



# CHIEF INTERNAL AUDITOR'S ANNUAL REPORT AND OPINION 2007 - 2008

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**SOUTHAMPTON CITY COUNCIL  
CHIEF INTERNAL AUDITOR'S ANNUAL REPORT 2007-08**

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

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

**2. INTERNAL AUDIT OPINION**

- 2.1. The main purpose of this report is to give my opinion as Chief Internal Auditor for Southampton City Council on the adequacy and effectiveness of the Council's framework of risk management, internal control and governance for the year ending 31<sup>st</sup> March 2008.
- 2.2. In giving this opinion, it should be noted that assurance can never be absolute and therefore, only reasonable assurance can be provided that there are no major weaknesses in the processes reviewed. In assessing the level of assurance to be given, I have based my opinion on:
  - written reports on all internal audit work completed during the course of the year;
  - results of any follow up exercises undertaken in respect of previous years' internal audit work;
  - the results of work of other review bodies where appropriate;
  - the extent of resources available to deliver the internal audit work;
  - the quality and performance of the internal audit service and the extent of compliance with the CIPFA Code;
  - any limitations which may have been placed on the scope or operation of internal audit; and
  - the proportion of Southampton City Council's audit need that has been covered within the period.

**Opinion**

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

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

The system of internal control will be strengthened by the work that is being carried out to improve and embed partnership governance; programme and project management; and procurement and contract management arrangements.

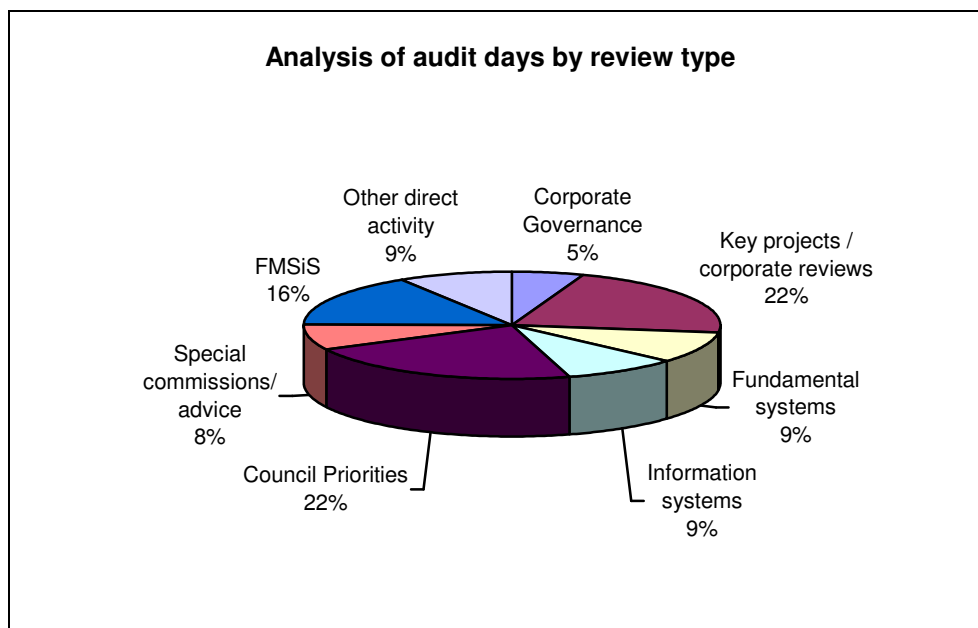
This overall audit opinion should be read in conjunction with the key issues set out in the following paragraphs.

**3. INTERNAL AUDIT COVERAGE AND OUTPUT**

- 3.1. The *Strategic internal audit plan* details a rolling, three-year programme of audits, designed to support preparation of the *Annual governance statement* and encompasses the following core principles:
- focus on the Council's defined purpose and outcomes;
  - effective performance in clearly defined functions and roles;
  - promoting values that underpin good governance through upholding high standards of conduct and behaviour;
  - taking informed and transparent decisions within a framework of controls and managing risk;
  - developing the capacity and capability of members and officers to be effective; and
  - engaging stakeholders to ensure robust public accountability.
- 3.2. The first year of the three-year programme (the 2007-08 Internal audit plan, approved by the Audit Committee 28 March 2007 and revised 24 January 2008) was informed by the corporate risk register and performance framework, supplemented with internal audit's own assessment of risk and materiality.
- 3.3. Internal audit delivered 1262 audit days across 82 review areas over the course of the year ending 31<sup>st</sup> March 2008. This includes 118 direct days on special commissions or investigation work. An additional 236 direct days were delivered in our role as the Council's appointed external assessors for the Financial Management Standard in Schools [FMSiS].

