

Audit Committee

Thursday, 17th March, 2011
at 6.00 pm
Committee Room 1 - Civic Centre

This meeting is open to the public

Members

Councillor Ball (Chair)
Councillor Bogle (Vice-Chair)
Councillor Daunt
Councillor Fuller
Councillor Sollitt
Councillor Letts
Councillor Wells

Contacts

Democratic Support Officer:-
Judy Cordell
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Head of Service:-
Rob Carr
Acting Executive Director of Resources
Tel. 023 8083 4370
Email: Rob.carr@southampton.gov.uk

PUBLIC INFORMATION

Role of the Audit Committee

The Committee has responsibility for:-

- providing an 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;
- satisfying and providing 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; and
- specifically, the 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 co-operation 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).

Southampton City Council's Six Priorities

- Providing good value, high quality services
- Getting the City working
- Investing in education and training
- Keeping people safe
- Keeping the City clean and green
- Looking after people

Public Representations

At the discretion of the Chair, members of the public may address the meeting about any report on the agenda for the meeting in which they have a relevant interest.

Smoking policy – the Council operates a no-smoking policy in all civic buildings.

Mobile Telephones – please turn off your mobile telephone whilst in the meeting.

Fire Procedure – in the event of a fire or other emergency a continuous alarm will sound and you will be advised by Council officers what action to take.

Access – access is available for disabled people. Please contact the Democratic Support Officer who will help to make any necessary arrangements.

Dates of Meetings: Municipal Year 2010/11

2010	2011
Wed 23 June	Thurs 17 March
Wed 22 Sept	
Tues 7 Dec	

CONDUCT OF MEETING

Terms of Reference

The terms of reference of the Audit Committee are contained in Article 8 and Part 3 (Schedule 2) of the Council's Constitution.

Business to be discussed

Only those items listed on the attached agenda may be considered at this meeting.

Rules of Procedure

The meeting is governed by the Council Procedure Rules as set out in Part 4 of the Constitution.

Quorum

The minimum number of appointed Members required to be in attendance to hold the meeting is 3.

Disclosure of Interests

Members are required to disclose, in accordance with the Members' Code of Conduct, **both** the existence **and** nature of any "personal" or "prejudicial" interests they may have in relation to matters for consideration on this Agenda.

Personal Interests

A Member must regard himself or herself as having a personal interest in any matter

- (i) if the matter relates to an interest in the Member's register of interests; or
- (ii) if a decision upon a matter might reasonably be regarded as affecting to a greater extent than other Council Tax payers, ratepayers and inhabitants of the District, the wellbeing or financial position of himself or herself, a relative or a friend or:-
 - (a) any employment or business carried on by such person;
 - (b) any person who employs or has appointed such a person, any firm in which such a person is a partner, or any company of which such a person is a director;
 - (c) any corporate body in which such a person has a beneficial interest in a class of securities exceeding the nominal value of £5,000; or
 - (d) any body listed in Article 14(a) to (e) in which such a person holds a position of general control or management.

A Member must disclose a personal interest.

Continued/.....

Prejudicial Interests

Having identified a personal interest, a Member must consider whether a member of the public with knowledge of the relevant facts would reasonably think that the interest was so significant and particular that it could prejudice that Member's judgement of the public interest. If that is the case, the interest must be regarded as "prejudicial" and the Member must disclose the interest and withdraw from the meeting room during discussion on the item.

It should be noted that a prejudicial interest may apply to part or the whole of an item.

Where there are a series of inter-related financial or resource matters, with a limited resource available, under consideration a prejudicial interest in one matter relating to that resource may lead to a member being excluded from considering the other matters relating to that same limited resource.

There are some limited exceptions.

Note: Members are encouraged to seek advice from the Monitoring Officer or his staff in Democratic Services if they have any problems or concerns in relation to the above.

Principles of Decision Making

All decisions of the Council will be made in accordance with the following principles:-

- proportionality (i.e. the action must be proportionate to the desired outcome);
- due consultation and the taking of professional advice from officers;
- respect for human rights;
- a presumption in favour of openness, accountability and transparency;
- setting out what options have been considered;
- setting out reasons for the decision; and
- clarity of aims and desired outcomes.

In exercising discretion, the decision maker must:

- understand the law that regulates the decision making power and gives effect to it. The decision-maker must direct itself properly in law;
- take into account all relevant matters (those matters which the law requires the authority as a matter of legal obligation to take into account);
- leave out of account irrelevant considerations;
- act for a proper purpose, exercising its powers for the public good;
- not reach a decision which no authority acting reasonably could reach, (also known as the "rationality" or "taking leave of your senses" principle);
- comply with the rule that local government finance is to be conducted on an annual basis. Save to the extent authorised by Parliament, 'live now, pay later' and forward funding are unlawful; and
- act with procedural propriety in accordance with the rules of fairness.

AGENDA

Agendas and papers are now available via Southampton Online at
www.southampton.gov.uk/council/meeting-papers

1 APOLOGIES AND CHANGES IN MEMBERSHIP (IF ANY)

To note any changes in membership of the Committee made in accordance with Council Procedure Rule 4.3.

2 DECLARATIONS OF INTEREST

In accordance with the Local Government Act 2000, and the Council's Code of Conduct adopted on 16th May 2007, Members to declare any personal or prejudicial interests in any matter included on the agenda for this meeting.

NOTE: Members are required, where applicable, to complete the appropriate form recording details of any such interests and hand it to the Democratic Support Officer prior to the commencement of this meeting.

3 MINUTES OF THE PREVIOUS MEETING (INCLUDING MATTERS ARISING)

To approve and sign as a correct record the Minutes of the meeting held on 3rd February 2011, and to deal with any matters arising, attached.

4 STATEMENT FROM THE CHAIR

5 ANNUAL GOVERNANCE STATEMENT 2010-11

Report of the Executive Director of Resources (Acting), detailing the Annual Governance Statement 2010-2011, attached.

6 IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

Report of the Acting Head of Finance, detailing the implementation of international financial reporting standards, attached.

7 INTERNAL AUDIT: INTERNAL AUDIT PLAN 2011 - 2012

Report of the Chief Internal Auditor, detailing the Internal Audit Plan 2011-2012, attached.

8 EXCLUSION OF THE PRESS AND PUBLIC - CONFIDENTIAL PAPERS INCLUDED IN THE FOLLOWING ITEM

To move that in accordance with the Council's Constitution, specifically the Access to Information procedure Rules contained within the Constitution, the press and public be excluded from the meeting in respect of any consideration of the confidential appendix to item no:9.

Confidential appendix 2 contains information deemed to be exempt from general publication based on Categories 2 and 7 of paragraph 10.4 of the Council's Access to Information Procedure Rules. The information contained therein is exempt as it relates to ongoing investigations and is likely to reveal the identities of individuals. Having applied the public interest test it is not appropriate to disclose this information. The interests of any parties involved in these investigations could be jeopardised by the release of the information.

9 INTERNAL AUDIT: STATUS OF WORK - FEBRUARY 2011

Report of the Chief Internal Auditor, detailing the status of internal audit work within the Authority up to February 2011, attached.

10 AUDIT COMMISSION: AUDIT AND INSPECTION PROGRESS REPORT

Report of the Chief Internal Auditor, detailing the Audit and Inspection Plan Progress Report, attached.

Wednesday, 9 March 2011

SOLICITOR TO THE COUNCIL

AUDIT COMMITTEE
MINUTES OF THE MEETING HELD ON 3 FEBRUARY 2011

Present:

Members of the Council

Councillors Ball (Chair), Bogle (Vice-Chair), Daunt, Fuller and Letts

Apologies

Councillors Sollitt and Wells

22. **APOLOGIES AND CHANGES IN MEMBERSHIP (IF ANY)**

Apologies were received from Councillors Sollitt and Wells.

23. **MINUTES OF THE PREVIOUS MEETING (INCLUDING MATTERS ARISING)**

RESOLVED that the minutes of the meeting held on 22nd September 2010 be approved and signed as a correct record. (Copy of the minutes circulated with the agenda and appended to the signed minutes).

24. **AUDIT COMMISSION: ANNUAL AUDIT LETTER 2009/10**

The Committee noted the report of the Chief Internal Auditor concerning the Annual Audit Letter presenting the results of the statutory audit of the Council's 2009/10 financial statements and the assessment of arrangements to achieve value for money in the Council's use of resources. The Committee noted in particular the assurance that electricity meter readings would be complete by the end of March. (Copy of the report appended to the signed minutes).

25. **AUDIT COMMISSION: AUDIT AND INSPECTION PROGRESS REPORT**

The Committee noted the report of the Chief Internal Auditor detailing the Audit Commission's progress report. (Copy of the report appended to signed minutes).

26. **INTERNAL AUDIT: STATUS OF WORK**

The Committee noted the report of the Chief Internal Auditor requesting that the Committee notes the Internal Audit Status of Work report for the period ending November 2010. (Copy of the report appended to the signed minutes).

27. **INTERNAL AUDIT: REVIEW OF THE ANNUAL OPERATIONAL PLAN 2010/11**

The Committee approved the revised Annual Operational Internal Audit Plan for 2010/11. (Copy of the report appended to the signed minutes).

28. **RISK MANAGEMENT ACTION PLAN 2010-11: STATUS REPORT**

The Committee noted the report of the Executive Director of Resources (Interim) detailing the content of the Annual Governance Statement 2009/10 Action Plan Status. (Copy of the report appended to the signed minutes).

29. **ANNUAL GOVERNANCE STATEMENT 2009-10: ACTION PLAN STATUS REPORT**

The Committee noted the report of the Executive Director of Resources (Interim) detailing the content of the Annual Governance Statement 2009-10 Action Plan Status document. (Copy of the report appended to the signed minutes).

30. **ANNUAL TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS 2010/11-2013/14**

The Committee noted the report of the Acting Executive Director detailing the City Council's Indicators and the Treasury Management Strategy and summarising the main activities undertaken during 2010/11. (Copy of the report appended to the signed minutes).

Agenda Item 5

DECISION-MAKER:	AUDIT COMMITTEE		
SUBJECT:	ANNUAL GOVERNANCE STATEMENT 2010-11		
DATE OF DECISION:	17 MARCH 2011		
REPORT OF:	Rob Carr – Executive Director of Resources (Acting)		
AUTHOR:	Name:	Peter Rogers	Tel: 023 8083 2835
	E-mail:	peter.rogers@southampton.gov.uk	
STATEMENT OF CONFIDENTIALITY			
NOT APPLICABLE			

SUMMARY

The Annual Governance Statement (“AGS”) is a key corporate document and should provide an accurate representation of the corporate governance arrangements in place during the year and highlight those areas where significant gaps or improvements are required. The production of an AGS is a mandatory requirement under the Accounts and Audit Regulations as updated in 2006.

