



SOUTHAMPTON CITY COUNCIL
AUDIT COMMITTEE – ANNUAL REPORT
2010/11



CLLR MICHAEL BALL
(CHAIR)

INTRODUCTION

This is my third year as Chairman. Cllr Bogle, the former Chair, continued as the Vice- Chair. I have served on the Audit Committee for four years, since its inception at the end of 2006. The committee continues to have a good balance of councillors with a diverse range of financial and political experience. We have continued to facilitate training and encourage other members to attend courses on finance and risk.

Meetings are held quarterly during the municipal year, with the majority of the reports set out as part of the annual calendar. The December meeting was delayed until February pending the publication of the Annual Treasury Management Strategy. In light of this the dates for the quarterly meetings have been reviewed for 2012.

The role of Chair is to understand the key issues detailed in the reports and set them in context. The core elements focus on monitoring Audit Committee recommendations, approving revised statements and reviewing the status of audit work. The challenge is to maintain the focus upon matters of finance and risk and steer away from policy.

The Audit Committee receives three key annual reports:

- Audit Commission: Annual Audit and Inspection Letter
- Chief Internal Auditor's Annual Report and Opinion
- Annual Governance Statement

During the course of the year the committee has paid particular focus to the key findings made by the internal and external auditors. In so doing it has been able to direct and focus attention on failings in internal controls and make recommendations for improvements and track their implementation, helping to ensure the issues receive the profile they deserve.

Areas flagged up during the year of particular note have been:

- Triennial Review of Self Insurance Fund – revealing a surplus position
- Financial Management in Schools – poor accounting in schools
- International Financial Reporting Standards (IFRS) – on track to meet 2010/11

The continued move to greater partnership working adds to the complexity of local government. The Audit Commission flagged up the need to maintain efforts to monitor partnership working. This has been a feature of various reports and forms part of the Annual Governance Statement with reference to the Partnership Code and Toolkit for completion in May 2012.

Under the new scrutiny structure, introduced in 2009, all performance monitoring reports were assessed by the Overview and Scrutiny Management Committee (OSMC). It is apparent that further work is required to improve members' understanding of financial reporting to ensure robust reviews of reports. The changes to reduce the scrutiny structure will place further burdens on OSMC to meet its obligations, requiring the need to determine its key priorities.

I consider that the Audit Committee has fulfilled its obligations to provide independent assurance on the governance of Southampton City Council.

Cllr Michael Ball, Chair of Audit Committee 2010/11

Purpose of the Report

1. The purpose of this report is to inform the Standards and Governance Committee of the work carried out by the Audit Committee during the 2010/11 Municipal year.

Background

2. The Audit Committee, which was created in 2006, provides independent assurance to the Standards and Governance Committee on matters of corporate governance. The Committee's role reflects guidance from CIPFA regarding best practice in the provision of effective corporate governance arrangements.
3. CIPFA good practice also recommends that an annual report is produced setting out the work that the Audit Committee has undertaken during the preceding year. This is the fourth annual report produced by the Committee.

Membership

4. The Committee comprises seven Members, reflecting the political proportionality of the Council. The Committee is independent of both the Executive and Scrutiny. The Members for 2010/11 were:
 - Cllr Michael Ball (Chair)
 - Cllr Sarah Bogle (Vice-Chair)
 - Cllr Edward Daunt
 - Cllr David Fuller
 - Cllr Steve Sollitt
 - Cllr Simon Letts
 - Cllr Andrew Wells
5. The Committee was supported by the Executive Director of Resources and the Chief Internal Auditor. Appropriate representatives from the Audit Commission also attended all four meetings held during the year.

Terms of Reference

6. The Committee's role and Terms of Reference, approved by Council, are:
 1. To provide independent assurance to the Standards and Governance Committee on the adequacy of the risk management framework and the internal control and reporting environment, including (but not limited to) the reliability of the financial reporting process and the annual governance statement
 2. To be satisfied and provide assurance to the Standards and Governance Committee that appropriate action is being taken on risk

and internal control related issues identified by the internal and external auditors and other review and inspection bodies.

3. To have oversight of, and provide assurance to the Standards and Governance Committee on, the following functions:
 - Ensuring that Council assets are safeguarded;
 - Maintaining proper accounting records;
 - Ensuring the independence, objectivity and effectiveness of internal and external audit;
 - The arrangements made for cooperation between internal and external audit and other review bodies;
 - Considering the reports of internal and external audit and other review and inspection bodies;
 - The scope and effectiveness of the internal control systems established by management to identify, assess, manage and monitor financial and non-financial risks (including measures to protect against, detect and respond to fraud).

