

STATEMENT ON INTERNAL CONTROL

1. SCOPE OF RESPONSIBILITY

Southampton City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes the arrangements for the management of risk.

2. THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

The system of internal control is designed to manage risk to a reasonable level rather than eliminate the risk of failure to achieve the organisation's policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The system of internal control has been in place at Southampton City Council for the year ended 31st March 2007 and up to the date of the approval of the annual report and accounts.

3. THE INTERNAL CONTROL ENVIRONMENT

The key elements of the Council's internal control environment are as follows:-

Constitution

Southampton City Council has a Constitution setting out how the Council operates, how decisions are made and the procedures followed to ensure that these are efficient, transparent and accountable to local people. Some of these processes are required by the law, while others are a matter for the Council to choose. The Constitution sets out the basic rules governing the Council's business and is published on the Council's internet site at:-

<http://www.southampton.gov.uk/thecouncil/thecouncil/theconstitution/default.asp#0>

Code of Corporate Governance

The Council has adopted a Code of Corporate Governance ("CCG") which identifies in one core document how the Council ensures that it runs itself in a lawful, structured, ethical and professional manner. The CCG is administered by the Monitoring Officer and is updated periodically by the Standards and Governance Committee. The full document is published on the Council's internet site at:-

http://www.southampton.gov.uk/Images/Code%20of%20Corporate%20Governance_tcm46-160197.pdf

Learning and Development

A programme of Member Learning and Development is in place. A range of training is provided included Member Induction, Equalities, Risk Management, Finance, Member Code

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of Conduct etc. This is in addition to ad hoc members' briefings on specific topics as necessary. The Member User Group and Standards and Governance Committee are consulted on and monitor the Members' Learning and Development programme.

The Council has strategic priorities for Learning and Development for officers and a core training calendar, comprising a range of learning opportunities, is in place in respect of the following key areas:

- Meeting the compulsory demands placed on the Council;
- Developing and maintaining Corporate Standards;
- Supporting the Change Agenda and Customer Care;
- Developing current and future managers;
- Improving the level of essential skills in the workforce.

Within this strategic framework all employees are entitled to a minimum of 3 days (pro-rata) learning entitlement per year. Managers are responsible for ensuring that all employees have access to learning opportunities and events in line with identified needs and individual and business objectives.

In addition, Corporate Training is arranged for all Level 1 and 2 Managers on Corporate Standards, including key Financial Standards.

A Management Academy programme was piloted and subsequently approved in 2006-07 and will be rolled out to all managers in 2007-08.

Medium Term Plan 2005 - 2008

Southampton City Council has published its Medium Term Plan ("MTP") covering the period 2005 - 2008. The MTP links the eleven Key Challenges and aspirations set out in the Southampton Partnership's Community Strategy with the Council's own priorities, statutory obligations and resource forecasts over the next 3 years, in order to secure tangible improvements in the quality of life for all Southampton's citizens, as well as for those who visit and work in the city. The Council cannot do everything it would like to do and the MTP sets out the priorities that will take the City forward in a measured, progressive and sustainable way between 2005 and 2008. The full document is published on the Council's internet site at:-

http://www.southampton.gov.uk/Images/Complete%20document_tcm46-160773.pdf

An updated 'Medium Term Service and Financial Plan' covering the period 2007-2010 is to be presented to Council for approval in May 2007 and will take the place of the MTP. The new document comprises a robust three-year budget strategy linking service planning to resource allocation on the basis of planned performance and prioritisation.

Corporate Improvement Plan

In 2006/7 the Council's City Performance Plan was reshaped as the Corporate Improvement Plan to clarify responsibilities for the delivery of the improvement measures contained within it, to streamline the Council's existing Performance Management Framework by removing the need to produce separate annual Portfolio Service and Financial Plans and to strengthen the links between service and financial planning. The Corporate Improvement Plan sets out the Council's commitment and overall approach to secure on-going improvements across a wide range of services that are provided to local residents, businesses as well as visitors to the city. The Corporate Improvement Plan provides key information on the quality and level of services provided by the council in 2005/6 and sets out key performance targets for 2006/7 as well as later years. The plan has three key functions:

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- It is a high level statement of existing Council policy and improvement priorities (flowing from the Medium Term Plan) and, as part of the council's Policy Framework, it will help to set the parameters within which member and officer decisions will be made in 2006/7;
- It sets out the Council's contribution to key partnership activities and provides a source of information for Members, council officers, members of the public and other stakeholders about the council's current performance and longer-term aspirations;
- It provides the definitive baseline and targets against which the Council's performance will be monitored by scrutiny members and other stakeholders during the current year.