An ‘assurance gathering process’ created to support the AGS has been developed in line with the Chartered Institute of Public Finance and Accountancy (“CIPFA”) guidance to support development of the AGS for 2010/11.

RECOMMENDATIONS:

- (i) To approve the assurance gathering process to support the development of a robust Annual Governance Statement (Appendix 1);
- (ii) To note the Audit Committee’s role in respect of the Annual Governance Statement.

REASONS FOR REPORT RECOMMENDATIONS

1. The Audit Committee has responsibility 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 annual governance statement.
2. This responsibility extends to receiving and reviewing the draft AGS, and where necessary challenging the sources of assurance, prior to the draft document being reported to Standards and Governance Committee for approval.
3. The Audit Committee therefore needs to be aware of the nature and scope of the assurance gathering process that will be undertaken to support the development and production of a robust AGS.

CONSULTATION

4. The ‘assurance gathering process’ for 2010-11 follows the arrangements used to develop the 2009-2010 AGS noting that the Audit Commission has not raised any issues or concerns in relation to the process adopted.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

5. No alternative options have been considered.

DETAIL

6. Regulation 4 (2) of the Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment)(England) Regulations 2006 requires local authorities to 'conduct a review at least once a year of the effectiveness of its system of internal control' and 'to prepare a statement on internal control' in accordance with proper practices.
7. The purpose of the AGS, which is published with the accounts, is to provide an accurate representation of the corporate governance arrangements in place during the year and to identify or highlight those areas where there are significant gaps or where improvements are required.
8. CIPFA/SOLACE has defined governance as "how local government bodies ensure that they are doing the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable manner. It comprises the systems and processes, and cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities".
9. The review of the effectiveness of the organisation's overall corporate governance arrangements requires the sources of assurance which the council relies on, to be brought together and reviewed with any significant gaps in assurance or areas for improvement being recorded and disclosed within the AGS.
10. The 'assurance gathering process' developed to support the 2009-10 AGS has been further refined to support the development of a robust AGS for 2010-11. No significant changes to the process were deemed necessary on the basis that it is considered that the current process is robust.
11. Overall assurance on the adequacy and effectiveness of the governance framework is sought from the following sources: Internal Audit, External Audit, Risk Management, Legal and Regulatory Assurance, Assurances provided by Executive Directors, Performance Management and external inspection or review and reports. The foregoing sources of assurance are underpinned by a range of corporate policies and procedures.
12. To support the process an 'Assurance Framework' document (which identifies and brings together the various elements of the overall 'assurance framework') will be completed together with 'Self Assessment Questionnaires' which are issued to Executive Directors for completion and return.
13. The 'Self Assessment Questionnaires' include an 'Assurance Map' template which is also required to be reviewed and updated. This document seeks to obtain information from each directorate all sources of assurance (internal and external) that are received.
14. The Controls Assurance Management Group (which includes the Section 151 Officer, Chair of the Audit Committee, Monitoring Officer and Chief Internal Auditor) has responsibility for evaluating assurances and supporting evidence, assessing whether there is consistency with existing policies and

the authority's governance framework and for drafting the AGS.

15. The draft AGS is presented to the Audit Committee for review and approval prior to being submitted to the Standards and Governance Committee for final approval. The AGS is then forwarded to the Chief Executive and Leader of the Council for signing.

FINANCIAL/RESOURCE IMPLICATIONS

Capital

16. None.

Revenue

17. None.

Property

18. No specific property implications have been identified in this report.

Other

19. None.

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

20. The Audit Commission Act 1998 and the Accounts and Audit Regulations 2003 require the Council to adopt Good Governance arrangements in respect of the discharge of its functions. The above arrangements are intended to meet those responsibilities.

Other Legal Implications:

21. None.

POLICY FRAMEWORK IMPLICATIONS

22. None.

SUPPORTING DOCUMENTATION

Appendices

1.	Annual Governance Statement 2010-11: Process and Timelines
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Documents In Members' Rooms

1.	None.
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Background Documents

Title of Background Paper(s)

Relevant Paragraph of the
Access to Information
Procedure Rules / Schedule
12A allowing document to be
Exempt/Confidential (if
applicable)

1.	None	
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Background documents available for inspection Internal Audit Office, North Block
Basement, Civic Centre

E-mail peter.rogers@southampton.gov.uk

FORWARD PLAN No: N/A

KEY DECISION? N/A

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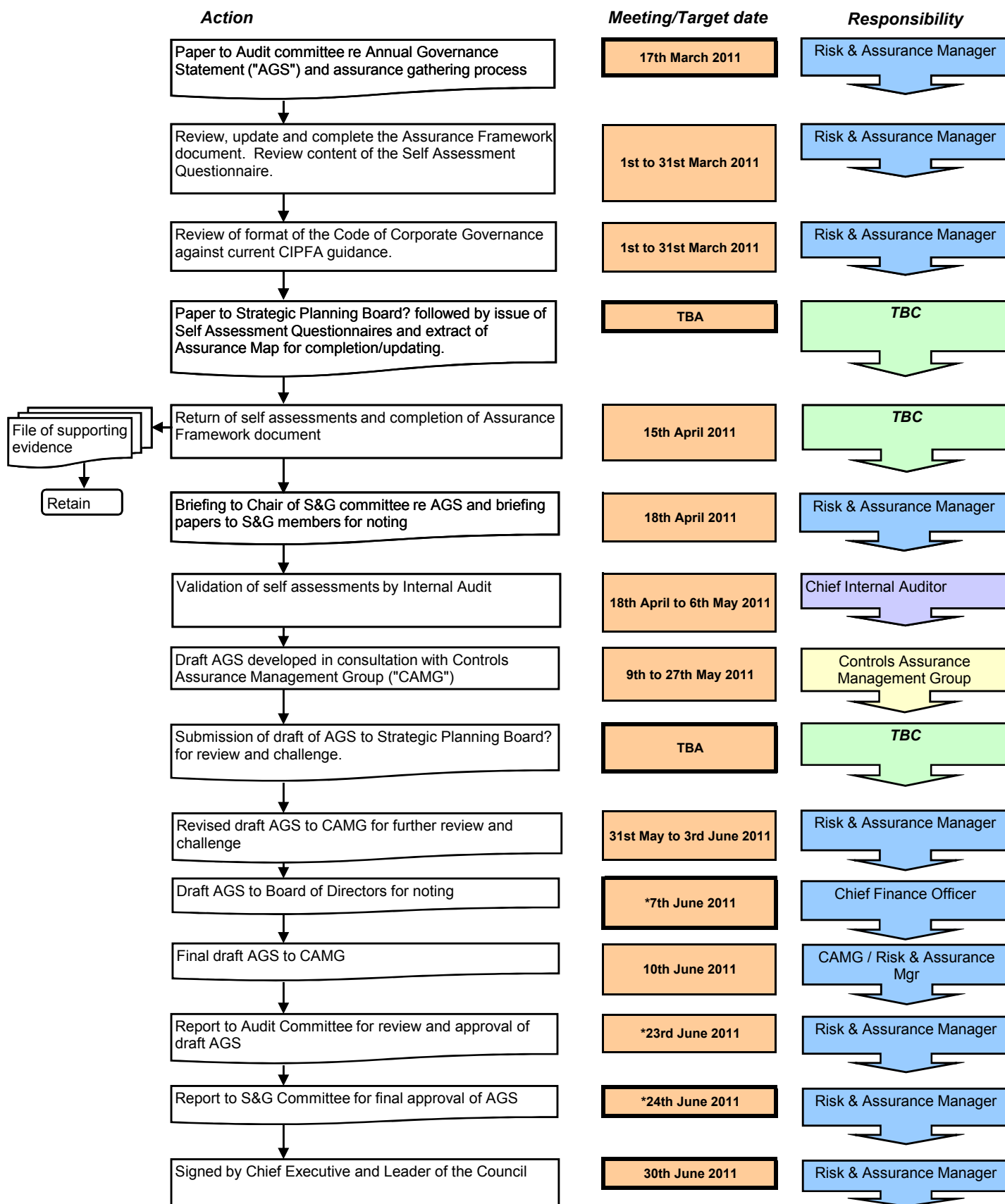
WARDS/COMMUNITIES AFFECTED:

Not applicable

Agenda Item 5

APPENDIX 1
Appendix 1

Annual Governance Statement 2010/11 - Process and timelines



* Provisional dates

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Agenda Item 6

DECISION-MAKER:	AUDIT COMMITTEE
SUBJECT:	IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS
DATE OF DECISION:	17TH MARCH 2011
REPORT OF:	INTERIM EXECUTIVE DIRECTOR OF RESOURCES
STATEMENT OF CONFIDENTIALITY	
NOT APPLICABLE	

BRIEF SUMMARY

The requirements of International Financial Reporting Standards (IFRS) were introduced to the Audit Committee in March 2010. The purpose of this report is to update the Audit Committee on Southampton's progress in implementing IFRS.

This report sets out the progress to date towards preparing IFRS compliant accounts for 2010/11, the key issues which IFRS presents, and provides Members with assurance that the Council is still "On Track" with its transition to IFRS reporting and will meet the deadlines set to achieve publication of compliant accounts by 30th June.

RECOMMENDATIONS:

Audit Committee is recommended to:

- (i) Note the requirement to implement IFRS and the progress to date.
- (ii) Note the work still required to move to IFRS compliant financial reporting for 2010/11.
- (iii) Note that the Council remains "On Track" to provide IFRS compliant Financial Statements for 2010/11.

REASONS FOR REPORT RECOMMENDATIONS

1. To provide assurance to the Audit Committee that SCC is still "On Track" to provide IFRS Compliant Financial Statements for 2010/11.

DETAIL (Including consultation carried out)

CONSULTATION

2. Consultation has taken place with the Interim Executive Director of Resources, with officers across both the Council and Capita who have a role to play in implementing IFRS, and with the Audit Commission.

BACKGROUND

3. The Council is required to prepare its Annual Statement of Accounts using set accounting and disclosure requirements. From 2010/11 these requirements are moving away from UK Generally Accepted Accounting Principles (UKGAAP) to International Financial Reporting Standards (IFRS).

