraud and Anti Corruption Policy Statement and Strategy, together with a Fraud Response Plan to ensure that the Policy and Strategy can be implemented effectively. The Committee was also briefed on the National Fraud Initiative, the Audit Commission's data matching exercise that runs every two years and is designed to identify possible cases of fraud and correct any consequential under or over payments from public finances.

Internal Audit

- The Committee was presented with a variety of reports through the year, reviewing the operation and effectiveness of the Internal Audit function during the preceding year and setting out the strategy and detailed operational plans for the current and forthcoming years. At each meeting, the Committee also received a detailed update summarising the activities of internal audit for the period since the previous meeting and the actions taken by management to address control issues identified.

External Audit

- The Committee maintained a positive and constructive relationship with the Audit Commission during the year and received a variety of reports including the Annual Audit and Inspection Letter, the Annual Governance report and progress updates against the Audit and Inspection Plan. The Commission also provided its annual assessment of the performance of Internal Audit and the Committee was pleased to note the opinion that the Council had made significant progress in improving its internal audit arrangements.

Finance

- The Committee received the annual Statement of Accounts and recommended to the Standards and Governance Committee that it be approved.

Improving the Effectiveness of the Audit Committee

11. In order to be able to track the actions taken by the Executive and officers on implementing recommendations made by the Audit Committee, a monitoring system was introduced commencing at the January 2008 meeting. This type of system has been used for some time by Scrutiny Panels and a broadly similar format and style was adopted by this Committee with authorship of the report and control of the action sheet being undertaken by Democratic Services in order to ensure the independence of the process. Every recommendation is recorded on the monitoring form and remains on the form until action has been taken which is judged, by the Committee, to be either satisfactory or conclusive.

12. In February 2008 the Chair of the Committee, supported by the Executive Director for Resources and the Chief Internal Auditor, undertook a self assessment exercise in accordance with CIPFA good practice guidance. The results of the self assessment were then presented to the full Committee at its March meeting, where a discussion took place about the findings and issues raised. The assessment judged that the Committee was fully or partially meeting the majority of the criteria in the checklist but that there were a few actions that need to be taken to fully comply with good practice, including:
 - Production of a formal annual report
 - Assessment of members' skills and experience and the provision of training to fill any identified gaps
 - Briefings to keep aware of topical legal and regulatory issues
 - An internal audit review of compliance with the 'Managing the Risk of Fraud' framework and subsequent action to be taken by the Council in response to this review
 - Assessment of the performance of external audit
 - Monitoring the actions taken to implement external audit's recommendations

Conclusion

13. In its first full year of operation, the Audit Committee has established itself as a positive and effective forum, providing independent assurance to the Standards and Governance Committee on all matters of risk and internal control. The Committee, with the professional and diligent support of Council officers and partners in the Audit Commission, has looked at some substantial and important issues during the year and has made a worthwhile contribution to the effective corporate governance of the council.

Appendix A

A full list of the reports received at meetings of the Audit Committee for the Municipal year 2007/08

28th June 2007

- Annual Audit and Inspection Letter
- Chief Internal Auditor's Annual Report and Opinion 2006/07
- Audit Commission's Internal Audit Assessment 2006/07
- Review of the Effectiveness of the System of Internal Audit
- Statement of Internal Control 2006/07
- Statement of Accounts 2006/07
- Internal Audit: Status of Work 1st January to 31st May 2007
- Risk Management Action Plan
- Anti Fraud & Anti Corruption Policy Statement & Strategy
- Protocol for Liaison between Internal and External Audit

27th September 2007

- Audit Commission: Annual Governance report 2006/07
- Strategic Risk Register
- Risk Financing Strategy
- Review of Internal Audit Strategy 2007/11
- Internal Audit: Status of Work to August 2007

24th January 2008

- Monitoring Audit Committee Recommendations
- Audit Commission: Audit and Inspection Plan Progress Report
- Internal Audit: Status of Work to December 2007
- Internal Audit: Review of the Annual Operation Plan 2007/08
- Annual Governance Statement and Statement on Internal Control 2006/07 Action Plan: Status Report
- Risk management Action Plan 2007/08: Status report
- Corporate Report Template – Reporting Risk
- Triennial Review of Self Insurance Fund

27th March 2008

- Monitoring Audit Committee Recommendations
- Audit Commission: Draft Annual Audit and Inspection Letter 2006/07
- Audit Commission: Audit and Inspection Plan Progress report
- Audit Commission: Audit and Inspection Plan 2008/09
- National Fraud Initiative 2006/07
- Internal Audit: Status of Work to February 2008
- Internal Audit: Revised Strategic Plan 2007/08 to 2009/10
- Self Assessment of the Effectiveness of the Audit Committee