

Public Document Pack

# **Audit Committee**

Wednesday, 23rd September,  
2009

at 6.00 pm

**PLEASE NOTE TIME OF MEETING**

This meeting is open to the public

## **Members**

Councillor Michael Ball (Chair)  
Councillor Beckett  
Councillor Sarah Bogle  
Councillor Edward Daunt  
Councillor David Fuller  
Councillor Andrew Wells  
Councillor Richard Williams

## **Contacts**

Head of Services:-

Richard Ivory

Assistant Solicitor to the Council

Tel. 023 8083 2794

Email: [Richard.ivory@southampton.gov.uk](mailto:Richard.ivory@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 the disabled. Please contact the Democratic Support Officer who will help to make any necessary arrangements.

## **Dates of Meetings: Municipal Year 2009/10**

<b>2009</b>	<b>2010</b>
Weds 24 June	<b>Thurs 18 March</b>
Weds 23 Sept	
<b>Thurs 10 Dec</b>	

## 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](http://www.southampton.gov.uk/council/meeting-papers)

**3** **INTERNAL AUDIT 2008/09** (Pages 1 - 6)

Date Not Specified

SOLICITOR TO THE COUNCIL

This page is intentionally left blank

# Agenda Item 3

## ITEM NO:11

<b>DECISION-MAKER:</b>	AUDIT COMMITTEE		
<b>SUBJECT:</b>	REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT		
<b>DATE OF DECISION:</b>	24 <sup>TH</sup> JUNE 2009		
<b>REPORT OF:</b>	CHIEF INTERNAL AUDITOR (Acting)		
<b>AUTHOR:</b>	Name:	Neil Pitman	Tel: 023 80 834616
	E-mail:	Neil.pitman@southampton.gov.uk	

### STATEMENT OF CONFIDENTIALITY

Not applicable

### SUMMARY

Under the Accounts and Audit (Amendment) (England) Regulations 2006 the Council is required, at least once a year, to conduct a review of the effectiveness of its system of internal audit. To assist the Audit Committee in discharging this requirement on behalf of the Council, this paper summarises the measures currently in place to monitor internal audit effectiveness.

### RECOMMENDATIONS:

- (i) That the Audit Committee reviews the effectiveness of the system of internal audit using the sources of assurance detailed in this report.

### REASONS FOR REPORT RECOMMENDATIONS

1. The Accounts and Audit Regulations 2006 state that the Council 'shall, at least once in each year, conduct a review of the effectiveness of its system of internal audit'. This review is part of the wider annual review of the effectiveness of the system of internal control which contributes to the Annual Governance Statement and as such should be referred to the Audit Committee.

### CONSULTATION

2. The Audit Committee was consulted in June 2007 to agree how future reviews should be conducted.

### ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

3. None

## DETAIL

4. The Accounts and Audit Regulations 2006 place a requirement on authorities to conduct an annual review of the effectiveness of the system of internal audit. The Chartered Institute of Public Finance and Accountancy (CIPFA) have provided technical guidance suggesting a number of options available to authorities for carrying out the review which include:

- The Head of Internal Audit
- A Sub-group of the Audit Committee
- A review group of officers
- Peer review
- External assessment
- A group of members and officers

Whoever carries out the review, it is vital that all participants are appropriately skilled and have relevant technical support available to them.

5. The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 [the Code] recommends that *“The Head of Internal Audit should have in place a performance management and quality assurance framework to demonstrate that the internal audit service is:*
- a) *Meeting its aims and objectives*
  - b) *Compliant with the Code*
  - c) *Meeting internal quality standards*
  - d) *Effective, efficient, continuously improving*
  - e) *Adding value and assisting the organisation in achieving its objectives.”*

6. Meeting aims and objectives

The aims and objectives of the system of internal audit are defined in the Internal Audit Strategy and the Internal Audit, Risk and Assurance Business Plan. The key business plan objectives for 2008/09 were as follows and have been delivered:

- Deliver the Internal Audit Strategy to demonstrably comply with the CIPFA Code of Practice
- Further refine and consolidate the assurance process to support the production of a robust Annual Governance Statement in line with CIPFA guidelines.
- Further develop and embed risk management principles across the Council’s business processes.
- Ensure the adequate resourcing of the service to support the proper delivery of functions.
- Review the effectiveness of corporate arrangements to identify and/or reduce the risk of fraud and corruption,

7. Compliance with the Code

Guidance cites the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom as proper practice in relation to internal audit in local authorities. The system of internal audit was compliant with the



Code throughout 2008/09. This has been confirmed through the updating in 2008/09 of the triennial review of internal audit by the Council's external auditors (appendix). The triennial review forms a comprehensive review of all aspects of the Code

8. Meeting internal quality standards

Review of compliance against the Code has highlighted that internal audit is compliant with the standards for performance, quality and effectiveness. A comprehensive and up-to-date internal audit manual is in place and available to all staff to provide guidance on quality standards in carrying out day-to-day audit work and compliance with the Code. A system of quality checks is in place to ensure all internal audit work is appropriately supervised and reviewed throughout all audits to monitor progress, assess quality and coach staff. The implementation of the new audit management software solution during the year will enable performance management information to be more readily provided.

9. Effective, efficient, continuously improving

The Audit Commission's *'Use of Resources' assessment 2007/08 and based on the key lines of enquiry for 2008* seen the overall theme score for Internal Control progress from a '2' to a '3'.

10. Adding value and assisting the organisation in achieving its objectives

The Internal Audit Strategy 2007-2011 is designed to demonstrate how the internal audit service seeks to add value to the Council and to assist the Council in achieving its objectives. The Annual Audit Plan for 2008/09 demonstrates intended audit coverage of the Council's objectives. The 2008/09 audit plan was substantially delivered, with any amendments approved by this Committee (please see Chief Internal Auditor's *Annual Report and Opinion*, also on this agenda).

11. The 'Status of work' reports provided to each meeting of the Audit Committee demonstrate how management is responding to the issues and risks highlighted by internal audit's work and on the whole demonstrate that management actions in response to audit observations are properly implemented on a timely basis.

12. Formal client feedback has been sought in respect of specific audit assignments conducted in 2008/09 by means of a "client feedback survey". In addition, feedback was sought from audit clients in March 2008 on the overall performance of the service within the context of the Code (as required under the standards). The results of these feedback mechanisms have demonstrated that management is largely satisfied with internal audit's ability to demonstrate compliance with the standards and the value delivered in assisting the Council in achieving its objectives.

13. Role of the Audit Committee

The Audit Committee plays an essential role in the effectiveness of the system of internal audit. The Audit Committee Chair's formal annual report on the work and performance of the Committee during the year is available elsewhere on this agenda.

## **FINANCIAL/RESOURCE IMPLICATIONS**

### **Capital**

None

### **Revenue**

None

### **Property**

None

### **Other**

None

## **LEGAL IMPLICATIONS**

### **Statutory power to undertake proposals in the report:**

Accounts and Audit (Amendment) (England) Regulations 2006 places a requirement on the Council to, at least once a year, conduct a review of the effectiveness of its system of internal audit. The above arrangements are intended to meet those responsibilities.

### **Other Legal Implications:**

## **POLICY FRAMEWORK IMPLICATIONS**

**SUPPORTING DOCUMENTATION**

**Appendices**

1.	Summary of Audit Commission Assessment of Internal Audit Against the CIPFA Standards
2.	

**Documents In Members' Rooms**

1.	
2.	

**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.		

**Background documents available for inspection at:**

**FORWARD PLAN No:**

**KEY DECISION?**

**WARDS/COMMUNITIES AFFECTED:**

This page is intentionally left blank