# SOUTHAMPTON CITY COUNCIL CHIEF INTERNAL AUDITOR'S ANNUAL REPORT 2007-08

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3.4. The revised 2007-08 Internal audit plan has been delivered with the following exceptions:

- The planned audit review of 'Waste collection, recycling and disposal' was deferred to 2008-09 at management's request pending a number of significant changes to systems in operation.
- At the time of this report, the following reviews are work in progress:
  - Local area agreement (medium risk)
  - Disability services (medium risk)
  - Joint area review follow up (high risk)
  - Workforce planning (high risk)
  - Learning futures transformation programme (high risk)
- Work is substantially complete and an opinion has been formed for the following reviews, however, formal draft reports have not yet been issued to and agreed with management:
  - Debtors (medium risk)
  - Town Depot (medium risk)
  - Procurement (high risk)

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 2007-08**

- 3.5. We have published an opinion in final or draft reports (where we are concluding discussions with management in the agreement of action plans) in respect of 73 reviews (including 25 FMSiS external assessments) completed during the year.
- 3.6. Where our work identified risks that we considered fell outside the parameters acceptable to the Council, we agreed appropriate corrective actions and a timescale for improvement with the responsible managers. We actively monitor progress against the agreed action plans until we receive confirmation from management that all agreed actions have been completed or the audit points have been superseded.
- 3.7. The opinion assigned to each internal audit review on issue of the report is defined as follows:

<b>Opinion</b>	<b>Framework of governance, risk management and management control</b>	<b>Number of published opinions in this category</b>	<b>Number of open audits with opinions in category at year end</b>
Substantial assurance	Basically a sound framework in place that is operating effectively. Some non-critical weaknesses identified or immaterial evidence of inconsistent application of the framework may have been identified.	37 reviews (51%)	22 reviews
Limited assurance	Critical weakness(es) identified within the framework or significant evidence of inconsistent application.	30 reviews (41%)	18 reviews
No assurance	Fundamental weaknesses have been identified or the framework is ineffective or absent.	6 reviews (8%)	1 review

**4. SIGNIFICANT ISSUES ARISING**

4.1. Partnership governance

The framework of governance arrangements over key partnerships across the Council is evolving. Our work has identified areas where absence of robust and well understood partnership agreements has increased exposure to the risk of legal challenge to the Council. Management is taking effective action to develop and apply a consistent approach to partnership governance, including clear and shared understanding of the partnership models in place, appropriately supported with relevant policies and procedures. Until such a time as good practice is disseminated and effectively and consistently applied across all significant partnership arrangements, the Council is exposed to increased risk.

4.2. Programme and project management

The Council continues to make steady progress in the development of its programme and project management arrangements; however, a number of common themes have emerged from our review. Appropriate forums are now place across the Council for the effective governance of programmes and projects, although monitoring and reporting arrangements are still developing. There is inconsistent application of the Council's Project Management Guidance resulting in poor or inappropriate project management arrangements and lack of proper planning, documentation and control and increasing the risk of project failure.

**4.3. Procurement and contract management arrangements**

A number of areas have been identified through the course of our work where procurement and contract management arrangements have been inadequate. Difficulties have arisen from ambiguities and poor interpretation of the Council's Contract Procedures Rules, which have now been extensively rewritten to ensure they reflect current legislation and good practice. Further work and communication is required to ensure that revised procedures are consistently and robustly applied across the Council.

<b>5. ADVICE TO MANAGEMENT</b>
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5.1. During the year internal audit has worked with management on a consultancy/advisory basis on a number of projects, including:

- Health and social care income collection
- Partnership governance
- Capital programme management
- Project management arrangements
- Procurement

<b>6. ANTI FRAUD AND CORRUPTION</b>
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6.1. Within the year we have completed work on the National Fraud Initiative 2006. In addition, we have assessed and where appropriate, advised, investigated or supported the investigation of a number of allegations of fraud, corruption or improper practice. A number of these cases were allegations made under the Duty to Act ("Whistleblowing") Policy. Evidence, advice and guidance have been passed to management to pursue internal disciplinary processes or to the Police to pursue criminal investigation where appropriate.