4. Following a consultation process, the Code of Practice for 2010/11 was issued by CIPFA/LASAAC in December 2009 along with some transitional guidance. This required local government accounting to come fully in line with IFRS accounting for the financial year 2010/11. In addition, the presentation of the financial statements for 2009/10 required an early introduction of IFRS for PFI and related contracts. These changes affect a number of the Council's business processes and systems, most notably valuation processes for property assets, lease arrangements and changes to accounting adjustments and the presentation of accounts.
5. As such this change is not simply a finance issue as it has wider implications for the organisation. It encompasses many of the practices of the Council from procurement to staffing. The project is being co-ordinated by Finance but requires buy in and considerable amounts of work from other departments of the Council. Finance staff have been and continue to work closely with colleagues from other areas within the Council and Capita, especially in Property Services, in relation to leases and asset classifications.
6. The detailed practitioners' guidance notes were finally published in December 2010 and set out the requirements for local authority accounts and the disclosures that must be made. They provide clarification of some of the issues not covered by the transitional guidance.

TIMETABLE

7. The Council is well placed to meet the requirements for IFRS and the project plan has been updated to reflect further developments and this is detailed in Appendix 1.
8. Although the first IFRS compliant accounts do not have to be prepared until 30th June 2011, this has required a considerable amount of work to ensure that the Council achieves IFRS accounting and disclosure compliance. The timetable for the IFRS implementation process shows the key milestones achieved to date and those to be achieved up to the point of publication.

SIGNIFICANT AREAS FOR CONSIDERATION

9. There are a number of significant areas of change that impact on the Council's Annual Statement of Accounts under IFRS. The most significant of these are explained in more detail below together with details of the work undertaken to date.

Re-Statement of Financial Statements

10. Many of the areas detailed below require a re-statement of the Council's financial position from 1st April 2009 in order to provide financial information for the comparative period of 2009/10. These changes are either as a result of having to account for items not previously accounted for (such as untaken annual leave) or to account for items which are treated differently under IFRS (such as Government Grants and Contributions).

Format of the Accounting Statements

11. The table below summarises how the existing main statements are shown under IFRS.

SORP(*) Accounting Statement	IFRS Code of Practice
Income & Expenditure Account	Comprehensive Income & Expenditure Account
Statement of Movement on the General Fund Balance	Movement in Reserves Statement (MIRS)
Statement of Total Recognised Gains and Losses	Split between Comprehensive Income & Expenditure Account and the MIRS
Balance Sheet	Balance Sheet

(*SORP – Statement of Recommended Practice)

12. The format of the Financial Statements Format and Notes are in the process of being reviewed and updated to incorporate the format changes and additional note requirements, following receipt of the CIPFA Practitioners Guidance in December.
13. Changes to the presentation of the accounts have been assessed and are being incorporated within systems in preparation for the process of producing the 2010/11 financial statements. The 2008/09 balance sheet and the main 2009/10 accounts have been restated as far as possible at this stage and include all the adjustments which have been calculated to date. Examples of the above statements are shown in Appendix 2 and the figures reflect the restatement work completed to date.
14. The work to date on the re-statement has focused on the figures. Further work on the narrative will be undertaken as the accounts are prepared in the spring of 2011.
15. The experience of other government bodies is that the disclosure requirements that back up the primary financial statements will become significantly more onerous, particularly in the year of transition. Significant additional disclosure requirements include;
- Providing a detailed breakdown of the financial information presented to Councillors as part of day to day financial management (known as segmental reporting) together with a reconciliation of how those reports relate to the primary financial statements.
 - The Balance Sheet at the start of the year of transition must be shown in addition to the normal comparative figures, (i.e. as at 1st April 2009). This means that the 2010/11 accounts will include Balance Sheet information as at three different dates.
 - Significant extra reporting on lease commitments, both as lessee and lessor.

Accounting Policies

16. Although most of the Statement of Accounts is prepared in accordance with statutory guidelines, it is necessary for the Council to make decisions on the treatment of certain transactions, for example a de minimus level for capital expenditure. The Council's Accounting Policies convey the principles and concepts within which the Council prepares its Financial Statements. These Accounting Policies are in the process of being reviewed and amended where appropriate to incorporate the changes required by transition to IFRS.

Leases

17. IFRS requires all leases in which the Council has an interest, either as lessee or lessor to be reviewed to ensure that the substance of transactions is properly reflected in the accounts regardless of the legal arrangements of the contract.
18. The Council has approximately 3,700 Investment Property operating leases which have been reviewed. Of the 82 Leases identified that met the agreed criteria, (where the value exceeds £250,000 and lease period is more than 15 years), only five relate to Land and Buildings, none of which are required to be reclassified as Finance Leases, (that is be treated as disposals).
19. A review of our 69 Plant & Equipment Operating Leases, in existence as at 1st April 2009 identified that essentially all are Finance Leases. This has resulted in approximately £4.6M of Plant and Equipment Assets being brought onto the Balance Sheet. A review of 2009/10 Leases identified a further 22 leases that require to be treated as Finance Leases giving rise to another £1.6M of Plant and Equipment Assets.
20. An initial review of contracts valued at more than £100,000, (a de-minimus level agreed with the Audit Commission), did not identify any embedded lease arrangements apart from potentially the Strategic Services Partnership (SSP) with Capita. The provision of IT Equipment may be required to be accounted for as a lease arrangement if material, however, a recently received interpretation of the relevant standard suggests that no embedded lease arrangement exists. In addition, consideration has been given to the recent outsourcing of Leisure Venues (including the Golf Course) and Highways Maintenance for potential embedded leases. Although it is considered unlikely that this will give rise to any material adjustments a final review in relation to the contract for the Golf Course is required.

Fixed Assets – Property Plant and Equipment

21. Method of Valuation - Members of both the Finance and Property Services have recently attended a workshop hosted by Drivers Jonas Deloitte to review the most significant impact of the new requirements. Under IFRS certain assets have to be valued differently and in some cases, more regularly.
22. Component Accounting - IFRS places greater emphasis on component accounting. Where the value of a component of an asset is significant in terms of the overall value of that asset (generally assumed at 20% of the value) and it has a substantially different useful economic life, it should be recognised separately for depreciation purposes (e.g. lifts within a building).

There is no requirement to apply these changes retrospectively and instead components should be recognised separately as and when they are replaced or when assets are revalued. Property Services are incorporating the IFRS requirements into their cyclical revaluation programme and are regularly liaising with Finance.

23. Restatement of historical revaluations - Under previous accounting regulations upwards revaluations to all assets were credited to the Revaluation Reserve. Under IFRS upwards revaluations in respect of Investment properties (those held solely for rental income or capital appreciation) are now credited directly to the Comprehensive Income and Expenditure Account. All restatement work has been completed and these entries are subsequently reversed out in the movement in reserves statement so that there is no impact on the charge to the Council Tax Payer.

Employee Benefits

24. IFRS requires that the amount of annual leave and flexi-time accrued by staff but not taken at the year end is quantified and provided for in the Comprehensive Income and Expenditure Account. The calculations for this have been prepared in respect of Teachers Pay as at both 31st March 2009 and 2010 using the CIPFA Methodology. For other staff this is unlikely to be material and therefore it is proposed that a simplistic calculation will be performed subject to agreement with the Audit Commission for both annual leave and flexi-time. The impact of this potential additional charge is offset by a transfer to a balance sheet adjustment account and does not, therefore, create an additional charge to the Council Tax Payer.

Capital Grants and Contributions

25. Under the SORP capital grants and contributions received for capital purposes were amortised over the life of the asset that they were used to finance to offset the effects of depreciation. However, under IFRS all such grants will be treated as revenue income as soon as any conditions relating to the grant have been met. In order to meet this requirement work has been completed to determine if any material grants and contributions held on the balance sheet have conditions attached. The Unapplied Capital Grants & Contributions balance of £21M (long term liabilities) remains to be reviewed to determine whether some should be reclassified as useable reserves. This is unlikely to give rise to a significant movement to useable reserves given that conditions are likely to exist at the Balance Sheet date, and the accounts have been restated on this basis.

NEXT STEPS

26. During the coming months work will continue in accordance with the timetable shown in the Appendix 1 in respect of IFRS Restatement of 2009/10 and between April and June Finance will be working to prepare the Council's accounts for 2010/11 in accordance with IFRS.

APPROVAL OF THE ACCOUNTS FOR AUDIT

27. The draft Accounts and Audit Regulations for 2010/11 have removed the requirement to have the accounts approved by Committee prior to being audited. It is not expected that this will be changed in the final regulations. This means that the Chief Financial Officer will approve the accounts for audit by 30th June, after which the annual audit will take place. The Standards & Governance Committee will still be required to approve the audited accounts by 30th September and this will be scheduled appropriately.

RESOURCE IMPLICATIONS

Capital/Revenue

28. None

Property/Other

29. None

LEGAL IMPLICATIONS

Statutory Power to undertake the proposals in the report:

30. Accounts and Audit Regulations 2003.

Other Legal Implications:

31. None

POLICY FRAMEWORK IMPLICATIONS

32. None

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	E-mail:	Andrew.Lowe@southampton.gov.uk		

SUPPORTING DOCUMENTATION

Non-confidential appendices are in the Members' Rooms and can be accessed on-line

Appendices

1.	International Financial Reporting Standards Transition Timetable
2a	2009/10 Comprehensive Income & Expenditure Account – Restated (2010 Code – IFRS)
2b	2009/10 & 2008/09 Balance Sheets – Restated (2010 Code – IFRS)
2c	2009/10 Movement in Reserves Statement – New 2010 (Code – IFRS)

Documents In Members' Rooms

1.	
2.	

Integrated Impact Assessment

Do the implications/subject/recommendations in the report require an Integrated Impact Assessment to be carried out.	Yes/No
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Other Background Documents

Title of Background Paper(s)

Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)

1.		
2.		