The plan also includes detailed performance targets and service improvement measures for 2006/7. The targets set are used by the council itself, the government and other external stakeholders to evaluate how well individual services, and the council as a whole, are performing. Targets are set against indicators of service volume, service quality, and service cost thereby measuring the resources used to deliver outcomes for local residents. Many of these indicators include information on the Council's performance relative to other local authorities as well as an indication of whether the Council's year on year performance has improved.

The full document is published on the Council's internet site at:-

http://www.southampton.gov.uk/Images/Corporate%20Improvement%20Plan%202006-07_tcm46-162655.pdf

Community Strategy

The Community Strategy is a long-term plan to the year 2020 designed to improve quality of life improvement for all those who live, work or visit the city. It aims to reflect the main priorities of Southampton's citizens and develop a vision that is shared by the city's public, private and community and voluntary sectors. The Community Strategy concentrates on the needs of citizens and neighbourhoods and focuses on the major challenges and how they can be tackled through shared ownership and joint action. The full document is published on the Council's internet site at:-

<http://www.southampton-partnership.com/>

A new City of Southampton Strategy has recently been developed by the Southampton Partnership and sets out the approach to developing a 'sustainable community strategy' for the City. The document is currently in draft however it is, in 2007-08, expected to replace the existing Community Strategy with a new 20-year (2026) Vision for the City.

Statement of Accounts 2005 - 06

The Statement of Accounts bring together all of the financial activities of the council for the year. It summarises the revenue income and expenditure in providing services and shows how it was financed from sources such as Council Tax, Government Grants and Housing Rents. There is a robust process in place in respect of the preparation of the accounts, including the supporting working papers, prior to the documents being submitted to the Council's external auditors for audit.

The Council's Statement of Accounts has been prepared in accordance with the Accounting Code of Practice. The full document together with a summary or accounts' document is published on the Council's internet site at:-

<http://www.southampton.gov.uk/thecouncil/thecouncil/decision-making/statementofaccounts/statementofaccounts20052006/default.asp>

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Financial and Performance Management

During 2006/7 the Council introduced new processes to achieve greater integration between the development of medium term service and financial plans at a corporate and service level. One of the first steps involved the introduction of a new accounting structure designed to simplify future budgeting and monitoring arrangements within the Council.

The Council formally monitors the progress made against its annual business plan (the Corporate Improvement Plan) on a quarterly basis and publishes the results on the web, as well as highlighting individual variances at Cabinet and Scrutiny meetings where further action is required compared to published benchmarking results or the progress achieved to date. Each chapter of the Corporate Improvement Plan contains financial information relating to each service area and the progress made against the Council's efficiency and value for money targets, as well as benchmarking information and customer feedback. The Council's direction of Travel for all Best Value Performance Indicators is also set out in this document together with comparisons to the progress made by other local authorities.

At a divisional level high risk service areas as well as budget monitoring is undertaken on a monthly basis by Heads of Service and Directors to ensure that targets are being achieved – with monthly financial exception reports and virement requests being presented to Cabinet on a monthly basis as necessary to ensure that budgeted savings are achieved.

In 2006/7 Direction of travel information was included within these reports to indicate year on year as well as quarterly performance trends. The monitoring reports also highlight the quality measures included within the Council's AES submission and separate progress reports are submitted on progress made against the Council's overall Gershon target.

