



CHIEF INTERNAL AUDITOR'S ANNUAL REPORT AND OPINION 2008 - 2009

Prepared by:	Neil Pitman, Chief Internal Auditor (Acting)
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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 (Acting) 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 31st March 2009.
- 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

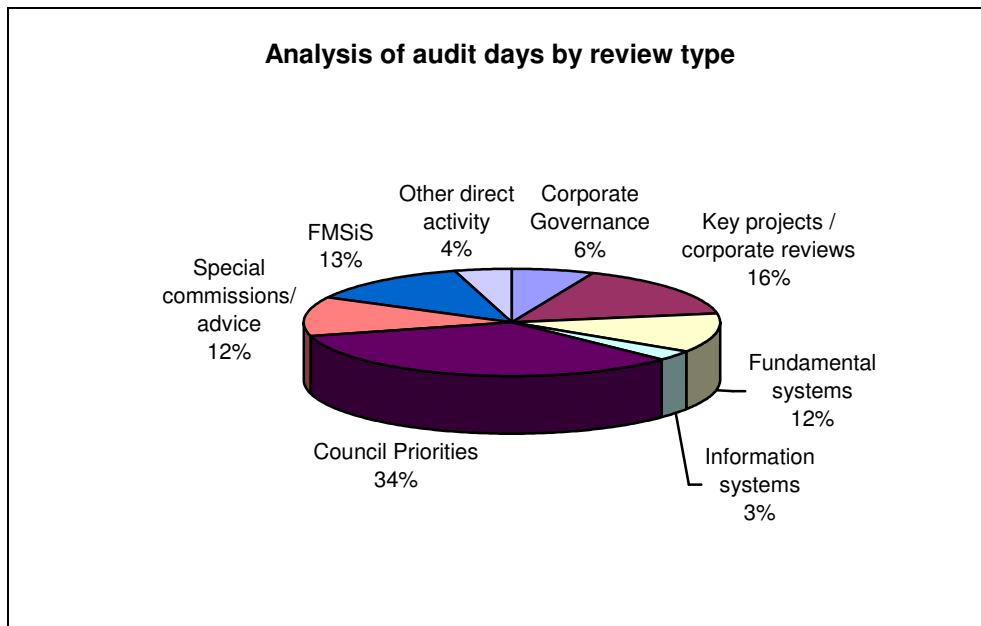
evidence that the framework may not be consistently applied. Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement.

The system of internal control will be strengthened by the work that is being carried out to improve and embed programme and project management; procurement and contract management arrangements; Health and Social Care Billing and Section 106 agreements.

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 second year of the three-year programme (the 2008-09 Internal audit plan, approved by the Audit Committee 27 March 2008 and revised 11 December 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 1762 audit days across 104 review areas over the course of the year ending 31st March 2009. This includes 211 direct days on special commissions or investigation work. An additional 226 direct days were delivered in our role as the Council's appointed external assessors for the Financial Management Standard in Schools [FMSiS].



3.4. The revised 2008-09 internal audit plan has been delivered with the following exceptions:

- At the time of this report, the following reviews are work in progress:
 - Land and Property Management
 - Decision Making and Accountability
 - NHS Act 2006 – Partnership Agreements
 - Libraries
- 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:
 - Economic Development (to include Major City Developments & North/South Spine)
 - Leisure Venues – Alternative Management
 - Corporate Complaints
 - Arts & Museums
 - Fraud Thematic Review – Register of interests, gifts and hospitality

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

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 79 reviews (including 28 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:

Opinion	Framework of governance, risk management and management control	Number of published opinions in this category	Number of open audits with opinions in category at year end
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.	49 reviews (62%)	25 reviews
Limited assurance	Critical weakness(es) identified within the framework or significant evidence of inconsistent application.	27 reviews (34%)	21 reviews
No assurance	Fundamental weaknesses have been identified or the framework is ineffective or absent.	3 reviews (4%)	2 review

4. SIGNIFICANT ISSUES ARISING

4.1. Programme and project management

Since 2007, the Council has introduced a new approach and framework for programme and project management. Capital and Major Project Boards were set up within each Directorate, however, there was no specified minimum requirement for their operation leading to inconsistencies in their operation and reporting frameworks.