Integrated Impact Assessment and Other Background documents available for inspection at:

WARDS/COMMUNITIES AFFECTED:	
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Agenda Item 6

Appendix A APPENDIX 1

INTERNATIONAL FINANCIAL REPORTING STANDARDS

TRANSITION TIMETABLE

Task Ref	Task	Responsible	Comments	Deadline	Status
1	Preparation of Briefing Papers for key areas documenting SCC's approach to IFRS Transition, and supporting working papers for Audit Commission (AC) Approval	Financial Planning	Briefing Papers have been prepared along with associated working papers which now require updating and agreement with the Audit Commission	Approval by AC Early March	In Progress
2	Calculation of unpaid leave accrual: - Teacher's Holiday Pay - Other Staff Holiday Pay - Flexi Leave	Financial Planning	Calculated in Accordance with CIPFA Guidance Approach to be formally agreed with the Audit Commission	Early March	Completed In Progress
3	Review of equipment leases	Financial Planning	All leases reviewed		Completed
4	Review of the Strategic Services Partnership and recent Outsourcing arrangements for embedded Leases	Financial Planning	Contracts more than £100,000 reviewed no embedded lease arrangements identified. Review of SSP, and recent Outsourcing of Leisure Venues and Highways may give rise to some embedded leases	Early March	Completed In Progress
5	Review of asset classifications	Financial Planning / Property Services	Discussions held with Property Services being addressed through Asset Register (TechForge) Software Upgrade	March 2011	In Progress
6	Review of land / property leases	Financial Planning / Property Services	All leases more than 15 years and a value of £250,000 reviewed		Completed
7	External valuation of fixed assets	Property Services	Discussions held with Property Services with regard to the requirement to Componentise Fixed Assets as part of the Revaluation process	March 2011	In Progress
8	Design skeleton accounts in IFRS format	Financial Planning	Primary Statements have been restated with respect to 09/10 subject to outstanding adjustments	March 2011	In Progress
9	Consider budget implications of any lease re-classifications	Financial Planning	Budget implications broadly considered - detail still needs to be finalised	March 2011	In Progress
10	Re-statement of 2008/09 Balance Sheet	Financial Planning	Broadly completed subject to a couple of potential outstanding adjustments	March 2011	In Progress
11	Re-statement of 2009/10 Balance Sheet	Financial Planning	Broadly completed subject to a couple of potential outstanding adjustments	March 2011	In Progress
12	Review of Accounting Policies	Financial Planning	Accounting Policies being reviewed and amended in accordance with IFRS requirements	March 2011	In Progress
13	Audit of re-stated 2008/09 and 2009/10 Balance Sheet	Audit Commission	Should be available for Audit early March 2011	Early March 2011	Not Started
14	Completion of audit and approval of 2010/11 IFRS based accounts	Audit Commission	Annual Audit July onwards	September 2011	Not Started

COMPREHENSIVE INCOME & EXPENDITURE ACCOUNT

Code 2010 Basis

Restated

	Restated		
	<u>2009/10</u>		
	<u>Gross Expenditure</u> £000's	<u>Income</u> £000's	<u>Net Expenditure</u> £000's
Central Services to the Public	26,874	(20,622)	6,252
Cultural, Environmental Regulatory and Planning Services	85,869	(35,638)	50,231
Children's and Education Services	233,139	(173,093)	60,046
Highways and Transport Services	29,907	(16,531)	13,376
Local Authority Housing (HRA)	55,021	(84,379)	(29,358)
Other Housing Services	117,708	(108,877)	8,831
Adult Social Care	88,362	(28,606)	59,756
Corporate and Democratic Core	5,278	(409)	4,869
Non Distributable Costs	3,799	(36)	3,763
Exceptional Items	0	0	0
Equal Pay Provision		0	
Vat Refund - Fleming Cases	0	(2,733)	(2,733)
Net Cost of Services	645,957	(470,924)	175,033
Loss / (Gain) on the disposal of Fixed Assets			(818)
Contributions to Other Local Authorities			593
Contributions of Housing Capital Receipts to Government Pool			1,704
Other Operating Expenditure			1,479
Investment Properties (Impairment net of Income)			(20,746)
Interest payable and similar charges			8,093
Interest and Investment Income			(1,575)
Pensions Interest Costs & Expected Return on Assets			22,520
Financing, and Investment Income & Expenditure			8,292
Demand on Collection Fund			(80,960)
General Government Grants			(29,974)
Capital Grants not Relating to Specific Services			(23,100)
Non - Domestic Rates Redistribution			(79,846)
Taxation and Non-Specific Grant Income			(213,880)
Deficit / (Surplus) on the Provision of Services			(29,076)
Surplus or deficit on revaluation of non current assets			(5,518)
Surplus or deficit on revaluation of available for sale financial assets			(12)
Actuarial (gains) / losses on pension assets / liabilities			94,850
Share of other Comprehensive Expenditure & Income of associates & joint ventures			-
Total Comprehensive Income and Expenditure			60,244

* Replaces STRGL

BALANCE SHEET

Restated 2008/09 31-Mar-09 £000's		Restated 2009/10 31-Mar-09 £000's	£000's
712	Intangible Assets		609
	Property Plant & Equipment		
663,310	Council Dwellings	697,606	
658,410	Other Land & Buildings	669,044	
10,066	Vehicles, Plant & Equipment	12,836	
96,951	Infrastructure	108,868	
9,734	Assets under construction (Confirm no Investment Props.)	4,818	
1,438,471			1,493,172
123,957	Investment Property	133,567	
0	Surplus Assets Held for Disposal	8,111	
123,957			141,678
9,351	Long Term Investments		6,412
2,907	Long Term Debtors		2,643
12,258			
	Current Assets		
1,239	Stock (Inventories)	1,340	
48,110	Short Term Debtors	56,932	
(13,308)	Bad Debt Provision	(12,864)	
15,260	Short Term Investments	30,019	
6,814	Cash & Cash Equivalents	10,821	
288	Assets held for Sale	0	
58,403			86,248
	Current Liabilities		
(49,853)	Short Term Borrowing	(51,078)	
(64,655)	Short Term Creditors	(76,088)	
(2,470)	Bank Overdraft	(5,689)	
(116,978)			(132,855)
(79,279)	Long Term Borrowing		(104,920)
(53,034)	Long Term Creditors		(51,698)
(8,252)	Provisions		(9,081)
	Other Long Term Liabilities - Gov. Grants & Conts Deferred	0	
(19,987)	- Deferred Liabilities	(19,188)	
(92)	- Deferred Capital Balances	(58)	
(21,054)	- Cap. Grants & Conts Unapplied	(27,061)	
(297,970)	- Pension Fund Liability	(408,990)	
(339,103)			(455,297)
(479,668)	Long Term Liabilities		(753,851)
1,037,155	Net Assets		976,911
	Financed By:		
	Unuseable Reserves		
52,185	Revaluation Reserves	56,694	
1,233,947	Capital Adjustment Account	1,283,053	
334	Available-for-Sale Financial Instruments Reserve	346	
327	Financial Instruments Adjustment Account	621	
(297,970)	Pension Reserve	(408,990)	
3,427	Council Tax Adjustment Account	3,467	
(2,424)	Short-term Accumulating Compensated Absences Account	(3,017)	
989,825			932,174
	Useable Reserves		
0	Cap. Grants & Conts Unapplied	0	
6,015	Useable Capital Receipts Reserve	1,074	
23,612	Earmarked Revenue Reserves	22,225	
	Revenue Balances		
15,316	General Fund	19,849	
2,387	Housing Revenue Account	1,589	
47,330			44,737
1,037,155			976,911

MOVEMENT IN RESERVES STATEMENT (MIRS)

For the years ended 31 March 2010 & 2011

APPENDIX 2c

	General	Earmarked	Housing	Earmarked	School	Capital	Major	Govern	Total	Unusable	Total
	£000's	GF Reserves	Revenue Account	HRA Reserves	Balances Reserve	Receipts Reserve	Repairs Reserve	Grants & Conts unapplied	Usable Reserves	Reserves	Authority Reserves
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Balance at 31 March 2009	(15,316)	(6,972)	(2,387)	(10,114)	(6,526)	(6,015)	0	0	(47,330)	(948,118)	(995,448)
Adjustment (Change in Accounting Policy)									0	(41,707)	(41,707)
Movement in reserves during 2009/10	(15,316)	(6,972)	(2,387)	(10,114)	(6,526)	(6,015)	0	0	(47,330)	(989,825)	(1,037,155)
Surplus or (deficit) on provision of services	(29,076)										(29,076)
Other Comprehensive Expenditure and Income	0	0	0	0	0	0	0	0	0	66,987	66,987
Total Comprehensive Expenditure and Income	(29,076)	0	0	0	0	0	0	0	(29,076)	66,987	37,911
Adjustments between accounting basis & funding basis under regulat	26,525	0	798	0	0	8,448	68	0	35,839	(14,884)	20,955
Net Increase/Decrease before Transfers to Earmarked Reserves	(2,551)	0	798	0	0	8,448	68	0	6,763	53,481	60,244
Transfers to/from Earmarked Reserves	(1,982)	(1,664)	0	3,831	(780)	(3,507)	(68)	0	(4,170)	4,170	0
Increase/Decrease (movement) in Year	(4,533)	(1,664)	798	3,831	(780)	4,941	0	0	2,593	57,651	60,244
Balance at 31 March 2010 carried forward	(19,849)	(8,636)	(1,589)	(6,283)	(7,306)	(1,074)	0	0	(44,737)	(932,174)	(976,911)
Movement in reserves during 2010/11											
Surplus or (deficit) on provision of services	0								0	0	0
Other Comprehensive Expenditure and Income	0	0	0	0	0	0	0	0	0	0	0
Total Comprehensive Expenditure and Income	0	0	0	0	0	0	0	0	0	0	0
Adjustments between accounting basis & funding basis under regulat	0	0	0	0	0	0	0	0	0	0	0
Net Increase/Decrease before Transfers to Earmarked Reserves	0	0	0	0	0	0	0	0	0	0	0
Transfers to/from Earmarked Reserves	0	0	0	0	0	0	0	0	0	0	0
Increase/Decrease (movement) in Year	0	0	0	0	0	0	0	0	0	0	0
Balance at 31 March 2011 carried forward	(19,849)	(8,636)	(1,589)	(6,283)	(7,306)	(1,074)	0	0	(44,737)	(932,174)	(976,911)

Agenda Item 7

DECISION-MAKER:	AUDIT COMMITTEE
SUBJECT:	INTERNAL AUDIT: INTERNAL AUDIT PLAN 2011 - 2012
DATE OF DECISION:	17 MARCH 2011
REPORT OF:	CHIEF INTERNAL AUDITOR
STATEMENT OF CONFIDENTIALITY	
Not Applicable	

BRIEF SUMMARY

The aim of internal audit's work programme is to provide independent and objective assurance to management, in relation to the business, activities, systems or processes under review that:

- the framework of internal control, risk management and governance is appropriate and operating effectively; and
- risk to the achievement of the Council's objectives is identified, assessed and managed to a defined acceptable level.