<b>7. INTERNAL AUDIT PERFORMANCE</b>
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<b><i>Annual performance indicators 2007-08</i></b>		
<b>Aspect of service</b>	<b>Target output or performance measure</b>	<b>Actual output or performance</b>

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**SOUTHAMPTON CITY COUNCIL  
CHIEF INTERNAL AUDITOR'S ANNUAL REPORT 2007-08**

<b>Cost and quality of input</b>	Service costs are within budget	Outturn report showed 25% underspend resulting from staff shortfall and slipped IT project
	100% of planned audit days delivered	75% original planned days and 100% revised planned days delivered
	Direct audit days account for 65% of total time available	Direct audit days accounted for 60% of total time available
<b>Productivity and process efficiency</b>	A minimum of 90% of the annual plan is delivered	93% of the revised annual plan has been delivered
	100% of high risk audits are delivered	90% of high risk audits have been delivered. The remaining 10% (4 reviews) are work in progress.
	Draft reports are issued within 10 days of completion of fieldwork	*Estimated 100% of draft reports are issued within 10 days of completion of fieldwork
	Client response received to draft audit reports within 10 days of issue	*Estimated 70% of client responses are received to draft audit reports within 10 days of issue
	Final reports are issued within 10 days after agreement with client	*Estimated 80% of final reports are issued within 10 days after agreement with client
<b>Quality of output</b>	80% of clients are satisfied with the service delivered	A quality survey conducted in March 2008 indicated a satisfaction rating of 84%
	External audit place reliance on work of internal audit	External audit will be able to placed reliance on work of internal audit in 2008/09
<b>Compliance with professional standards</b>	CIPFA Code of practice for internal audit in local government (2006) is complied with	Internal and peer reviews of compliance completed. Action plan in place to address minor weaknesses identified.
<b>Outcomes and degree of influence</b>	90% of agreed high priority actions are implemented within agreed timescale	Estimated 70% of agreed high priority actions are implemented within agreed timescale

\* owing to delays in planned implementation of audit management software it is not possible to provide accurate measures of performance in these areas for 2007-08.

## **SOUTHAMPTON CITY COUNCIL CHIEF INTERNAL AUDITOR'S ANNUAL REPORT 2007-08**

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### **7.2 Internal Audit Resources**

The resource profile has changed significantly from 2006/07, with a number of new members joining the team. Despite this, the service operated with an overall 34% shortfall in planned FTE staff over the period. Supplementary resources were bought in from PricewaterhouseCoopers LLP (working in partnership with South Coast Audit) to ensure delivery of all high risk reviews identified within the 2007-08 Internal audit plan. This arrangement has proven very successful and consideration is being given to continued use of this type of co-sourcing arrangement for future service delivery.

### **7.3 Quality control**

Our aim is to provide a service that remains responsive to the needs of the Council and maintains consistently high standards. This was achieved in 2007-08 through the following internal processes:

- Compliance with CIPFA Code of practice for internal audit in local government (2006);
- ongoing liaison and communication with the management to ascertain the risk management, control and governance arrangements, key to corporate success;
- ongoing development of a constructive working relationship with the Audit Commission to ensure development of a cooperative assurance approach;
- a tailored audit approach using a defined methodology and assignment control documentation;
- the review and quality control of all internal audit work by professional qualified senior staff members.

### **7.4 Internal audit was able to demonstrate a significant level of compliance with the CIPFA Code in 2007-08. A key objective for internal audit in the year was to implement an Action Plan designed to strengthen compliance with the Code. All actions, with the exception of the following, were successfully delivered in full:**

- Establishment of audit rights within key partnership agreements and contracts – to be addressed at a corporate level through future/ revised partnership agreements;
- Development of protocols for working with other internal auditors – the development of a Memorandum of Understanding with PCT auditors is currently on hold pending an evaluation of the impact of “sharing” an external auditor. Work is in progress to formalise a framework for working with neighbouring unitary authorities;
- Monitoring and reporting internal audit performance against established performance indicators - following the procurement of a dedicated audit software solution (May 2008) accurate and timely audit management information will be more readily available.



<b>8. ACKNOWLEDGEMENT</b>
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- 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  
5<sup>th</sup> June 2008