Code of Conduct and Disciplinary Rules

The Code of Conduct for Members covers areas of individual behaviour such as Members not abusing their position or not misusing their authority's resources. In addition there are rules governing disclosure of private interests and withdrawal from meetings where Members have relevant interests. Members are also required to record on the public register their financial and other interests. The full document is published on the Council's internet site at:-

http://www.southampton.gov.uk/Images/12%20Part%205%20-%20Members%27%20Code%20of%20Conduct_tcm46-160556.pdf

The Code of Conduct for employees sets out the expected standards of employee conduct and gives examples of behaviour that would be regarded as misconduct. The full document is published on the Council's intranet site together with the Disciplinary and Dismissal Procedure for employees. This document sets out how allegations of misconduct will be dealt with, and the steps that should be taken when it becomes necessary to dismiss an employee.

Anti Fraud and Anti Corruption Strategy and Policy

The Anti Fraud and Anti Corruption Policy represent a commitment by the Council to protect the public purse. The purpose of this Strategy is to set out for Members and employees of Southampton City Council the main principles for countering fraud and corruption. The full documents are published on the Council's internet site at:-

<http://www.southampton.gov.uk/thecouncil/thecouncil/organisation/corporategovernance/antifraudcorruption.asp>

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<http://www.southampton.gov.uk/thecouncil/thecouncil/organisation/corporategovernance/antifraudcorruptionstrategy.asp>

Duty to Act - Whistle blowing Policy

The Council has a 'Duty to Act' Policy which reflects the legal framework and obligation on the Council to enable staff to raise concerns which may involve unlawful conduct, illegality, financial malpractice or dangers to the public, employees or the environment. The full document is published on the Council's internet site at:

[http://www.southampton.gov.uk/Images/Whistle-blowing%2520Policy%2520\(Duty%2520to%2520Act\)_tcm19-122913_tcm46-168797.pdf](http://www.southampton.gov.uk/Images/Whistle-blowing%2520Policy%2520(Duty%2520to%2520Act)_tcm19-122913_tcm46-168797.pdf)

Audit Committee

The Council has a formally constituted Audit Committee whose role it is 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 statement of internal control.

The Audit Committee has specific responsibility for 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 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).

The Audit Committee was established in November 2006 following a report to Council where it was decided that a separate committee should be appointed. The Council's Internal Audit, Risk and Assurance service to report to the Audit Committee on the following issues:

- the effectiveness of the Council's internal control, risk management and associated anti-fraud and anti-corruption arrangements;
- the Council's Statement on Internal Control, financial statements and external auditor's opinion;
- the Chief Internal Auditor's annual report and opinion;
- the internal audit strategy and operational plan;
- summary internal audit reports across all portfolios;
- reports of external audit and inspection agencies; and
- assurances that action is being taken on risk and control-related issues identified by the internal and external auditors and other assurance providers.

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Internal Audit

The Council operates an Internal Audit function whose role is to provide an assurance function that provides an independent and objective opinion to the Council on risk management, control and governance, by evaluating their effectiveness in achieving the Council's stated objectives. Internal audit may also provide an independent and objective consultancy service, specifically to help management improve the Council's internal control, risk management, and governance.

The Council's Internal Audit Strategy was approved by the Standards and Governance Committee, who at the time were the member body charged with undertaking the role and responsibilities of an audit committee. A revised Strategy covering the period 2007-2011 was approved by the Standards and Governance Committee in September 2006 and outlines how the Council's Internal Audit service will be managed, delivered and developed to facilitate:

- delivery of an internal audit opinion on Southampton City Council's internal control, risk management and governance arrangements, to inform the annual statement on internal control;
- audit of Southampton City Council's internal control, risk management and governance systems through periodic audit plans, in a way which affords due consideration to the Council's key priorities and significant risks;
- continuous improvement of the internal control, risk management and governance framework and processes within the Council;
- identification of the resources and skills required and method of delivery of an internal audit service that meets the CIPFA Code;
- effective cooperation with the Audit Commission and other external review bodies; and
- provision of assurance, consultancy and advisory services by internal audit.

The Chief Internal Auditor reports to the Audit Committee including progress against the annual internal audit operational plan and bringing to the attention of the Committee any significant control issues. The Chief Internal Auditor has the authority to independently report at any time to the Chief Executive, Chief Financial Officer, Officers and Members.