The internal audit plan provides the mechanism through which the Chief Internal Auditor can ensure most appropriate use of internal audit resources to provide a clear statement of assurance on risk management, internal control and governance arrangements.

Internal Audit focus should be proportionate and appropriately aligned. Currently only medium and high priority reviews are incorporated within the Strategic Audit Plan.

All low priority review areas remain within the audit universe and reassessed on an annual basis however are not routinely incorporated in the planning process if continued to be assessed as a low priority.

The audit plan will remain fluid and a contingency provision will be incorporated to ensure internal audit availability should the risk environment change during the year

Other reviews, based on criteria other than risk, may also be built into the work plan. These may include "mandatory" audits or reviews requested or commissioned by management. Any commissioned review must be able to clearly demonstrate contribution to the audit opinion on risk management, control and governance.

RECOMMENDATIONS:

- (i) The Audit Committee is invited to comment on and approve the Internal Audit Plan for 2011/12 as attached.

REASONS FOR REPORT RECOMMENDATIONS

1. In accordance with proper internal audit practices and the Internal Audit Strategy, the Audit Committee is required to approve, but not direct, the Internal Audit Plan.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. None

DETAIL (Including consultation carried out)

3. The plan has been designed in line with the Internal audit strategy and

reflects recognised good practice to ensure due consideration is given to the following core principles of good governance to support the Annual Governance Statement:

- focus on the Council's defined purpose and outcomes;
 - effective performance in clearly defined functions and roles;
 - promoting values that underpin good governance;
 - taking informed and transparent decisions within a framework of controls and managing risk;
 - development of the capacity and capability of members and officers to be effective; and
 - engaging stakeholders to ensure robust public accountability.
4. The work plan is aligned with the Council's business planning framework to ensure it contains the main business processes, projects, assets, performance and compliance issues significant to the Council's strategic direction, risk environment and business goals.
 5. Auditable units have been selected and prioritised on a rational and objective basis, following a systematic appraisal, in consultation with management, including the following predictive factors:
 - Materiality;
 - Corporate importance;
 - Vulnerability;
 - Significant change;
 - Previous assurance; and
 - Management concern
 6. Consideration has been given to the assurance work carried out by others, such as those responsible for the governance of the Council, the external auditors and other review bodies, to avoid duplication and maximise use of available assurance resources.
 7. The Annual operational plan 2011/12 will be resourced through a staffing complement of 6.4 FTE supplemented with an element of "bought in" resources from an external partner provider, delivering a total of 1150 direct audit days.
 8. The audit plan is indicative; it will be subject to ongoing review and amendment, in consultation with the relevant Executive Directors and Audit Sponsors, to ensure it continues to reflect the needs of the Council.
 9. Amendments to the plan will be identified through the Internal audit team's continued contact and liaison with those responsible for the governance of the Council (i.e. COMT, Audit Committee, Policy Coordinators and the Audit Commission).
 10. The type of "review" undertaken will be determined in consultation with the relevant Audit Sponsor. The range of review type includes:
Risk based audit: review of design and operation of controls in place to mitigate key risks to the achievement of defined objectives. Any audit work

intended to provide an audit opinion will be undertaken using this approach.

Developing systems audit: review of plans and designs of systems under development; and/or assessment of programme/project management controls.

Compliance audit: a limited review, covering only the operation of controls in place to fulfil statutory, good practice or policy compliance obligations.

Quality assurance review: review of approach and competency of other reviewers/assurance providers to form an opinion on the reliance that can be placed on the findings and conclusions arising from their work.

Consultancy or advisory services: provision of advice, either through formal review and reporting or more informally through discussion or briefing, on the framework of internal control, risk management and governance. It should be noted that it would not be appropriate for an auditor to become involved in establishing or implementing controls or to assume any operational responsibilities and that any consultancy or advisory work undertaken must not prejudice the scope, objectivity and quality of future audit work.

Fraud and irregularity investigations: provision of specialist skills and knowledge to assist in or lead an investigation as appropriate; and/or review of fraud prevention controls and detection processes.

11. Executive Directors and/or their nominated Heads of Service will be involved in the scoping of the reviews to ensure they are appropriately focused on the key risks to delivery of agreed objectives. The detailed planning stage for each review may result in reviews being combined, extended or replaced. A “Terms of reference” will be produced prior to the commencement of each review to ensure the scope and objectives of the review are understood and agreed.

RESOURCE IMPLICATIONS

Capital/Revenue

12. None

Property/Other

13. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

14. The Accounts and Audit (Amendment) (England) Regulations 2006 require the Council 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’.

Other Legal Implications:

15. None

POLICY FRAMEWORK IMPLICATIONS

16. None

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KEY DECISION? No

WARDS/COMMUNITIES AFFECTED:	
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SUPPORTING DOCUMENTATION

Non-confidential appendices are in the Members' Rooms and can be accessed on-line

Appendices

1.	Internal Audit: Internal Audit Plan 2011/12
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Documents In Members' Rooms

1.	None
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Integrated Impact Assessment

Do the implications/subject of the report require an Integrated Impact Assessment (IIA) to be carried out.	No
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Other Background Documents

Integrated Impact Assessment and Other Background documents available for inspection at:

Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	None

1.	None
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Internal Audit Plan 2011/12

Summary

Review area	Days
Corporate Cross Cutting Reviews	167
Corporate Governance Reviews	58
Transformational Project Reviews	20
Financial Management Reviews	143
Information System Reviews	67
Key Priority – Providing good value, high quality services	50
Key Priority – Getting the city working	40
Key Priority – Investing in education and training	125
Key Priority – Keeping people safe	35
Key Priority – Keeping the city clean and green	60
Key Priority – Looking after people	115
Other Direct Audit Activity	270
Total Direct Audit Days	1150
Total Number of Reviews	65
Total Available Audit Days	1150

Corporate Cross Cutting Reviews

Review	Audit Sponsor	Days
Partnerships and shared services	CP&ED	20
Use of Transport (inc Fleet Transport)	ENV	15
Corporate business continuity and emergency planning	NBH	12
Corporate Property Strategy (and Asset Management Plan)	RES	15
Compliance with health and safety legislation	RES	20
Information governance	RES	15
Human Resources	RES	15
Procurement and Contract Management	RES	20
Strategic service partnership	RES	15
Corporate communications and marketing	SOL	20
Total Days		167

Corporate Governance Reviews

Review	Audit Sponsor	Days
Policy and Corporate Performance Management	CP&ED	15
Annual Governance Statement	RES	8
Fraud Thematic Review	RES	20
Precautions against fraud	RES	15
Total Days		58

Transformational Project Reviews

Review	Audit Sponsor	Days
Building Schools for the Future (Mayfield Academy)	CS&L	5
Town Depot Relocation	ENV	5
Sea City Museum	NBH	5
Southampton New Arts Centre (SNAC)	NBH	5
Total Days		20

Financial Management Reviews

Review	Audit Sponsor	Days
Housing rent collection and debt management	NBH	12
Housing and Council Tax Benefits administration	RES	12
Cash collection and banking	RES	12
Creditors	RES	10
Debtors	RES	10
Financial Management	RES	10
Council Tax	RES	10
NNDR	RES	10
Main Accounting System	RES	10
Payroll	RES	10
Schools Payroll (third party)	CS&L	15
Treasury and Cash Flow Management	RES	10
Rents - general	RES	12
Total Days		143

Information System Reviews

Review	Audit Sponsor	Days
IT Governance	RES	25
Computer installations and operations	RES	15
IS strategy, planning and standards	RES	12
IT solutions development and support	RES	15
Total Days		67

Key Priority – Providing good value, high quality services

Review	Audit Sponsor	Days
Efficiency Programme	CP&ED	15
Joint Commissioning	CS&L	20
Parking Services and City Patrol	NBH	15
Total Days		50

Key Priority – Getting the city working

Review	Audit Sponsor	Days
Highways futures	ENV	15
Plus You Limited (Succession Strategy)	CP&ED	15
Grants to Voluntary Organisations	NBH	10
Total Days		40

Key Priority – Investing in education and training

Review	Audit Sponsor	Days
Across Schools thematic reviews (x2)	CS&L	50
General school reviews (x4)	CS&L	40
Post 16 Provision	CS&L	5
Pupil Support Services (PRU)	CS&L	15
Libraries	NBH	15
Total Days		125

Key Priority – Keeping people safe

Review	Audit Sponsor	Days
Safeguarding - Foster Care and Adoption	CS&L	20
Licensing	SOL	15
Total Days		35

Key Priority – Keeping the city clean and green

Review	Audit Sponsor	Days
Street Lighting PFI	ENV	15
Environmental Health	ENV	15
Sustainability (Carbon Reduction)	ENV	15
Street cleansing and Parks & Open Spaces	NBH	15
Total Days		60

Key Priority – Looking after people

Review	Audit Sponsor	Days
Locality Teams	CS&L	20
Sports and recreation partnership	NBH	15
Putting People First (In Control)	H&ASC	15
Provider services	H&ASC	15
Direct payments	H&ASC	10
Day Services - Thematic Review	H&ASC	20
Building Works - Housing Repairs and Maintenance	NBH	20
Total Days		115

Other Direct Audit Activity

Review	Audit Sponsor	Days
Hampshire Camera Partnership	-	5
National Fraud Initiative	-	50
European funding	-	20
Audit Commission Liaison	-	20
Audit Committee support/ member liaison	-	25
Special Commissions / Contingency	-	150
Total Days		270

Total Direct Audit Days 1150

Total Number of Reviews 65

Total Available Audit Days 1150

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Agenda Item 9

DECISION-MAKER:	AUDIT COMMITTEE
SUBJECT:	INTERNAL AUDIT: STATUS OF WORK February 2011
DATE OF DECISION:	17 MARCH 2011
REPORT OF:	CHIEF INTERNAL AUDITOR

STATEMENT OF CONFIDENTIALITY

The confidential appendix attached to this report is exempt from publication under Categories 2 and 7 of paragraph 10.4 of the Council's Access to Information Procedure Rules. The information contained therein is exempt as it relates to ongoing investigations and is likely to reveal the identities of individuals. Having applied the public interest test it is not appropriate to disclose this information. The interests of any parties involved in these investigations could be jeopardised by the release of the information.

BRIEF SUMMARY

Under the Accounts and Audit (Amendment) (England) Regulations 2006, 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 internal audit practices.