7. In order to fulfil this remit, there are four significant sources of assurance available for the Committee to draw on:
 - External Audit, provided by the Audit Commission;
 - Internal Audit , provided by the Council's in-house team and led by the Chief Internal Auditor;
 - Annual Governance Statements provided by the Council's Executive Directors; and
 - The Council's strategic and operational Risk Registers

Work Programme 2010/11

8. The Committee met on four occasions during the 2010/11 municipal year:

23rd June 2010
22nd September 2010
3rd February 2011
17th March 2011

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

Risk Management

- One of the Committee's key functions is to provide independent assurance to the Standards and Governance Committee on the adequacy of the risk management framework. At its first meeting of the Municipal year, the Committee approved the Risk Management Action Plan for 2010/11 and reviewed the status of actions from the 2009/10 Plan. The Committee also noted that the Council's Risk Management Strategy had been reviewed and that only minor updating had been necessary.

- The Council's Strategic Risk Register and associated Risk Management Action Plans (RMAPs) are intended to capture the key strategic risks that may prevent or have a significant adverse effect on the achievement of the Council's key objectives. The Committee reviewed the 2010/11 Strategic Risk Register and was satisfied that the document adequately reflected the key strategic risks facing the Council.

Internal Control

- In accordance with proper internal audit practices, the Chief Internal Auditor is required to provide a written report reviewing the effectiveness of the system of internal control and to assist in producing the Annual Governance Statement. The Committee received the report for 2009/10 at its first meeting of the Municipal year. The Auditor's opinion was that the Council's framework of governance, risk management and management control was basically sound; however, some weaknesses were identified and evidence was found that the framework was not always consistently applied. Significant issues identified were:
 - > Historical weaknesses in the corporate co-ordination function of the Council in providing oversight, scrutiny and challenge across the Council's capital programme and major projects and therefore no means of ensuring that Directorate boards were operating effectively.
 - > Invoicing for Health and Social Care clients for services provided and the interface between the PARIS Health and Social Care system and the Agresso main accounting system.
 - > Significant internal control and governance issues in respect of financial management in educational establishments, identified through internal audit reviews

The Chief Internal Auditor considered that the system of internal control would be strengthened by the work already being carried out within the Council to improve and embed effective project management and to address concerns over Health and Social Care billing and financial management within educational establishments

- As part of its remit to provide independent assurance on the adequacy of internal control procedures, the Committee reviewed the draft Annual Governance Statement (AGS) and recommended its acceptance to the Standards and Governance Committee. The AGS is a key corporate document that should provide an accurate representation of the corporate governance arrangements in place during the year and highlight those areas where there are gaps or where improvements are required. The Committee was satisfied that the draft AGS was meaningful and that the system of internal control had operated effectively throughout the reporting period. Progress against the Action Plan, put in place to address outstanding issues, was reviewed by the Committee at a subsequent meeting. The Committee also approved the 'assurance gathering process' to support the development of the 2010/11 AGS.

Internal Audit

- At its first meeting of the year, the Committee conducted its annual review of the effectiveness of the Internal Audit function. The Committee found that:
 - > The internal audit system was compliant in every respect with the CIPFA Code of Practice;
 - > The 2009/10 Annual Audit Plan had been substantially delivered, with any amendments approved by the Committee;
 - > Based on the key lines of enquiry for 2009, the overall theme score for Internal Control in the Audit Commission's 'Use of Resources' assessment had been assessed as a 3 (good);
 - > A system of quality checks was in place to ensure all internal audit work was appropriately supervised and reviewed to monitor progress, assess quality and coach staff;
 - > Ethics training was received by all staff as part of the divisional Learning and Development Plan;
 - > The implementation of new audit management software during 2008 had enabled performance management information to be more readily provided;
 - > Results of formal client feedback mechanisms had demonstrated that management was largely satisfied with Internal Audit's ability to demonstrate compliance with standards and to deliver value.

- The Annual Operational Audit Plan provides the mechanism through which the Chief Internal Auditor can ensure the most appropriate use of internal audit resources to provide a clear statement of assurance on risk management, internal control and governance arrangements. The Committee commented on and approved the revised Annual Operational Internal Audit Plan for 2010/11, which had been updated to ensure that it remained aligned with significant business risks and was responsive to the priorities and concerns of the management team. At its final meeting of the Municipal year, the Committee approved the new Internal Audit Plan for 2011/12.

- At each meeting, the Committee also received a detailed update summarising the activities of internal audit for the period since the previous meeting and the actions taken by management to address any control issues identified.