A lack of prioritisation of resources dedicated to the programme / project monitoring process resulted in time being spent at directorate boards discussing matters of detail that could have been more appropriately covered outside of the meeting preventing Board meetings from covering programme governance matters robustly. There was no corporate coordination function for the Council, providing oversight, scrutiny and challenge across the Council's capital programme / major projects and therefore no means of ensuring directorate boards were operating effectively.

The Executive Director Resources has since commissioned a fundamental review of project management. The phase one report was approved in January 2009, phase two was approved in April 2009 and implementation of the new system and framework has commenced.

4.2. Procurement and contract management arrangements

The Council's Contract Procedure Rules provide a robust framework for procurement and contract management arrangements; however 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 poor interpretation or lack of awareness of the Council's Contract Procedures Rules, which were updated and communicated in May 2008. Further work and communication is ongoing to raise awareness of the revised procedures to ensure they are consistently and robustly applied across the Council.

4.3. Health and Social Care Billing

In March 2005 the Council approved revised arrangements in respect of its Charging Policy for Non Residential Care Services, which was implemented in mid 2006. During the latter part of 2006, the Council identified significant issues around the invoicing for Health and Social Care clients for services provided. A new interface between the PARIS Health and Social Care System and the Agresso main accounting system was not working and billing had to be suspended. PARIS could not be reconciled to Agresso and poor manual records meant that there was uncertainty about data held within PARIS.

Remedial actions were undertaken which allowed billing to resume from May 2007. However, further difficulties were experienced and charging was again suspended in September 2007 due to the large number of errors. Subsequent testing of the system resulted in the need to manually input chargeable information in order to issue bills. However, invoices were still presenting with unexplained adjustments.

A 36 point action plan has been implemented to address system weaknesses and a new charging policy was introduced in April 2009. Work is continuing on implementing an upgrade of PARIS so that the system side of billing can be improved.

4.4. Section 106 Agreements

Our review highlighted weaknesses in the administration of Section 106 Agreements. Weaknesses were evident in respect of debt recovery and the level of overdue contributions; assessing and financing the additional cost of carrying out agreed works to which contributions relate and the value of funds retained in respect of previously completed works.

A project team has since been established to determine the priority for delivery of outstanding projects for Highways works. The project team in conjunction with finance are producing a programme profiling spend in 2009/10 – 2011/12.

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:

- In Control (independent living)
- Partnership governance
- Capital programme management
- Building Schools for the Future
- Millbrook Roundabout / Dockgate 20 Scheme

6. ANTI FRAUD AND CORRUPTION

6.1. Within the year we have commenced work on the National Fraud Initiative 2008-09. 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.

7. INTERNAL AUDIT PERFORMANCE

Annual performance indicators 2008-09		
Aspect of service	Target output or performance measure	Actual output or performance
Cost and quality of input	Service costs are within budget	Outturn report showed underspend resulting from staff shortfall
	100% of planned audit days delivered	88% original planned days and 100% revised planned days delivered
	Direct audit days account for 65% of total time available	Direct audit days accounted for 64% of total time available
Productivity and process efficiency	A minimum of 90% of the annual plan is delivered	96% 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% (3 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 85% of final reports are issued within 10 days after agreement with client
Quality of output	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 placed reliance on the work of internal audit during 2008/09
Compliance with professional standards	CIPFA Code of practice for internal audit in local government (2006) is complied with	Compliant, as per the Audit Commission triennial review of internal audit 2008-09
Outcomes and degree of influence	90% of agreed high priority actions are implemented within agreed timescale	*Estimated 75% of agreed high priority actions are implemented within agreed timescale

* following implementation of audit management software part way through the year it is not possible to provide accurate measures of performance in these areas for 2008-09.

7.2 Internal Audit Resources

The resource profile has changed significantly during 2008-09 following a restructure of the section to meet efficiency pressures. The service operated at a 15% shortfall in planned FTE staff over the period in addition to the secondment of the Chief Internal Auditor to the Transformation Team from 1 October 2008. Supplementary resources were bought in from South Coast Audit to ensure delivery of all high risk reviews identified within the 2008-09 Internal audit plan. This arrangement has proven very successful and we will continue to use 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 2008-09 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 full compliance with the CIPFA Code in 2008-09.

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.

Neil Pitman
Chief Internal Auditor Acting
2nd June 2009