In accordance with proper internal audit practices and the Internal Audit Strategy, the Chief Internal Auditor is required to provide a written status report to the Audit Committee, summarising:

- progress in implementing the audit plan;
- internal audit reviews in progress;
- audit opinion on all internal audit reviews completed since the last report and executive summaries of published reports where critical weaknesses or unacceptable levels of risk were identified;
- the status of 'live' reports, i.e. those where internal audit work is completed and actions are planned to improve the framework of governance, risk management and management control; and
- internal audit reviews closed since the last report.

The appendix summarises the activities of internal audit for the period ending February 2011.

RECOMMENDATIONS:

- (i) To note the Internal Audit Status of Work report for the period ending February 2011 as attached.

REASONS FOR REPORT RECOMMENDATIONS

1. In accordance with proper internal audit practices and the Internal Audit Strategy, the Audit Committee is required to receive the Chief Internal Auditor's status report.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. None

DETAIL (Including consultation carried out)

3. The status report for the period ending February 2011 is attached for consideration in the appendix.
4. The Status of Work report for the period ending February 2011 has been received by the Chief Officers' Management Team.

RESOURCE IMPLICATIONS

Capital/Revenue

5. None

Property/Other

6. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

7. The Accounts and Audit (Amendment) (England) Regulations 2006 require the Council 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'.

Other Legal Implications:

8. None

POLICY FRAMEWORK IMPLICATIONS

9. None

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KEY DECISION? No

WARDS/COMMUNITIES AFFECTED:	N/A
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SUPPORTING DOCUMENTATION

Non-confidential appendices are in the Members' Rooms and can be accessed on-line

Appendices

1.	Internal Audit: Status of Work Report period ending February 2011
2.	Internal Audit: Status of Work Report period ending February 2011 – Confidential Addendum

Documents In Members' Rooms

1.	None
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Integrated Impact Assessment

Do the implications/subject of the report require an Integrated Impact Assessment (IIA) to be carried out.	No
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Other Background Documents

Integrated Impact Assessment and Other Background documents available for inspection at:

Title of Background Paper(s)

Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)

1.	None
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SUBJECT:	Internal Audit: Status of Work
MEETING:	Audit Committee
DATE OF MEETING:	17 March 2011
REPORT OF:	Chief Internal Auditor
REPORT DATE:	18 February 2011

1 Opinion definitions

Opinion	Framework of governance, risk management and management control
Substantial assurance [G]	A sound framework in place that is operating effectively. Some immaterial evidence of inconsistent application.
Adequate Assurance [A1]	Basically a sound framework in place but with recurring evidence of inconsistent application.
Limited assurance [A2]	Critical weakness(es) identified within the framework and / or significant evidence of inconsistent application.
No assurance [R]	Fundamental weaknesses have been identified or the framework is ineffective or absent.
Closed [X]	Management has confirmed that all identified framework weaknesses have been appropriately addressed.

2 Status of 'live' reports:

Audit title	Report date	Audit Sponsor	Directorate	Opinion		Original actions (of which are 'high' priority)	Actions outstanding
				Original	Current		
Payroll	23/03/10	Executive Director of Resources	Resources	G	G	3 (2)	1 (1)
Creditors	31/03/10	Executive Director of Resources	Resources	G	G	5 (0)	2 (0)
Decent Homes	11/05/10	Executive Director of Neighbourhoods	Neighbourhoods	A1	G	7 (1)	1 (0)
Fuel Management and Fleet Workshop	13/07/10	Executive Director, Environment Executive Director, Neighbourhoods	Environment Neighbourhoods	A2	G	14 (6)	1(0)
Data Management – Children Services	05/08/10	Executive Director, Children Services and Learning	Children Services and Learning	A1	G	12 (9)	2 (1)
Hollybrook Junior School	13/09/10	Executive Director, Children Services and Learning	Children Services and Learning	G	G	8 (1)	1 (0)
Application and Software Management	12/10/10	Interim Executive Director of Resources	Resources	A2	G	6 (0)	4 (0)
Network Management and Security	12/10/10	Interim Executive Director of Resources	Resources	A2	A1	17 (0)	10 (0)

Audit title	Report date	Audit Sponsor	Directorate	Opinion		Original actions	Actions outstanding
				Original	Current	(of which are 'high' priority)	
Vermont School	19/11/10	Executive Director, Children Services and Learning	Children Services and Learning	A1	A1	9 (1)	9 (1)
St Johns Primary and Nursery School	22/11/10	Executive Director, Children Services and Learning	Children Services and Learning	A2	A2	5 (2)	5 (2)
Council Tax	13/01/11	Interim Executive Director of Resources	Resources	G	G	3 (0)	3 (0)
Thornhill Plus You	31/01/11	Executive Director Corporate Policy and Economic Development	Corporate Policy and Economic Development	A2	A2	15 (2)	13 (2)
Pathways Financial Payments	08/02/11	Executive Director, Children Services and Learning	Children Services and Learning	R	A2	15 (15)	7 (7)
Creditors	15/02/11	Interim Executive Director of Resources	Resources	G	G	3 (0)	3 (0)
Expense Management	21/02/11	Interim Executive Director of Resources	Resources	A1	A1	13 (0)	13 (0)
Payroll	21/02/11	Interim Executive Director of Resources	Resources	G	G	2 (0)	2 (0)

3 Executive summaries of new reports published where critical weaknesses or unacceptable levels of risk were identified:

Audit title: Thornhill Plus You (31/01/11)

Original published audit opinion: Limited Assurance [A2]

Current audit opinion: Limited Assurance [A2]

Executive summary:

The forecast for 2010/11 reported that the grant allocated for the year would be fully spent. However, at the time of the audit an amount of £1m remained to be allocated with regard to the under spends and the non approval of use of capital receipts for PYL projects. Due to the relative timescales for project approval assurances could not be given that such funding would be fully reallocated and spent and therefore there is a high possibility that repayment will be requested by CLG on such under spends.

Subsequently, an additional £328k of 2010/11 funding remained unallocated at the time of the audit. Although assurance was provided by the NDC Programme Director that all allocations would be spent by the end of the programme, this could not be substantiated through evidence or approved projects.

Review of the delivery plan for year 10 as published by TPY highlighted that, although the bottom line figure agrees to the finance budget the projects were showing movements. No audit trail was evident to support reallocations, exposing the programme to potential challenge from CLG. Although amounts were not considered material, if they have not been appropriately approved there remains a potential claw back from Southampton City Council as the Accountable Body.

No evidence could be found of any procurement procedures followed in the conduct of projects (other than those lead by SCC) to ensure that value for money was achieved whilst contracting to the best supplier. The Programme Director was of the opinion that this is the responsibility of the projects and therefore TPY would not get involved. However, it is the responsibility of TPY to ensure that the Accountable Body financial and contract procedure rules are adhered to unless CLG guidance supersedes.

The successor bodies require projects to deliver a flow of income to succeed and if non continuation of their activities occurs, there is potential of claw back by CLG and therefore the Accountable Body will be liable. In the absence of appropriate funding agreement letters or legal charge detailing that the Council as the Accountable Body will in turn claw back funds from the projects, the Accountable Body will be liable for repayment.

During the audit no detailed action plan was in place in respect of close down procedures for TPY to ensure a successful handover from TPY to PYL and a clear distinction between assets belonging to PYL and SCC.

Although PYE was trading and the companies set up through PYL were generating income, there is a transitional period between the close of TPY and the approval of the succession strategy which leaves PYL in receipt of only a small revenue stream which will not cover all costs associated with the future demands of the companies. This is in the process of being reviewed; however, no assurances can be provided that contingencies are in place to financially support PYL and PYE to eliminate the claw back risk on the Accountable Body. Post completion of the audit review, PYE ceased trading.

Management actions and update:

A management action plan has been compiled to mitigate identified risks

Audit title: St Johns Primary School (23/11/10)

Original published audit opinion: Limited Assurance [A2]

Current audit opinion: Limited Assurance [A2]

Executive summary:

Regular budget monitoring by the Admin Officer, the Headteacher and Governors ensured that the school remained within budget. The School Development Plan (SDP) detailed financially appraised action plans for 2009/10; however, only limited monitoring of these cost allocations was performed and reported

Financial processes were performed primarily by the Admin Officer with the Headteacher authorising expenditure where possible, to ensure segregation of duties for income collection and banking was achieved.

Despite this the schools financial controls and procedures were found to be inadequate or absent with regard lettings and charges; income collection and banking; cash security; contract register; purchase orders; invoice administration; imprest account; unofficial account and retention policy

Significant risk of loss and misappropriation was evident with regard schools income as staff on occasions took income home prior to banking.

Additionally no procedures were evident to ensure records were maintained of staff business interests, gifts and hospitality received or formal training attended.

An asset inventory was maintained by the school but was incomplete and evidence of regular checks were not documented. The school has a minibus for school business and although adequate operating policies and procedures were found to be in place there was no control to continuously monitor eligibility of drivers.

Management actions and update:

A management action plan has been compiled to mitigate identified risks

4 Internal Audit Performance

Internal Audit has been assessed as fully compliant with the CIPFA Code of Practice by the Audit Commission in their triennial review of the service.

Results from a survey conducted earlier this year demonstrate that management are largely satisfied with the internal audit service and its ability to contribute to the Council's control environment and assist in achieving its objectives.

Survey Question	Response - Good, Very Good or Excellent
How do you rate the service provided by Internal Audit	83.3%
Survey Question	Response - Yes
The internal audit service makes an effective contribution to the Council's control environment?	89.1%
Internal audit is of value and assists the Council in achieving its objectives?	91.5%

5 Planning and Resourcing

With effect from 1 November 2010 Southampton City Council and Hampshire County Council have been working in collaboration to deliver a shared approach for the provision of Internal Audit Services. The agreement introduces a shared Chief Internal Auditor role across both authority's in which three days a week is directed to fulfilling responsibilities at Hampshire County Council and two days at Southampton City Council

Delivery of internal audit services within each of the Council's will remain largely unchanged with two discrete teams operating to exclusive strategic audit plans appropriately aligned to the individual authority's priorities and objectives. Service responsibilities within the Southampton City Council internal audit service have been appropriately realigned to ensure continuity of service; with the Chief Internal Auditor maintaining key strategic responsibilities.

This is a significant opportunity to develop a shared service approach for the provision of the Internal Audit Service generating immediate efficiency savings and potential for the development of future savings through shared resources in areas of expertise including IT specialisms and economies of scale generated through training and development.