External Audit

- The Audit Commission's Annual Audit Letter for 2009/10 was presented to the Committee in February, setting out the results of the statutory audit of the Council's 2009/10 financial statements and the assessment of the Council's arrangements to achieve value for money in the use of resources. The key messages in the Annual Audit Letter were:
 - > The Auditor issued an unqualified opinion on the financial statements for the year ending 31st March 2010. However as there were

outstanding elector queries to resolve, the Auditor was unable to conclude the audit and issue a certificate;

- > The Auditor issued an unqualified value for money conclusion stating that the Council had made proper arrangements to secure economy, efficiency, and effectiveness in its use of resources for the year ending 31 March 2010;
- > The Auditor acknowledged the Council's current and future challenges and was satisfied that the Council was taking the necessary steps to meet the challenges of its financial stability over the coming years and to ensure it can continue to deliver key services for its residents.

Going forward, the Auditor advised Members to:

- Monitor closely the delivery of the Council's savings programme;
 - Continue to support efforts to work with other public bodies to consider alternative ways to deliver services and reduce overall costs;
 - Monitor the achievement of the expected benefits from the major street lighting, highway and leisure contracts; and
 - Be satisfied that the capital programme is affordable
- At each meeting, the Committee received a progress report against the 2009/10 and 2010/11 Audit and Inspection Plans, including the Annual Governance report.

Finance

- The Committee recommended to the Standards and Governance Committee that the Statement of Accounts for 2009/10 be approved. The Committee also reviewed the new accounting policies and procedures adopted by the Council for 2009/10 and noted that the majority were in line with CIPFA's Statement of Recommended Practice (SORP).
- In order to comply with Part 1 of the Local Government Act 2003, and the established treasury management procedures that have been adopted by the Authority, each year the Council must approve a Treasury Management Strategy and set certain borrowing limits. The Committee endorsed the Treasury Management Strategy for 2011/12 prior to its submission to Council for final approval.
- The requirements of International Financial Reporting Standards (IFRS) were introduced to the Audit Committee in March 2010. In March 2011, the Committee was updated on Southampton's progress in implementing IFRS and preparing IFRS compliant accounts for 2010/11. Members were assured that the Council was on track with its transition to IFRS reporting and that the deadlines set to achieve publication of compliant accounts would be achieved.

Insurance

- In common with most large organisations, the Council self insures a proportion of its risk via an internal self insurance fund which, in line with good practice, is subject to independent external review by a specialist actuarial consultancy every three years. The purpose of the review is to consider, at a particular point in time, whether adequate funds are available to meet current and future liabilities. The Committee noted that:
 - > Based on best available data, the Consultant estimated that the Council's self insurance fund held a potential estimated surplus of £2.48M.
 - > After discussions held with the Cabinet Member for Resources and Workforce Planning the recommendation to Council would be to reduce the annual contribution to the insurance fund by £500,000 for the next three financial years and then to reassess the situation after the next triennial review.

Conclusion

10. In partnership with the Audit Commission, and with the support of Officers, the Audit Committee continues to provide robust and effective independent assurance to the Standards and Governance Committee on a wide range of risk and internal control issues, thereby making a valuable contribution to the Council's corporate governance arrangements.

Appendix A

A full list of the reports received at meetings of the Audit Committee for the Municipal year 2010/11

23rd June 2010

- Chair's Annual Report on Audit Committee 2009/10
- Statement of Accounts 2009/10
- Audit Commission: Audit and Inspection Plan Progress Report
- Review of the Effectiveness of the System of Internal Audit
- Chief Internal Auditor's Annual Report and Opinion 2009/10
- Annual Governance Statement 2009/10
- Risk Management Action Plan and Review of Strategy
- Audit Commission: Annual Audit Fee 2010/11
- Internal Audit: Status of Work – May 2010

22nd September 2010

- Audit Commission: Audit and Inspection Plan Progress Report
- Strategic Risk Register
- Triennial Review of Self Insurance Fund
- Audit Commission: Annual Governance Report 2009/10
- Internal Audit: Status of Work – August 2010

3rd February 2011

- Audit Commission: Annual Audit Letter 2009/10
- Audit Commission: Audit and Inspection Plan Progress Report
- Internal Audit: Status of Work – January 2011
- Internal Audit: Review of the Annual Operational Plan 2010/11
- Risk Management Action Plan 2010/11: Status Report
- Annual Governance Statement 2009/10: Action Plan Status Report
- Annual Treasury Management Strategy and Prudential Limits 2010/11- 2013/14

17th March 2011

- Annual Governance Statement 2010/11
- Implementation of International Financial Reporting Standards
- Internal Audit: Internal Audit Plan 2011/12
- Internal Audit: Status of Work – February 2011
- Audit Commission: Audit and Inspection Plan Progress Report