The Internal Audit Section is subject to regular review by the Council's external auditors who seek to place reliance on the work carried out by the section.

Risk Management

The Council's Risk Management Strategy 2006-07 was approved by the Standards and Governance Committee, who at the time were the member body charged with undertaking the role and responsibilities of an audit committee. A revised Strategy for 2007-08 was approved by the Audit Committee in March 2006 and provides an overview of the operating framework, arrangements and responsibilities for risk management within the Council.

Each division is required to identify its' key priorities and risks as part of the corporate business planning process. This is then used to inform development of the individual Directorate Risk Registers and associated 'risk management action plans'.

A Strategic Risk Register is also in place which seeks to identify the key strategic risks that may prevent or have a significant adverse affect on the achievement of the Council's key objectives. This document is based on a range of key strategic documents and takes into account the output from Directorate Risk Registers together with a review of 2005/06 Strategic Risk Register. The Chief Officers Management Team owns and is responsible for developing and managing the 'Strategic Risk Register'.

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A Risk Management and Controls Assurance Group, chaired by the Executive Director of Resources, has responsibility for co-ordinating risk management activities throughout the Council and facilitating the identification, evaluation and effective management of all key business risks. The group comprises senior officers from each of the directorates.

The "Corporate Risk Management Champion" presents an annual report to the Audit Committee summarising achievements and outlining the planned activities for the forthcoming year as well as an interim, six-monthly report.

4. REVIEW OF EFFECTIVENESS

Southampton City Council has responsibility for conducting, at least annually, a review of the system of internal control. The review of the effectiveness of internal control is informed by the work of the internal auditors and the senior managers within the authority who have responsibility for the development and maintenance of the internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates.

The review process, applied in respect of maintaining and reviewing the effectiveness of the system of internal control, is informed by:-

- the work of Members/Officers within the Council;
- audit and other periodic reports from the Chief Internal Auditor;
- the Annual report and opinion of the Chief Internal Auditor;
- the Audit Committee;
- the Standards and Governance Committee;
- reports received from service review agencies or inspectorates, and
- the external auditors in their annual audit letter.

In particular, assurances are sought from each Executive Director regarding the effectiveness of the key controls within their areas of operation. These assurances are obtained via a 'Controls Assurance Self Assessment Questionnaire' which is required to be completed in full and with due diligence by each Executive Director. The 'self assessment' covers Management Structures and Reporting Arrangements, Strategy and Planning, Risk Management, Integrity and Ethical Values, Service Delivery, Performance Management and Policy and Procedures. The Council's Internal Audit service then undertakes a sample check of each of the completed self assessments and supporting evidence.

The returns, together with the other sources of assurance are then reviewed by the Council's "Controls Assurance Management Group", which comprises the Section 151 Officer, Monitoring Officer and Chief Internal Auditor. This Group is tasked with drawing together, evaluating and, where necessary, challenging the sources of assurance and supporting evidence and producing the draft "SIC". The Audit Committee then undertakes a further review of the draft "SIC" before it is submitted to the Standards and Governance Committee for approval. The document is then signed by the Chief Executive and Leader of Council.

The annual review is further informed via the completion of a comprehensive "Controls Assurance Framework" document. This document, which has been developed in line with Chartered Institute of Public Finance and Accountancy ("CIPFA") guidance, identifies the key components of the City Council's overall internal control environment. The document records the key controls that are in place together with the sources of assurance and

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identifies any gaps in key controls or assurance noting any improvements planned for the forthcoming period to address the identified gaps.

5. SIGNIFICANT INTERNAL CONTROL ISSUES

The following significant internal control issues have been identified:

No.	Issue	Action	Responsible Officer	Timescale
1.	An appropriate governance framework for partnerships is in place but not consistently implemented.	<p>A list of significant partnerships is to be collated.</p> <p>'Fit for purpose' reviews of significant partnerships are to be undertaken to ensure that they are compliant against the governance framework.</p> <p>A scaled down governance framework appropriate for other partnerships to be developed.</p> <p>'Fit for purpose' reviews, policy guidance, etc. to be made available to all Members, officers and partners, for roll out and application across the organisation.</p> <p>A comprehensive review of the role of members in sector partnerships will be undertaken in the light of the Local Government White Paper, the forthcoming Public Involvement in Health Act and the roll out of the Fit for Purpose review.</p>	<p>Policy Co-ordinators</p> <p>Head of Corporate Policy & Performance</p> <p>Head of Corporate Policy & Performance</p> <p>Policy Co-ordinators</p> <p>Solicitor to the Council and Head of Corporate Policy & Performance</p>	<p>End July 2007</p> <p>Wave 1 to be completed end September 2007</p> <p>End October 2007</p> <p>End October 2007</p> <p>End March 2008</p>

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No.	Issue	Action	Responsible Officer	Timescale
2.	<p>The Risk Management Action Plan for 2006-07 was delivered with the exception of one item that was deferred. It is recognised however that additional work is required to further embed risk management into the culture of the organisation and to further refine both the content and use of risk registers.</p>	<p>A risk management progress report, including an action plan for 2007/08, is to be submitted to the Audit committee for approval in Jun 2007.</p> <p>The action plan will be progressed through the 'Risk Management & Controls Assurance Group' with a periodic update to the Audit Committee.</p>	Risk & Assurance Manager	Bi-annual report to Audit Committee
3.	<p>A review of the Council's Code of Corporate Governance was undertaken in 2006 however the outcome of the review was not taken to Standards and Governance Committee.</p>	<p>The updated Code of Corporate Governance is to be taken to Standards & Governance Committee meeting in June 2007.</p>	Assistant Solicitor to the Council	June 2007
4.	<p>Significant progress has been made in respect of improving and further developing contract management arrangements. This included a 'Project Management Skills Audit' from which a range of project management learning interventions were developed and offered to those managers and officers responsible for projects. Further work is however required to ensure that a consistent approach to contract management is adopted across all business areas.</p>	<p>To ensure that those managers and officers responsible for projects are appropriately skilled and any training requirements are addressed via the delivery of Learning and Development plans.</p> <p>In addition, Contract Procedure Rules are to be updated and communicated to all staff.</p>	<p>All Managers</p> <p>Solicitor to the Council</p>	<p>Throughout 2007-08 as necessary</p> <p>December 2007</p>
5.	<p>The Internal Audit Action Plan for 2005-06 was delivered however a further action plan is required to meet the revised "CIPFA" Code of Internal Audit Practice 2006.</p>	<p>An action plan, with target dates, is in place to demonstrate compliance with all aspects of the "CIPFA" Code of Internal Audit Practice. Regular progress reports are submitted to the Audit Committee.</p>	Chief Internal Auditor	December 2007

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No.	Issue	Action	Responsible Officer	Timescale
6.	ITS Disaster Recovery - although data is secure there are no arrangements in place to quickly replace or replicate the computer suite in the event of a disaster.	<p>Cabinet decided on 19th March 2007 that the Council accepts the risk with the current level and provision for IT</p> <p>Disaster Recovery, noting that the provision of an enhanced service may be supplied by a SSP, a commercial service or through other shared service arrangements.</p> <p>Ensure that adequate provision is made within the strategic services partnership or alternative model to promptly address this issue and meet the Council's business requirements.</p>	Head of ITS	July 2007
7.	Ongoing action is required to ensure that all staff are aware of "corporate" policies and procedures and in particular those directly relevant to their jobs. Corporate Training was arranged for 2006 and is ongoing for all Level 1 and 2 Managers on Corporate Standards, including key Financial Standards. A 'corporate standards' intranet site has also been developed.	Further develop the Corporate Training provided 2006. Identify and develop a suitable form of communication of other associated corporate policies or procedures that all staff should be aware of i.e. Whistle blowing (Duty to Act) Policy, Register of Employee's Outside Interests, recording of Gifts or Hospitality etc.	Head of Human Resources	End October 2007

Confirmation by signatories to the Statement

We have been advised on the implications of the result of the review of the effectiveness of the system on internal control by the Council, the Audit Committee and the Standards and Governance Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Signed _____
B. Roynon
 (Chief Executive)

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Signed _____
A. Samuels
(Leader of the Council)

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