6 Rolling work programme

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
<u>2010/11 Audit Plan</u>					
Annual Governance Statement	✓	✓	✓	✓	19/05/10
Hampshire Camera Partnership	✓	✓	✓	✓	24/05/10
Abandoned Vehicles	✓	✓	✓	✓	22/06/10
Bereavement Services	✓	✓	✓	✓	03/08/10
Solent Sea Rescue	✓	✓	✓	✓	09/08/10
Safeguarding – Contact Scheme	✓	✓	✓	✓	13/08/10
General School Review – Holybrook Junior	✓	✓	✓	✓	13/09/10
Main Accounting System	✓	✓	✓	✓	21/09/10
NNDR	✓	✓	✓	✓	05/10/10

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
Sports and Recreation Partnership	✓	✓	✓	✓	06/10/10
Housing Rent and Collection	✓	✓	✓	✓	29/10/10
Thornhill Plus You	✓	✓	✓	✓	21/01/11
General School Review - St Johns Primary School	✓	✓	✓	✓	23/11/10
General School Review - Vermont School	✓	✓	✓	✓	19/11/10
Housing and Council Tax Benefit Administration	✓	✓	✓	✓	15/12/10
Council Tax	✓	✓	✓	✓	13/01/11
Creditors	✓	✓	✓	✓	15/02/11
Pathways	✓	✓	✓	✓	08/02/11
Local and multi area agreement	✓	✓	✓	✓	26/01/11
General School review – St Marks	✓	✓	✓	✓	21/02/11

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
Expenses Management	✓	✓	✓	✓	21/02/11
Payroll	✓	✓	✓	✓	21/02/11
Fraud Thematic – Proprietary Checks	✓	✓	✓	✓	
Section 106 agreements	✓	✓	✓	✓	
Sport Development and Active Options	✓	✓	✓	✓	
Debtors	✓	✓	✓	✓	
Intermediate Care	✓	✓	✓	✓	
Provider Services	✓	✓	✓	✓	
VAT Accounting	✓	✓	✓		
Heating Charges (Audit Commission)	n/a	✓	✓		
Housing Management	✓	✓	✓		

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
Customer services	✓	✓	✓		
Partnership Governance and Reviews	✓	✓			
Highways futures	✓	✓			
School admissions	✓	✓			
Contract management	✓	✓			
Procurement	✓	✓			
Project management	✓	✓			
Strategic service partnership	✓	✓			
Across School Thematic	✓	✓			
European Funding	n/a	✓			
National Fraud Initiative	n/a	✓			

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
Cash collection and banking	✓				
IS security management	✓				
IS strategy and service delivery	✓				
Internet/e-mail	✓				
Joint Commissioning Standards					
Repairs and Maintenance					
Asset management					
Street Lighting PFI					
Financial Management Standards in Schools	8 of 22 complete (see summary below)				

FMSiS Analysis				
Schools Assessed (2010-11)	Pass	Conditional	Not Achieved	Comments
8	3	5		<p>The end of the Financial Management Standard in Schools (FMSiS)</p> <p>Michael Gove, Secretary of State for Education, announced [15 November 2010] the decision to end the current Financial Management Standard in Schools (FMSiS) with immediate effect. A simpler standard will be developed as a replacement and is expected to be introduced next year.</p>

7 Status of 'Live' External Audit

Audit title	Report date	Audit Sponsor	Directorate	Original actions	Actions outstanding
				(of which are 'high' priority)	
Final Accounts memo	Dec 08	Executive Director of Resources	Resources	5 (1)	1 (0)
Annual Governance Report	Sept 10	Executive Director of Resources	Resources	4 (4)	4 (4)

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date	Progress / Update
Final Account Memo							
Registration of assets with the Land Registry							
-	The registration of ownership of Land & Buildings with the Land Registry should be continued until completed.	2	John Spiers	Yes	This work is undertaken by Legal Services who have taken on a temporary contract solicitor to undertake the work. The contract will continue as there is still a lot of work to do. The resources portfolio work is now well underway.	Ongoing	Ongoing
Annual Governance Report 2009/10							
Record of electricity meters in dwellings							
-	Review the record of electricity meters and implement a more effective database and system of controls.	3	Utilities Manager Decent Homes	Yes	Work is underway to trial new software for the monitoring and estimating process of the utility supplies. It is a dedicated database for the utility market and will hold all site information and enable estimates to be established more easily in the future and the monitoring of information to continue. Access has been arranged for Council staff to use this software on a sample of data to review its capabilities. If deemed	Apr 11	The trial of the new software has been undertaken <ul style="list-style-type: none"> • First impressions are good • Minor issues to be clarified by supplier • Offers advances over existing spreadsheets • Increase data analysis and recording

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date	Progress / Update
					suitable and appropriate the aim is to have this software operational for the start of the new financial year.		<ul style="list-style-type: none"> Improve financial monitoring and forecasting <p>Next Steps</p> <ul style="list-style-type: none"> Carry out parallel running between the two systems between March and June Full running of the software from July onwards
	Confirm the designation of electricity meters.	3	Utilities Manager Decent Homes	Yes	In January 2010 there were circa 2,500 meters, this is a constantly changing figure as meters are removed and added. Of these 2,500 meters we are actively working on a small minority (57) of these with SSE to determine whether these are in operation or have been removed, any funds paid on account on these meters can easily be removed from the heating account if subsequently they are found not to be in place. There are 665 meters that are known to exist but the designation needs to be confirmed by visually checking the cabling to these meters and determining whether these are communal heating or lighting supplies. The investigatory work to check these 722 sites has	Oct 10	Verbal update to be provide at Audit Committee

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date	Progress / Update
					commenced and the data collected including serial numbers and readings will be used to update records. This has been requested to be completed by the end of October with any problem areas being addressed during November 2010.		
	Establish the extent of the errors in meter records and whether it is possible to assess the impact on past charges to tenants and leaseholders.	3	Utilities Manager Decent Homes and Corporate Finance	Yes	Following the outcome of the meter review the number of errors will be known and this can be used to establish any possible financial impact	Dec 10	Analysis underway - to be finalised following completion of the meter survey.
	Review the record of gas meters to determine if there are similar weaknesses in these records and how improvements can be made.	3	Utilities Manager Decent Homes and Housing Finance Support	Yes	Each gas meter is within a tenants home therefore if we do not gain access to the home we cannot receive an actual read/bill and rely on estimates. As we carry out a gas safety check on all properties annually we will instruct our engineers to complete a serial number and meter readapt that point and this will be passed to our gas supplier for invoicing purposes. Each gas meter is within the tenant's property, therefore there is not the same potential of incorrect allocation of heating costs as with electric meters	Apr 11	Ongoing

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Agenda Item 9

Appendix 2

Document is Confidential

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DECISION-MAKER:	AUDIT COMMITTEE
SUBJECT:	AUDIT COMMISSION: AUDIT AND INSPECTION PROGRESS REPORT
DATE OF DECISION:	17 MARCH 2011
REPORT OF:	CHIEF INTERNAL AUDITOR
STATEMENT OF CONFIDENTIALITY	
Not Applicable	

BRIEF SUMMARY

The audit and inspection plan is based on the Audit Commission's risk-based approach to audit planning as set out in the Code of Audit Practice

An update on progress against the Plan(s) is attached as appendices to this report.

Funding from government grant-paying departments is an important income stream for the Council. The Council needs to manage claiming this income carefully. It needs to prove that it has met the conditions which attach to these grants.

The 'Certification of claims and returns – annual report 2009/10' summarises the findings from the Audit Commission's certification of 2009/10 claims. It includes the messages arising from their assessment of the Council's arrangements for preparing claims and returns and information on claims that were amended or qualified.

RECOMMENDATIONS:

- (i) To note the Audit Commission's reports as attached.

REASONS FOR REPORT RECOMMENDATIONS

1. The Audit Committee's Terms of Reference require it 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 external auditors. Specifically, the Committee has responsibility for oversight of the reports of external audit.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. None

DETAIL (Including consultation carried out)

3. The following Audit Commission reports are attached for consideration in the appendix:
 - Certification of Claims and Returns – Annual Report 2009/10
 - Progress report – March 2011

The external auditor will be in attendance at the Committee meeting to answer any questions

The reports, as attached, have been discussed and agreed with the appropriate officers.

RESOURCE IMPLICATIONS

Capital/Revenue

4. None

Property/Other

5. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

6. The Accounts and Audit (Amendment) (England) Regulations 2006 require the Council 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'.

Other Legal Implications:

7. None

POLICY FRAMEWORK IMPLICATIONS

8. None

AUTHOR:	Name:	Neil Pitman	Tel:	023 8083 4616
	E-mail:	Neil.pitman@southampton.gov.uk		

KEY DECISION? No

WARDS/COMMUNITIES AFFECTED:	N/A
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SUPPORTING DOCUMENTATION

Non-confidential appendices are in the Members' Rooms and can be accessed on-line

Appendices

1.	Audit Commission: Certification of Claims and Returns – Annual Report 2009/10
2.	Audit Commission: Progress report – March 2011

Documents In Members' Rooms

1.	None
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Integrated Impact Assessment

Do the implications/subject of the report require an Integrated Impact Assessment (IIA) to be carried out.	No
--	----

Other Background Documents

Integrated Impact Assessment and Other Background documents available for inspection at:

Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
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1.	None
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Certification of claims and returns - annual report

Southampton City Council

Audit 2009/10

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Summary

Funding from government grant-paying departments is an important income stream for the Council. The Council needs to manage claiming this income carefully. It needs to prove that it has met the conditions which attach to these grants.

This report summarises the findings from the certification of 2009/10 claims. It includes the messages arising from my assessment of your arrangements for preparing claims and returns and information on claims that we amended or qualified.

Certification of claims and returns

1 The Council receives about £117.4 million of funding from various grant paying departments. It also made four returns to government departments totalling £104.1 million that we certified, including the £90.4 million National Non-Domestic Rates Return. Those departments attach conditions to grants and returns and the Council must show that it has met those conditions. If it cannot evidence this, the funding might be at risk. It is therefore important that the Council manages certification work properly and can prove that it has met the relevant conditions.

2 In 2009/10, my audit team certified nine claims and returns with a total value of £221.5 million. Of these, we carried out a limited review of five claims and returns and a full review of four (paragraph 8 explains the difference). We amended errors in five instances, three that had been subject to a full review and two that had received a limited review. For two of the claims and one of the returns, our certification work did not enable us to provide an unqualified certificate and we issued a qualification letter to the relevant department. Appendix 1 sets out the details.

Significant findings

3 There are no significant issues arising from our certification of grant claims for 2009/10 that I need to draw to the Council's attention. I summarise below the main features of my certification work and what I found.

Certification fees

4 The fees I have charged for 2009/10 grant certification work are £77,182, which compares with the estimated figure in my original 2009/10 fee letter of £71,000 and the fee for 2008/09 of £86,359.

Background

5 The Council claims £117.4 million for specific activities from grant paying departments. It also made four returns to government departments totalling £104.1 million that we certified, including collecting and remitting £90.4 million to the National Non-Domestic Rates Pool. As this is a significant element of the Council's income it is important that it manages this process effectively. In particular this means:

- a satisfactory control environment over each claim and return; and
- ensuring that the Council can evidence that it has met the conditions attached to each claim or return.

6 Auditors are required by section 28 of the Audit Commission Act 1998 to certify some claims and returns for grants or subsidies paid by government departments and public bodies to the Council. Fees are charged to cover the full cost of certifying these claims or returns. The fee depends on the work required to certify each claim or return.

7 The Council is responsible for compiling grant claims and returns in accordance with the requirements and timescale set by the grant paying departments.

8 The key features of the current arrangements are as follows.

- The Commission does not certify claims and returns below £125,000 and for claims and returns between £125,000 and £500,000 auditors undertake limited tests to agree claim-form entries to underlying records, but do not undertake any testing of eligibility of spending.
- For claims and returns over £500,000 auditors assess the control environment for preparing the claim or return to decide whether they can place reliance on it. Where auditors place reliance on the control environment, they undertake limited tests to agree from entries to underlying records but do not undertake any testing of the eligibility of spending or data. Where auditors cannot place reliance on the control environment, they undertake all the tests set out in the relevant certification instruction and use their assessment of the control environment to inform their decisions on the testing required. This means that the audit fees for certification work are lower if the control environment is strong.
- For claims spanning more than one year, the financial limits above relate to the amount claimed over the entire life of the claim and auditors apply their testing accordingly. The approach impacts on how much grant claims work auditors carry out, placing more emphasis on the high value claims.

9 Auditors are required to complete all of the tests in the relevant certification instruction, if reliance on the control environment has led to a reduced level of testing for more than two years.

Findings

Control environment

10 There were two claims or returns where we judged it inappropriate to place reliance on the associated control environment. This was mainly because of previous problems with those claims, a lack of comprehensive supporting documents, or a change of responsible officer since our last review. We have no significant concerns about control weaknesses for these two areas. These were the following.

- Housing Revenue Account subsidy; and
- New Deal for Communities.

11 Note that our approach for the Housing and Council Tax Benefit claim does not include an assessment of the control environment. This is because of the significant value and complexity of the claim at all councils and the requirements of the government Department.

12 We were also required to complete a full review of the Disabled Facilities Grant claim in 2009/10 as we had not completed a full review in either of the previous two years.

Specific claims

13 We agreed amendments to figures on five claims and returns this year, as follows.

- *Housing benefit and council tax benefit subsidy claim*: this is a complex and demanding claim and it is common across councils for auditors to find errors from our detailed testing. In our testing this year we found several small-value errors. The overall net impact of all errors was to reduce the £110 million claim by £36,310. We therefore decided there were no significant problems with the completion of the claim, an outcome consistent with a trend of decreasing errors found in the Council's subsidy claim in recent years.
- *Early years sure start*: the figures for the main capital grant were misstated by £6,633 and we therefore agreed the required amendment with officers before certification of the return.
- *HRA subsidy claim*: the figure for the average amount of lending outstanding in 2009/10 was corrected to £123,130,255 before we certified the claim, an increase of £4,621,465.
- *National Non-Domestic Rates return*: Losses on collection were amended by £487,056 to reflect the level of write-offs that had been corrected during preparation of the financial statements for 2009/10. The return was amended prior to certification.

- *New Deal for Communities statement of grant usage*: although the total amount of grant used in 2009/10 was not amended there were a number of changes made to the supporting schedules for the statement of grant usage, for example the conversion of the figures for one scheme from euros to pounds sterling and amendments to ensure that the level of expenditure was consistently disclosed for two schemes within the supporting schedules. The amendments were corrected before certification.
- 14 We qualified the certificates on three claims this year, and issued reports to the respective government departments, as follows.
- *Housing benefit and council tax benefit subsidy claim*: Our qualification letter summarised the findings from the detailed testing and included extrapolations that were based on those findings. The report covered the reconciliation of benefit granted with benefit paid, underpaid and overpaid benefit, and misclassified items. We are required to report such issues to the Department of Work and Pensions, to enable them to consider whether any action is necessary.
 - *Teachers' Pensions*: We reported that the Council had not received assurance from either an external or internal auditor over the payroll service provided to Shirley High School by an external payroll provider.
 - *New Deal for Communities*: The qualification included the issue of advance payments in respect of the redevelopment of 'Eastpoint', including a balance of £3.48 million at 31 March 2010 held in an 'escrow' bank account by an independent firm of solicitors in Southampton. We reported that there were 14 projects for which total payments made in 2009/10 had exceeded their project approval for the year, that there were some inconsistencies between the statement of grant usage and the supporting schedules and that three invoices were not produced to support payments made. We also reported that we were unable to agree third party funding to the supporting records for two of the schemes that we tested.

Appendix 1 Summary of 2009/10 certified claims and returns

Claims and returns above £500,000

Claim or return	Value £	Adequate control environment (see para 10)	Amended	Qualification letter	Audit fees 2009/10 £	Audit fees 2008/09 £
Housing and council tax benefit	110,067,937	N/A	Yes	Yes	44,678	54,327
Pooling of Housing Capital Receipts	2,743,069	Yes	No	No	1,828	1,435
Sure Start, Early Years and Childcare	7,630,351	Yes	Yes	No	2,874	3,179
HRA Subsidy	-4,073,969	No	Yes	No	5,576	5,263
HRA Subsidy Base Data Return	No values [17,050 dwellings]	Yes	No	No	2,927	2,583
Disabled Facilities	660,000	Yes	No	No	1,792	854
NNDR	90,356,836	Yes	Yes	No	3,155	5,812
Teachers' Pension Return	11,046,827	Yes	No	Yes	2,798	2,524
New Deal for Communities	3,049,518	No	Yes	Yes	10,140	8,663

Claims between £125,000 and £500,000

Claim	Value £	Amended
None		

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February 2011

Progress Report

Southampton City Council

Audit 2010/11

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

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Progress with 2010/11 audit

Report	AC key contact	Authority contact	Expected report	Reported to Audit Committee	Comment
Audit plan 2010/11	Kate Handy	Audit Committee	June 2010	June 2010	<p>The initial fee letter for 2010/11 was presented at the June 2010 meeting.</p> <p>A more detailed opinion plan will be prepared and discussed with officers before being presented in June 2011 to the Committee.</p> <p>Appendix 1 is a summary of the key audit risks that we will focus on during the audit and the assessment for the value for money conclusion.</p>

Financial statements

Interim audit memorandum (If appropriate)	Mike Bowers	Andrew Lowe	June 2011		<p>The pre statements audit has commenced and will be completed in April 2011.</p> <p>The key audit risks that we will focus on are detailed in appendix 1.</p>
Annual Governance Report (ISA260)	Kate Handy	Standards and Governance Committee	September 2011		
Accounts opinion	Kate Handy	Standards and Governance Committee	September 2011		
Final Accounts memorandum (If appropriate)	Mike Bowers	Andrew Lowe	October 2011		

Report	AC key contact	Authority contact	Expected report	Reported to Audit Committee	Comment
Value for money conclusion					
Value for money conclusion	Kate Handy	Standards and Governance Committee	September 2011		The key areas that we will review are detailed in Appendix 1.
Highways maintenance	Tim Thomas	Lorraine Brown	March 2011		Initial feedback has been given to officers and a draft report will be prepared and agreed with key officers in March 2011.
Certification of grant claims and returns					
Annual report	Mike Bowers	Andrew Lowe	March 2011	March 2011	The report is on the agenda for March 2011 meeting of the Audit Committee.
Annual Audit Letter					
Annual Audit Letter	Kate Handy	Alistair Neill	November 2011		

Appendix 1 Key audit and value for money risks to be addressed for 2010/11

Audit focus on risks for 2010/11

I have started my risk based planning and will bring the detailed audit plan to the Audit Committee meeting in June 2011.

I have considered the specific risks that apply to the current opinion audit and these include:

- transition to IFRS compliant accounts;
- the Council's response to the increasing financial pressures and whether this is influencing the reporting of financial performance;
- compliance with the requirement to disclose senior officers' remuneration.

The new clarified International Standards on Auditing (ISAs) will apply to my audit of your 2010/11 financial statements. Because of the new standards, you can expect to see some changes in the way my audit team delivers your audit and the information they seek from you. The key changes will relate to:

- Journals - ISA (UK&I) 330 requires us to review all material year-end adjustment journals.
- Related Party Transactions - ISA (UK&I) 550 (Related parties) requires us to review your procedures for identifying related party transactions and gain an understanding of the controls that you have set up to identify such transactions.
- Accounting Estimates - ISA (UK&I) 540 requires us to look at your accounting estimates in detail. As part of my audit I will seek a list of these from you.

Value for money conclusion

I am required to give a statutory VFM conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

I will base the VFM Conclusion for 2010/11 on two criteria, specified by the Audit Commission, which cover your arrangements for:

- securing financial resilience – focusing on whether the Council is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the Council secures economy, efficiency and effectiveness – focusing on whether the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.

I am planning a programme of VFM audit work based on our risk assessment. I will base this on:

- capturing what we know already from last year's work, VFM profiles, continuing reviews of minutes and discussions with officers;
- considering sector specific risks, including:
 - the government's spending review;
 - maintaining essential services and effectiveness with reduced funding;
 - the new public services transparency framework; and
 - sector self-regulation and improvement.

In addition, I will consider how the Council is addressing issues that was raised in the Annual Audit Letter last year to achieve expected benefits from the street lighting and leisure services contracts, to closely monitor the savings programme and satisfy yourself that the capital programme is affordable.

I will carry out more project work only where I would not be able to arrive at a VFM conclusion without it. I will report the results of my work in my Annual Governance Report and Annual Audit Letter. At this stage I have identified one project that I need to complete in respect of the highways maintenance partnership, the estimated value of the contract is £100 million over a ten year period. This project work is underway and will consider the whether the contracted governance arrangements have been implemented and whether the predicted benefits are being realised.

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- any third party.



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